

Integration Joint Board

Budget in Scope of Integration Joint Board

In Scope Function	2016/17 Net Revenue Budget Excludes Central Support and Capital Charges
Core Scope	
FUNCTIONS CURRENTLY PROVIDED BY LOCAL AUTHORITY	£'000
Older People	3,025
Mental Health	598
Learning Disability	298
Physical Disability	639
Adult Support & Protection	209
Carers	208
Care & Support at Home	20,264
Residential Care	19,871
Respite Care	1,268
Day Care/Services: PD, LD, OP, MH	3,710
MECS/Telecare/Telehealth	439
Housing with Care/Sheltered Accommodation	6,836
Shopping Service	12
Equipment & Adaptations	415
Advocacy	96
Sensory Team	440
Mental Health Team	264
Learning Disability Team	552
JLES	152
Day Care/Centre: MH	160
Sensory Resource Centre	90
Voluntary Organisations	393
Housing Aids and Adaptations	1,200
Improvement Grants	327
	61,466
Funded by:	
General Fund payment to IJB	58,939
HRA payment to IJB	1,200
Demographic Pressures (Integration Funding)	1,000
Capital	327
	61,466

2016/17 Integration Joint Board Budget

Service - Objective Analysis

	2015/16 Budget Outturn Prices <u>£</u>	2016/17 Budget September 2015 Prices <u>£</u>	2016/17 Budget Outturn Prices <u>£</u>
<u>SERVICE</u>			
Community Care	58,493,010	56,548,630	58,046,040
Mental Health	915,770	882,980	892,600
NET EXPENDITURE	<u>59,408,780</u>	<u>57,431,610</u>	<u>58,938,640</u>

2016/17 Integration Joint Board Budget

Service - Subjective Analysis

	2015/16 Budget Outturn Prices <hr/> £	2016/17 Budget September 2015 Prices <hr/> £	2016/17 Budget Outturn Prices <hr/> £
<u>EXPENDITURE</u>			
<u>EMPLOYEE EXPENSES</u>			
SJC Employees	27,505,480	27,112,810	27,449,280
Indirect Employee Expenses	362,470	351,740	351,740
Total Employee Expenses	<hr/> 27,867,950	<hr/> 27,464,550	<hr/> 27,801,020
<u>PROPERTY EXPENSES</u>			
Rents	63,540	63,540	64,830
Water Services	780	780	790
Fixtures and Fittings	200	200	200
Total Property Expenses	<hr/> 64,520	<hr/> 64,520	<hr/> 65,820
<u>TRANSPORT EXPENSES</u>			
Transportation Costs	278,620	278,620	282,590
Total Transport Expenses	<hr/> 278,620	<hr/> 278,620	<hr/> 282,590
<u>SUPPLIES & SERVICES</u>			
Equip, Furniture and Materials	751,860	726,530	726,530
Training Materials	9,520	9,220	9,220
Services	51,730	50,470	51,420
Catering	472,050	470,050	478,470
Clothing, Uniforms & Laundry	40,430	40,430	40,430
Printing, Staty & Gen Off Exps	20,970	19,390	19,520
Client Amenities	32,950	32,950	32,950
Communications & Computing	71,070	69,770	70,370
Miscellaneous Supplies	74,000	67,000	67,000
Total Supplies & Services	<hr/> 1,524,580	<hr/> 1,485,810	<hr/> 1,495,910
<u>THIRD PARTY PAYMENTS</u>			
Health Authorities	395,140	395,140	405,020
Internal Recharges	744,740	696,780	744,740
Other Local Authorities	83,950	83,950	86,470
Private Contractors	13,430,420	13,105,420	13,422,070
Other Agencies	8,330,280	11,648,240	11,815,240
Residential/Long Term Paymnt	30,942,310	31,117,310	31,724,750
Total Third Party Payments	<hr/> 53,926,840	<hr/> 57,046,840	<hr/> 58,198,290

2016/17 Integration Joint Board Budget

Service - Subjective Analysis

	2015/16 Budget Outturn Prices <u>£</u>	2016/17 Budget September 2015 Prices <u>£</u>	2016/17 Budget Outturn Prices <u>£</u>
<u>TRANSFER PAYMENTS</u>			
Payments to Individuals	1,269,510	1,269,510	1,282,830
Total Transfer Payments	<u>1,269,510</u>	<u>1,269,510</u>	<u>1,282,830</u>
TOTAL EXPENDITURE	<u>84,932,020</u>	<u>87,609,850</u>	<u>89,126,460</u>
<u>INCOME</u>			
Other Government Grants	337,000	4,877,000	4,877,000
Other Grants,Reimburse & Conts	11,118,450	11,218,450	11,218,450
Customer and Client Receipts	9,721,060	9,756,060	9,756,060
Internal Recharges	2,882,600	2,882,600	2,882,600
Charges to Other Bodies	1,438,540	1,418,540	1,428,120
Charges to Staff	25,590	25,590	25,590
TOTAL INCOME	<u>25,523,240</u>	<u>30,178,240</u>	<u>30,187,820</u>
NET EXPENDITURE	<u>59,408,780</u>	<u>57,431,610</u>	<u>58,938,640</u>

INTEGRATION JOINT BOARD BUDGET 2016/17
Summary of Movements

£' 000

2015/16 Budget 59,409

Add: Budget Changes

1	<u>Employee Expenses</u>	
	Savings (No 4)- Shift the balance of Home Care	(38)
	Savings (No 5)- Closure of ASSET	(102)
	Savings (No 6)- Redesign of Day Centres	(230)
	Savings (No 7)- Shopping Service	(60)
	Savings (No 8)- Review of Caledonia Clubhouse	(16)
	Savings (No 10)- Reprovision of Care Homes	(300)
	National Insurance	340
	Other Movements	3
		<u>(403)</u>
2	<u>Supplies & Services</u>	
	Savings (No 8)- Review of Caledonia Clubhouse	<u>(19)</u>
3	<u>Third Party Payments</u>	
	Provision for Demographic Growth	350
	Savings (No 3) No Inflationary Uplift for Supporting People	(200)
	Savings (No 11) Reprofiled Eligibility Criteria	(500)
	Living Wage for Providers	3,470
		<u>3,120</u>
4	<u>Income</u>	
	Savings (No 1)- Increase Non-residential Charges	(35)
	Savings (No 2)- Inflationary Uplift for Services Funded by NHS	(100)
	Funding for Living Wage	(3,540)
	Share of HSCI Funding	(1,000)
		<u>(4,675)</u>

2016/17 Base Budget at September Prices 57,432

Add: Inflation 1,507

2016/17 Budget at Outturn Prices 58,939

Background Reports

AGENDA ITEM**FALKIRK COUNCIL**

Subject: REVENUE BUDGET FRAMEWORK 2016/17 – 2018/19
Meeting: EXECUTIVE
Date: 9 June 2015
Author: CHIEF FINANCE OFFICER & DIRECTOR OF CORPORATE AND NEIGHBOURHOOD SERVICES

1. INTRODUCTION

- 1.1 Given the ever increasing complexity of the process for preparing the Revenue Budget, it is believed that Members will find it helpful to be presented with a broad Budget framework early in the financial year.
- 1.2 The opportunity is also taken to update Members on the Council's Transformation Agenda. This is significant both in terms of its contribution to bridging the Budget gap and helping to make the Council a more effective and modern organisation, better fitted to its operating environment.

2. BACKGROUND

- 2.1 It is helpful to document the evolution of the Revenue Budget process in recent years:-
- Agreement of a two year Budget (the latter year provisional) within a three year Budget framework
 - Preliminary consideration of the Budget position by the Council in November
 - Separate Council consideration of the Community Trust Budget
 - Development of the Equality & Poverty Impact Assessment (EPIA) process
 - Public consultation via several channels
- 2.2 Developing the point on complexity mentioned in the Introduction, the following developments merit particular attention:-
- a) Adult Health & Social Work Integration
 This injects a substantial new dynamic into the Budget process, particularly in the context of a climate of financial constraint. The new Integrated Joint Board goes live from April 2016. The Board needs to prepare a Strategic Plan which will have a three year financial element. The preparation of this will place demands and strains in terms of the interplay between the IJB, Health & Council relating to governance processes and differing financial pressures. And, this will all need to be achieved within a compressed time frame.

b) Joint Resourcing

This is essentially about the Community Planning Partners aligning their resources (revenue, capital & assets) around the Single Outcome Agreement priorities. This has similar issues to those outlined above in terms of alignment of governance processes and timelines between Health and the Council.

c) Participatory Budgeting

Participatory Budgeting has been added to the Community Empowerment (Scotland) Bill during second stage amendments. This essentially allows local people to be involved in making decisions on the spending and priorities for a defined public budget, which can relate to a geographical area or theme. This would appear to chime with the Scrutiny Panel's conclusions following its review of the Council's Community Involvement Strategy. Once the position is clearer in terms of the Bill/Act's content and the implication for the Council's Budget process, a further report will be brought before Members.

d) Service Restructure

The Council's proposed Service restructuring would inevitably require Service budgets to be reshaped.

e) Commission for Local Tax Reforms

The Commission's deliberations have the potential to lead to significant changes in local taxation during our medium term framework.

3. THE CENTRAL GOVERNMENT POSITION

- 3.1 Following the General Election, the spectrum of possible fiscal stances has narrowed to one where the likelihood is for significant cuts in unprotected service areas, one of which is local government. These will probably be most severe in 16/17 and 17/18. The Westminster Government has indicated that there will be a Budget in July, which should give some sense of the scale of cuts and this will be developed further in the Autumn Spending Review.
- 3.2 The outcome of the Spending Review will then be transferred to Scotland via Barnett (which may itself change) where the Scottish Government will need to determine its spending priorities between the main spending blocks, notably local government and health. The slice allocated for local government will then be fed into the grant distribution formula leading to council specific grant figures expected in December.
- 3.3 It is to be hoped that the above processes will lead to robust grant figures for individual councils being made available for more than one year to facilitate medium term financial planning.

4. ESTIMATED BUDGET GAP

- 4.1 As previously indicated, the Council develops its Budget within a three year medium term framework. The estimated Budget gaps over the next three years are:-

2016/17	2017/18	2018/19	TOTAL
£18.4m	£15.2m	£11.4m	£45m

- 4.2 It must be emphasised that these estimates are highly susceptible to the level of central government grant flowing from the process outlined in Section 3. Even a 1% movement in the grant assumption has a financial impact of close on £3m.
- 4.3 The decision by the Scottish Government to require councils to retain teacher numbers at existing levels means that savings proposals in the provisional 2016/17 Budget will need to be replaced by alternative proposals and officers are currently working on these.
- 4.4 Whereas the 2014/15 financial outturn is shaping to be much better than feared in January, the net overspend will deplete reserves and it will be important to ensure tight budgetary control in the current financial year.

5. BUSINESS TRANSFORMATION

- 5.1 As part of our drive to remain a high performing and lean organisation, Falkirk Council has established a Business Transformation (BT) Programme. The BT Programme sits alongside the financial budgeting process, and aims to provide a framework for delivering efficient, streamlined, and flexible services.
- 5.2 The aims of the programme fits with the Vision, Ambitions, Goals, Outcomes, and Priorities set out in the Council's Corporate Plan. The Corporate Plan recognises that the positive transformation of the Falkirk area needs an efficient, innovative, and enabling Council and that this, in turn, relies on a Council that is willing and able to modernise and improve.
- 5.3 The concept of Business Transformation is not new. Indeed Falkirk Council has always strived to meet the needs and expectations of our customers, working in tandem with our Community Planning Partners. The changing face and ever increasing profile of the Falkirk area in recent years is testament to that.
- 5.4 At a time of sustained reduction in the level of resource available to Local Government, however, the need to fully integrate and join up the various elements of our improvement programme has become ever more important.

5.5 Key change drivers for the Council include the need to:

- realise financial savings;
- unlock time savings via streamlining processes;
- focus on statutory requirements;
- recognise changing demographics;
- meet changing customer expectations; and
- become a flexible and agile organisation.

Key BT Projects

5.6 The criteria set out above has allowed the identification of a suite of improvement projects under the broad headings of Workforce, Assets, and Working Practices. While the tables below are not exhaustive, they do provide information on some of those projects likely to result in real improvement via streamlined processes, new ways of working, or alternative service delivery models.

Workforce:

<u>Project Name</u>	<u>What Are We Changing?</u>	<u>Why?</u>	<u>And When?</u>
Support Services Transformation	We plan to establish a single managed structure for all staff involved in clerical / admin / support service activities.	To ensure streamlined and standardised processes, better development opportunities for staff, and improved continuity.	2018
Terms and Conditions	We are engaging with staff and Trade Unions around options for reviewing and changing terms and conditions.	As a means of fairly and consistently realising workforce related savings.	2016
Vacancy Management	We have reviewed and updated our Recruitment and Selection Policy and our approach to filling vacant posts.	To reduce staff costs.	On-going

Assets:

<u>Project Name</u>	<u>What Are We Changing?</u>	<u>Why?</u>	<u>And When?</u>
Built Estate	We are reviewing our built estate, with a view to rationalising based on usage, condition, suitability and service delivery.	To ensure that we deliver our services from a modern, fit for purpose, and accessible suite of premises.	2017
Facilities Services	We have commissioned a review of the functions and management structure of our Facilities Management service.	To ensure that the service is customer focussed and provides best value.	2015
Fleet Management	We have critically reviewed our vehicle replacement programme and are developing new ways of maintaining our fleet.	To ensure that our fleet of vehicles and plant is efficient, cost effective, and fit for purpose.	2015
Social Work Information System	We have initiated a review of the functionality and suitability of our existing Social Work Information System.	To ensure that our critical Social Work system meets business needs in an efficient, cost effective, and integrated way.	2016

Transport Co-Ordination	We are establishing a centralised Transport Co-Ordination Team and are reviewing our approach to Social Work transport.	To streamline our approach to the provision of transport to service users.	2015
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Working Practices:

<u>Project Name</u>	<u>What Are We Changing?</u>	<u>Why?</u>	<u>And When?</u>
Building Maintenance	We are reviewing our approach to property maintenance, covering depots, service provision, and working practices.	To deliver financial and operational efficiencies, and to deliver a better, more customer focussed, service.	2015
Channel Shift	We are working to improve our website by integrating an on-line forms solution with our back office systems.	To make it easier for customers to interact with the Council, and to streamline our administrative processes.	2015
Daycare Provision	We have commissioned a review of our Social Work Daycare provision.	To ensure that that the right options are available to service users in light of the roll out of Self Directed Support.	2016
Future Frontline Service Delivery	Work is underway to review and improve the way we provide 'face to face' frontline services (eg One Stop Shops).	To enhance customers' experience of dealing with Falkirk Council.	2017
HR / Payroll Integration	We have integrated our HR and Payroll services and are working to streamline processes.	To release efficiencies through joined up working.	Integration Complete
Information Management	We are reviewing and streamlining our strategic and operational approach to information governance, security, and management.	To improve how we store, use, and share the information we gather, releasing efficiency savings and enhancing data security.	2017
Library Support to Schools	We are reviewing how we provide library support to our Primary Schools.	To ensure that each school cluster has better control over the books available to pupils.	2016
Mobile and Flexible Working	We are rolling out an ICT solution to allow our staff to work in new and innovative ways.	To realise financial efficiencies, and to allow staff to work securely from any location and capture data at source.	2017
Ordering and Invoice Processing	We have developed our finance systems to allow electronic ordering and centralised invoice processing.	To streamline administrative processes and release efficiencies within Services.	2015
Pensions Administration System	We are replacing our Pensions administration system.	To allow employee and pensioner self service and better system integration.	2015
Social Work Services Eligibility Criteria	We are reviewing the eligibility criteria for Social Work services.	To ensure that care packages are in line with service user needs.	On-going
Supply Teacher Booking and Allocation	We have moved to a centralised model for booking and allocating supply teachers.	To free up staff time at schools.	2015
Waste Collection / Strategy	We have changed the frequency of our residual waste collection to 3 weekly, and are moving to 4 weekly during 2016/17.	To reduce the council's landfill tax burden and help meet environmental targets.	2016

- 5.7 Members will recall that the most recent report on Business Transformation was considered by the Executive at its meeting in February 2015. Members agreed that reports on the progress of the Business Transformation Programme would be submitted to future meetings of the Executive. The next update report is scheduled to be submitted to the Executive after the recess.

6. CONCLUSION

- 6.1 The report has hopefully provided Members with a helpful overview of the shape of the forthcoming Budget process and the particular challenges anticipated. Markers have been put down for further updates which will come before Members as the relevant information becomes available.
- 6.2 The report also provides Members with an update on the wide range of projects progressing under Business Transformation.

7. RECOMMENDATIONS

The Executive is invited to:-

- 7.1 Consider the Budget Framework for 2016/17 – 18/19 as set out in the report, and
- 7.2 Note the status of the Business Transformation programme and require a further update after the recess.

Chief Finance Officer

Director of Corporate & Neighbourhood Services

Date: 21 May 2015

Contact Officer: Bryan Smail

LIST OF BACKGROUND PAPERS

AGENDA ITEM 9

FALKIRK COUNCIL

Subject: GENERAL FUND REVENUE BUDGET FRAMEWORK 2016/17 – 2018/19
Meeting: FALKIRK COUNCIL
Date: 7 October 2015
Author: CHIEF EXECUTIVE & DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 The primary purpose of this report is to progress the General Fund Revenue Budget process in a proactive manner, having particular regard to the extremely challenging projected gaps in financial years 2016/17 (£18m) and 2017/18 (£15m). A summarised timeline is presented at Appendix 1.
- 1.2 The report firstly, however, gives context at both the national level in terms of grant funding and then provides an overview of Falkirk Council's financial position.
- 1.3 Whilst the focus of this report is on the General Fund Revenue Budget, it should not be forgotten that parallel workstreams are progressing the other elements of the Council's overall budget position in terms of:-
- a) General Services Capital Programme
 - b) HRA – Revenue
 - c) HRA – Capital
 - d) Falkirk Community Trust (FCT)
 - e) Adult Health & Social Care Integration

It is anticipated that these items along with the Revenue Budget, will be presented to a Council meeting in late February.

2. BACKGROUND

- 2.1 A broad Budget framework was presented to the Executive on 9 June 2015. Some of the content of that report is repeated in this paper.
- 2.2 It is helpful to document the evolution of the Revenue Budget process in recent years:-
- Agreement of a two year Budget (the latter year provisional) within a three year Budget framework
 - Preliminary consideration of the Budget position by Council in Autumn
 - Development of the Equality & Poverty Impact Assessment (EPIA) process
 - Public engagement via several channels

- 2.3 The Thematic classification of savings options and the introduction of a separate Integration Joint Board to deal with adult care are current developments which will feature later in this report. The Community Empowerment (Scotland) Act 2015 makes provision for the Scottish Ministers to introduce regulations on participatory budgeting but the implication for the Council's budget process will need to await the regulations and associated guidance.
- 2.4 The restructuring recently approved by Council will require Service budgets to be reshaped.
- 2.5 In due course Parliament's consideration of the deliberations of the Commission for Local Tax Reforms will have the potential to lead to significant changes in local taxation during our medium term framework.

3. THE CENTRAL GOVERNMENT POSITION – GRANT

- 3.1 The most significant element in the "Budget mix" is revenue support grant from the Scottish Government. By way of illustration, for 2015/16 the grant was £282m and represented 84% of the Council's net expenditure of £335m. We have assumed a reduction of 0.9% in 2016/17 and 2% in 2017/18. Clearly, even a small percentage movement from these assumptions will convert to a large cash sum.
- 3.2 Following the General Election, the spectrum of possible fiscal stances has narrowed to one where there will be significant cuts in unprotected service areas, one of which is local government. It is anticipated that these will be most severe in 16/17 and 17/18, but with the proportions between the two years unknown. The Westminster Government has indicated that their Spending Review will be announced in late November.
- 3.3 The outcome of the Spending Review will then be transferred to Scotland via Barnett (which may itself change) where the Scottish Government will need to determine its spending priorities between the main spending blocks, notably local government and health. The slice allocated for local government will then be fed into the grant distribution formula leading to council specific grant figures. These may be available in late December, but more probably in January.
- 3.4 This will clearly give a very compressed period before the February Council agenda needs to be ready. Consequently, the Council will need to be prepared for fleet footed adjusting action if the grant assumptions are notably different from the estimated position.
- 3.5 It is to be hoped that the above process will lead to robust grant figures for individual Councils being made available for more than one year to facilitate medium term financial planning.

4. FALKIRK COUNCIL'S FINANCIAL POSITION

- 4.1 The Council's financial position for 2015/16 as at 31 July was reported to the Executive on 18 August. This showed that net expenditure in aggregate was forecast to be broadly in line with the approved Budget. Significant overspends were, however, forecast in Social Work - Childrens Services (£1.8m) and Adult (£0.8m). A £2m contingency was built into the 2015/16 Budget to cover these pressures in Social Work but this is proving insufficient.
- 4.2 Work is currently in progress to present an updated financial picture to the October meeting of the Executive. This work is showing that, whilst the budget position in aggregate has not moved significantly, that is not the case with Social Work.

- 4.3 Based on the last report to the Executive, the estimated position on Reserves at 31/03/16 is summarised below:-

	£'m
General Fund Reserves	8.264
Repairs & Renewals	4.337
<u>Earmarked Reserves:</u>	
Devolved Schools Management	2.198
Economic Development	0.883
Central Energy Efficiency	0.456
Insurance	4.826
Spend to Save	2.304
TOTAL	23.268

Members will recall that a review of the Reserves Strategy was reported to and approved by the Executive in January 2014. The General Fund Reserve balance has significantly reduced but still sits within the approved strategy range of £6.6m - £10m. The update report to October Executive will further consider the position with the Earmarked Funds and the Repairs & Renewals Fund. Further comment on reserves is made at para 5.1.5.

5. BUDGET FRAMEWORK 2016/17 – 2018/19

5.1 Regulatory Considerations

- 5.1.1 Each Council is legally required to approve an annual balanced Budget and set a council tax and this is required to be done by 11 March in the preceding financial year.
- 5.1.2 In practice, it is now more common for Councils to operate within a framework beyond one year, usually two or three years. The main drivers for this are:
- a) It better accommodates a more strategic approach
 - b) It allows more time for due process to be undertaken prior to the Budget decision meeting. In particular, this relates to progression of Equality and Poverty Impact Assessments (EPIA) of savings proposals and any necessary consultation including those of a statutory nature.

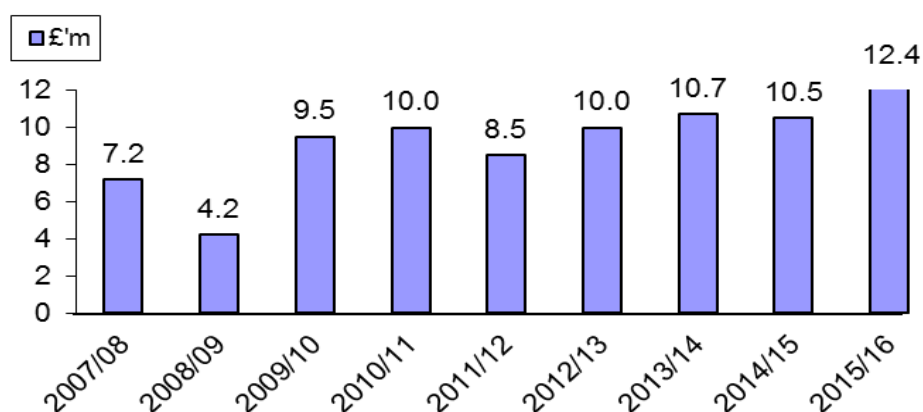
This is an approach which finds favour with Audit Scotland.

- 5.1.3 Every Council is also legally required to “make arrangements for the proper administration of their financial affairs”. The Chief Finance Officer holds this (Section 95) responsibility for Falkirk Council. A key element of this responsibility is securing a balanced and timeous Budget.
- 5.1.4 There is an expectation by both the Scottish Government and Audit Scotland that, going forward, budgets will be much more integrative in nature, in terms of an interface with Community Planning Partners with a joint focus on the priorities in the Single Outcome Agreement (SOA). This is reflected in practice in the Joint Resourcing Agenda and the integration of Adult Health and Social Care.

- 5.1.5 Audit Scotland in their annual report on the 2014/15 Accounts have again highlighted that the use of reserves to fund annual recurring expenditure is not sustainable and not consistent with the Council's reserves strategy. Recognising this, the General Fund Reserve was not harnessed in 2015/16 and nor it is proposed to do so in either 16/17 or 17/18. As noted at Section 4, this reserve is significantly below its previous level and faces ongoing pressure from potential overspend.
- 5.1.6 It is expected that the Council Tax freeze will continue for 2016/17. Failure to adhere to this would result in a significant penalty for the Council.

5.2 The Budget Gap

- 5.2.1 The profile of budget gaps the Council has had to deal with in recent years is set out in the chart below.



As this table shows, the Council has had to identify aggregate savings of £83m over the last 9 years. Average savings since 2009/10 have been over £10m p.a.

- 5.2.2 It will be evident that the further we move along this timeline of Budget Gaps, the more challenging the task of bridging them becomes. This is reinforced by the estimated gaps for the next 3 financial years:-

	£'m
16/17	18.4
17/18	15.2
18/19	11.4
TOTAL	45.0

What is very clear is that delivering savings of this scale will require significant contraction in service delivery and reduction in staffing. This needs to be conveyed, albeit sensitively, to stakeholders notably the general public, service users and staff/trade unions. This is considered in subsequent sections.

- 5.2.3 Members are reminded that the future Budget gaps quoted above are estimates and predicated on a wide range of assumptions, notably that of grant as highlighted at para 3.1.

- 5.2.4 The Council agreed a provisional Budget for 2016/17 in February 2015. The savings thereby agreed are presented again at Appendix 2. There are, however, several elements where work is still required, as noted below, and expanded on in subsequent paras:-

	£m	
Replacement of Teacher savings option	1.7	para 5.2.5
Workforce Savings	1.5	para 5.2.6
Service Configuration/Transformation	2.0	para 5.2.7
Agreed Savings which have become problematic	?	para 5.2.8

- 5.2.5 Savings of £1.7m were assumed from a reduction in teachers but, in the event, the Scottish Government took action to require Councils to maintain teacher numbers. Consistent with Recommendation 12.1(d) in the February Budget report to Council, it is the responsibility of the Director of Children's Services to come forward with alternative proposals to plug this gap. These are set out below:-

- Saving of £1m by reducing the number of Support for Learning Assistants involved in general school and classroom duties. This will be achieved as far as possible through voluntary severance and removal of temporary posts
- The recruitment of additional permanent teachers has created efficiencies in the management of teachers supply costs, resulting in savings of £0.100m
- Reducing staff training budgets by £0.060m
- Restructuring the management and support costs within Children's Services, achieving savings of £0.270m
- Reviewing the family support service with the aim of achieving savings of £0.300m

The above savings will be subject to the Council's EPIA process and any other necessary consultations.

- 5.2.6 With respect to Workforce savings, negotiations are well advanced with Trade Unions and it is anticipated that firm proposals to achieve £1.5m will be brought before Members as part of the Budget process.
- 5.2.7 Provision was made for £2m savings from corporate business transformation projects i.e. those business transformation projects not directly linked to a specific service which are included in respective Service budget savings options. Corporate business transformation savings will be derived from the service redesign agreed by Members earlier this year, the creation of the business and transaction team which will provide a single managed structure and consistent processes across admin/ clerical and support services, the introduction of mobile and flexible working practices and other channel shift opportunities and finally from procurement savings.
- 5.2.8 There is the potential for some previously agreed 2016/17 savings, with the lapse of time, to prove problematic. The anticipated savings by Social Work from the Rowans is a case in point. Information on the implementation of the Council's decision in relation to the Rowans will be reported to Scrutiny Committee in October. To the extent other examples emerge, consistent with para 5.2.5 above, Services will be expected to bring forward an alternative for approval by Members.

5.3 2017/18 Budget Savings Options

- 5.3.1 The benefits of adopting a proactive approach over a time horizon beyond one year has already been highlighted in this report. It is difficult to imagine how Budget Gaps of the magnitude forecast for 17/18 (£15.2m) can be managed effectively, if tackling them is only started in the year in question.
- 5.3.2 Consequently, it is proposed that Council gives authority to officers to progress any required consultations and workstreams relating to savings options identified by officers whether arising from statute or as part of the EPIA process. It is clear that it is Members who will finally take the decisions on savings options, but these decisions will be better informed having this information sitting behind the option. The legal position on the equality element makes this an important consideration. Moreover, savings options need only be selected by Members consistent with the size of the updated Budget Gap (following the grant announcement) i.e. if that is reduced then only the requisite level of savings options require to be approved.
- 5.3.3 The savings options identified by Officers at this stage in the process (further options are likely to be identified) are set out at Appendix 3. As noted at para 2.3 these have been arranged by Theme rather than by the traditional Service format, albeit the references allow the Service to be identified:-

C&HS - Corporate & Housing Services
SW - Adult Social Work
CS - Children's Services
DV - Development Services

They are also ordered by value within each Theme.

Hopefully Members will find this revised approach helpful.

It is recognised that for many of these options, there are alternatives to the Theme selected, but it is suggested that the identification of the savings option, rather than the particular Theme, is what is important.

- 5.3.4 From these Theme options, together with proposals which will be brought forward later, including those relating to grants to External Organisations/Fairer Falkirk Fund, Members will need to select options which will bridge the estimated gap of £15.2m in 2017/18. The costed savings in the appendix total £15.4m and with an expected FTE staffing impact of 250 FTE. Members should also note that the existing savings Falkirk Community Trust have been asked to make over the three years from 2015/16 are £2.1m, which is an average of £700k p.a. and with an additional £500k in 2016/17. An option open to Members would be to seek further savings from staff terms and conditions beyond the £1.5m mentioned at para 5.2.6, although it must be noted that it will become increasingly difficult to reach an agreement with Trade Unions on further reductions in this area.

- 5.3.5 Some areas of savings options are not yet specifically identified in Appendix 3 because further work is required.
- 5.3.6 There is a discrete category of savings in this appendix which relates to as yet Uncosted Options. This reflects that these options will require a significant input of limited officer resources and in consequence Members are invited to consider which ones they would wish to be worked up.
- 5.3.7 Officers have concentrated on discretionary areas of spend in identifying savings options, but where there is potential with statutory provision this has been pursued.

5.4. Engagement with Stakeholders

- 5.4.1 Following today's meeting, information will be made available to the public about the savings options the Council is considering. This will inform people at an early stage about the general approach to the budget, including information about the financial challenges facing the Council and about specific savings under the agreed themes. A range of channels will be used, including the Council's website and Falkirk Council News. The people will also be engaged via Community Councils. The purpose of this activity is to engage with the public around the budget and help them understand the context in which difficult decisions will have to be made.
- 5.4.2 Equality and Poverty Impact Assessments (EPIA) are an important aspect of the Council's budget process and involve assessing the impact that any changes to services will have on the citizens of Falkirk and taking steps to mitigate this if required. These assessments will be taken forward by Services and will involve engagement with service users for each of the budget savings proposals. In line with guidance the EPIA process will seek to identify impacts and any mitigation that can be brought to bear to reduce potential impacts. The outcomes of these exercises will be fed into the budget process so that Members are fully informed about the potential impact before any final decisions are made in February 2016.
- 5.4.3 A similar programme of consultation will take place for employees and Trade Unions to that used during 2014/15. This will include the following key elements:
- A letter to be issued to employees both prior to and following consideration of this report by Members;
 - A meeting with Trade Unions both prior to and following consideration of this report by Members;
 - All employees being offered the opportunity to attend a briefing session with their Manager during October to November, to allow Managers to explain the status of the options and what they may mean for different employee groups. Employees will also be given the opportunity to ask any questions. Managers will be provided with a script for this purpose, tailored to meet the needs of their teams and to ensure a consistent message is delivered across the workforce.

- 5.4.4 It should be stressed that meetings with Trade Unions will be on-going throughout this process and further letters will be issued to employees at appropriate stages. Managers will also be asked to maintain channels of communication with employees to ensure they are kept advised of progress and have appropriate opportunities to ask questions.

5.5 Adult Health & Social Care Integration

- 5.5.1 This injects a substantial new dynamic into the Budget process, particularly in the context of a climate of financial constraint. The new Integration Joint Board (IJB) will take over responsibility for adult social care from April 2016. The Board needs to prepare a Strategic Plan which will have a three year financial element. The preparation of this will place demands and strains in terms of the interplay between the IJB, Health Board & Council relating to governance processes and differing financial pressures. And, this will all need to be achieved within a compressed time frame.
- 5.5.2 Work is currently underway as part of the Due Diligence process to confirm the budgets for the Council's functions which are required to be in scope and also importantly the robustness of the breakdown of the Health Board's budget between the two IJBs within its area. The Transitional Board requested, and received at its meeting in September, a provisional indication of its funding resources:-

	£m
Forth Valley Health Board	126
Falkirk Council	61
TOTAL	187

- 5.5.3 The approved Integration Scheme sets out the methods for determining the amount to be paid by the parties (Council & Health Board) to the IJB and the determination of the Set Aside budget (essentially the share of hospital resources). The Scheme recognises, "that a degree of flexibility and pragmatism will be required in the first year, in particular, to implement change of this magnitude and complexity".
- 5.5.4 It will be inevitable that in the first year of the new IJB, focus will necessarily be directed to ensuring continuity and "steady state" before turning its attention to Service transformation. Consequently, it is anticipated that the IJB will need to progress any adult Social Work savings options the Council agrees for 2016/17.
- 5.5.5 The approved Integration Scheme provides for a slightly different Budget methodology for 2017/18 and subsequent financial years - "The Integration Joint Board business case shall be presented to the Parties for consideration against their other priorities and negotiation of their contributions". One can see parallels with the manner in which Falkirk Community Trust submits its Business Case to the Council in November. It is important to bear in mind that decisions about service provision in adult social care (other than charging) will rest with the IJB rather than the Council, subject to the Council determining the overall annual payment to the IJB. Consequently the savings proposed by the Council may not be taken forward by the IJB.

5.6 Best Value Report

- 5.6.1 The Audit Scotland Best Value report, which appears on this agenda, makes some suggestions which are relevant to the Budget process.
- 5.6.2 The first of these relates to the potential for a cross party Working Group. Reference is made to this in the report on the Best Value Report which is also included in the agenda for this meeting.
- 5.6.3 The other relates to the financial planning horizons. Currently, the Council works with a two year Budget within a three year framework, which in turn sits within a five year medium term picture. It is proposed that this latter element will be developed. An outline 10 year plan will also be developed, linking with the Council's Corporate Plan and the Community Plan. As a cautionary note with respect to longer term planning, attention is drawn to para 3.3 where the Council is unlikely to know until January what its major resource is for a financial year which starts in April.

6. CONCLUSIONS

- 6.1 The report sets out the framework for progressing Revenue Budgets for both 2016/17 and 2017/18. This framework recognises the evolution of the process, the Council's financial position and, critically, highlights that the grant position will not be known until probably January. The importance of engagement with stakeholders is also recognised.
- 6.2 It is demonstrated that work is progressing to ensure that there will be a balanced Budget position for 2016/17. A range of savings options for 2017/18 are presented with a view to them being worked up, including EPIAs, so that Members will have the necessary information to inform their decision making. It is inevitable that savings of this magnitude will have a material impact on the Council's service delivery capacity, internally as well as externally.

7. RECOMMENDATIONS

7.1 Council is invited to:

- (i) Note the Revenue Budget Framework for 2016/17 – 2018/19
- (ii) Approve the replacement Children's Services savings per para 5.2.5 subject to the Council's EPIA process and any other necessary consultation
- (iii) Note the progression of the Equality & Poverty Impact Assessments and approve the necessary consultations and workflows set out in the report to facilitate the preparation of a 2 year Budget.

.....
CHIEF EXECUTIVE

.....
**DIRECTOR OF CORPORATE &
HOUSING SERVICES**

Date: 22 September 2015

Ref: AAC071015

Contact Officer: Bryan Smail

LIST OF BACKGROUND PAPERS

1. Budget Working Paper Files.

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506300 and ask for Bryan Smail.

AGENDA ITEM

FALKIRK COUNCIL

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

1. INTRODUCTION

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

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

2. BACKGROUND

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

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

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

3. SPENDING REVIEW

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

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

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

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

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

4. BUDGET PREPARATION STATUS

4.1 Government Grant

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

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

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

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

4.2 2016/17 Provisional Budget Savings

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

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

4.3 **Terms & Conditions**

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

4.4 **Public Engagement on the Budget**

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

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

Areas that should be protected:

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

General comments

- This could be a catalyst to streamline services
 - Long overdue
 - Like any business, there will be savings to make
 - Amalgamate, streamline and share services
 - More efficient procurement
 - Reduce capital works and expenditure on making the area more attractive
 - Less paperwork and bureaucracy
 - Increase Council Tax
 - Review HQ project
- 4.4.5 As well as the online information, information about the Council's budget challenges was published on the front page of the October and December editions of Falkirk Council News, which is distributed directly to every household in the Falkirk Council area. A media release was also issued immediately following the October Council meeting and a briefing for Community Councils was held on 25 November.
- 4.4.6 Engagement with specific groups is being carried out by Services via the Equality & Poverty Impact Assessment process. Communication with employees has been carried out in a range of ways, including regular update letters from the Chief Executive, consultation with Trade Unions and a face-to-face communications cascade to all employees following the Council meeting on 7 October.

4.5 **Council's Financial Position**

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

4.6 **Falkirk Community Trust**

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

4.7 **Adult Health & Social Care Integration**

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

4.8 **Budget Process**

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

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

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

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

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

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

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

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

6. CONCLUSIONS

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

7. RECOMMENDATIONS

Members are invited to:-

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

Chief Executive

Director of Corporate & Housing Services

Date: 7 December 2015

Ref: AAA161215 – Revenue Budget

Contact Officer: Bryan Smail

LIST OF BACKGROUND PAPERS

- 1. Budget Working Paper File.**

AGENDA ITEM

FALKIRK COUNCIL

Subject: FINANCIAL POSITION 2015/16
Meeting: EXECUTIVE
Date: 12 January 2016
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 This report presents the financial position of the Council for 2015/16 and reflects the situation as at 31 December 2015. The opportunity is also taken to update Members on the position with the Reserves consistent with the policy approved by the Executive in January 2015.

2. GENERAL FUND

- 2.1 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.

Net expenditure is currently forecast to be £2.055m (0.6%) below the approved budget. This is a favourable movement of £1.780m from the previously reported position in October. The main reason for the movement is due to lower than anticipated costs of Children's Services (Education), particularly the costs of Early Years Provision. Spending pressures are still attributable to both Children's and Adult Social Work. Reports to the Scrutiny Committee have provided information on these areas along with proposals to address the situation. Dependent on the decision taken on the new HQ, Members should be aware that further revenue consequences may arise.

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

2.2 Children's Services – Education (under budget by £1.765m; 1.1%)

The educational element of the Service continues to project below budget, with higher residential school costs of £0.400m being offset by savings in employee costs of £0.790m, savings in property costs of £0.210m and higher school meal income of £0.200m. This projection reflects receipt of an additional £0.200m of grant as a result of the Service demonstrating that it has met the commitment to maintain teacher numbers and prescribed pupil: teacher ratio in line with the agreement made with the Scottish Government.

The Service is now in the final phase of rolling out new Early Years Campuses and providing additional capacity to meet the increased demand for places from 2 year olds. Two new campuses opened in November 2015 and work on the final one, due to open in summer 2016, is underway. The projection reflects budget savings of £0.800m as the full year costs for these campuses will not be experienced until 2016/17, incurring only part year costs for this roll out along with having to meet lower than expected demand for 2 year olds.

Children's Services – Social Work (over budget by £1.445m; 6.9%)

Managing the cost of childrens' residential care is still the most significant challenge facing the Service. Current projections are broadly in line with the previously reported figure in October, although in comparison with the previous year the overspend has reduced by circa £1.3m as costs are no longer being incurred for a number of children, who were placed in the most expensive residential accommodation, reaching the age of eighteen. However, this remains a highly volatile area.

Social Work Adult Services (over budget by £1,419m; 2.0%)

Members are aware that there are significant demand pressures on service provision, in particular Adult 24 hour care and Adult Care purchasing. However, there has been no significant movement in the projected overspend from October. A series of actions aimed at addressing the situation and reducing the overspend has been reported to the Scrutiny Committee but their impact on the overspend remains to be seen.

Development Services (over budget by £0.019m; 0.1%)

The Service remains in line with budget with lower income due from commercial rents of £0.235m and car parking charges of £0.160m, largely offset by higher than anticipated income from planning applications and building warrants of £0.100m and crematorium and burials of £0.420m. The increased income for the crematorium is principally due to the delay in closing the facility for refurbishment, which was initially expected to happen during the current financial year.

Members will be aware that the current arrangements for processing and recycling materials collected via the blue bins has incurred increased costs paid by the Council. At this stage in the financial year it is anticipated that these additional costs can still be accommodated within existing resources. A separate report on this agenda details a series of actions aimed at reducing these costs going forward.

Corporate & Housing Services (under budget by £0.331m; 6.5%)

The underspend is largely as a result of reduced staff costs and increased income within General Fund Housing which now includes Welfare Advice and Assessment.

Central Support Services (under budget by £0.596m; 2.6%)

An underspend on staffing costs across all central support services is likely to reduce the overall costs of Central Support Services to the General Fund by £0.596m.

Miscellaneous Services (under budget by £0.242m; 2.3%)

There are various underspends across several areas of Miscellaneous Services which are partly offset by the deficit within Printworks.

Compensatory Lump Sums (£1.470m)

The cost of compensatory lump sums paid as a result of employees leaving through voluntary severance stands at £1.470m. Savings will accrue in future years.

Council Tax (over budget by £1.460m; 2.8%)

The increase in the council tax yield is welcome and follows on from the previous financial year. The improved yield is due to a combination of factors, such as the reduced cost of the council tax reduction scheme and an ongoing improvement in the collection rate.

3. WORKFORCE CHANGES

3.1 Members will be aware of the requirement for Services to reduce staff numbers by c100 FTE in 2015/16 and c330 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;
- severance.

3.2 To date, progress is as follows:

	No of Posts	
	2015/16	2016/17
Seeking Redeployment	95	-
Severance	112	30

Overall, from November 14 to November 15, headcount and FTE have reduced as follows:

	Nov 2014	Nov 2015
Headcount	7,493	7,177
FTE	6,331	6,039

4. TRADING ACCOUNT

4.1 The projected overall surplus of Building Maintenance is marginally higher than budgeted.

5. HOUSING REVENUE ACCOUNT

5.1 Overall, the HRA (Appendix 2) is projected to be in line with budget. Savings in staff costs and operational expenditure are anticipated, 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.

5.2 The reserve balance brought forward at 1 April 2015 was £5.093m and no application from reserves is planned for 2015/16, with the current projected level of reserves 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.

6. GENERAL FUND RESERVES

- 6.1 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 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.
- 6.2 In the light of the additional financial pressures facing the Council arising from the 2016/17 Settlement, it may well be that some of these reserve resources will need to be deployed to secure a balanced Budget for 2016/17.
- 6.3 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.
- 6.4 **Repairs and Renewals Fund**

The significant balances and movements on the fund are detailed as follows:

Printworks (£0.206m)

It is planned to build up the fund to replace the current 4 colour press in 2018/19.

Roads (£0.080m)

This balance will be used in 2015/16 to fund improvements to the Earls Road Depot, including upgrading the CCTV.

Waste Strategy (£0.619m)

The Fund will be used in the current year to support the purchase of recycling bins, undertake recycling centre maintenance and to upgrade and assist with expanding the recycling provision.

Flood Prevention (£0.395m)

The anticipated £0.395m in the current financial year for flood prevention initiatives includes £0.265m for the purchase of a Vactor Unit, a vehicle with high pressure cleaning equipment for clearing drains and culverts, with the balance of £0.130m being used as a contribution towards the costs associated with on-going ecology and ornithology work for the Grangemouth Flood Protection Scheme.

Social Work Services Properties (£1.335m)

The Fund will be deployed to enable critical work to be undertaken across a range of care facilities and other premises. This work will enable registered services to meet Health and Safety requirements and will enable essential refurbishment of premises, as identified by condition surveys. The surveys of all properties have been undertaken with £0.921m committed to facilitate the highest priority work (£0.150m in the current financial year), with the balance of £0.414m still to be deployed.

Vehicle Replacement (£0.879m)

A sum of £0.879m has been transferred to augment funding for the vehicle replacement programme with £0.350m due to be spent in the current financial year. A further £0.200m will be spent in 2016/17 and the balance of £0.329m in 2017/18. This application of reserves is necessary to help fund the replacement of refuse collection vehicles in 2017-19.

General Fund Housing (£0.897m)

As previously reported, it is proposed to use the fund to upgrade and re-model existing hostel and other accommodation. The works will assist in meeting housing needs for young people and those suffering from addiction and mental well-being issues. It is anticipated that the spend will be in 2016/17 and will help to reduce future accommodation and support costs.

Mobile & Flexible Working (£0.167m)

In December 2014 a report was presented to the Executive detailing a project on Mobile and Flexible working. A sum of £0.167m was provided to help cover the additional revenue resources required to undertake the project with £0.033m due to be spent in the current financial year and the balance of £0.134m in 2016/17.

6.5 **Earmarked Reserves**

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

Devolved Schools Management (£4.898m)

The balance on the fund at 01/04/15 was £4.9m. Included in the balance is a total of £2.1m which reflects timing differences between the academic and financial years mainly in respect of balances held at individual school level for use by headteachers during the remaining months of the academic year, April to June. These balances are replenished by retaining balances at the end of each financial year.

The remaining balance of £2.8m is being used to support ongoing school capacity improvement work and act as a buffer if issues arise which affect the full achievement of planned budget savings. It is anticipated that £1.4m will require to be utilised in the current financial year.

Taking the above factors into account, it is anticipated that that balance at 31/03/16 will be £2.9m.

Economic Development (£1.083m)

The fund assists with the delivery of economic projects where the Council has a significant property related interest. The balance on the fund at 01/04/15 was £1.083m. After taking into account that circa £0.2m will be used to balance the budget in the current financial year as agreed by Members in February, the remaining balance will be used to support the following:

- Property maintenance/dilapidations works at Meeks Road, Almond Court and Victoria Mills (Bo'ness) - £0.284m
- Business Support/Landscape Initiatives including delivery of tourism signage works - £0.219m
- Falkirk Townscape Heritage Initiative, contribution to project delivery including public realm works, to be committed by end September 2017 - £0.380m

Central Energy Efficiency Fund (£0.456m)

The fund is utilised to support energy management projects. Anticipated savings from projects are used to replenish the fund. The balance on the fund is £0.456m.

Insurance Fund (£4.826m)

The position on the Insurance Fund following the actuarial valuation in 2012 has previously been reported to Members and in particular the uncertain future liability from MMI entering administration was highlighted. The Fund is revalued every three years to ensure that the balance is sufficient to meet current and future anticipated claims. The 2015 valuation has been carried out by Milliman, a company who specialise in providing actuarial services and who have provided valuations in the past. The results of this valuation will be reported back to Members early in the new year, however preliminary indications are that the Fund balance should be adequate in terms of claims, with no requirement to increase Service contributions. The balance on the fund at 1 April 2015 was £4.826m. The movement on the Fund is reported at the year end once the position is known in terms of the value of claims made and insurance settlements received.

Spend to Save (£2.614m)

The Council agreed to set up an earmarked reserve to fund the front end costs associated with Spend to Save proposals. Of the balance available, £0.7m is to be used over the next 3 years towards the Rehab Group proposals for the factory unit at Central Business Park, £0.2m for refreshing the teaching profession and £0.1m to enable Social Work staff to be trained as Mental Health Officers. The remaining balance of circa £1.6m will help to cover the cost of voluntary severance payments as previously agreed by Members.

Council agreed in December when considering the Community Trust's 2016/17 Business Plan that the potential to use this Fund to help the Trust meet voluntary severance costs be explored with the Trust.

6.6 **General Fund Balance**

Appendix 1 shows a projected balance of £10.424m at 31/03/16, with the overspend in both Children's and Adult Social Work's expenditure largely offset by the £2m built into the budget for spending pressures and projected savings in other Services. The balance sits just above the approved strategy range of £6.6m - £10m.

6.7 **Capital Reserves**

Capital Receipts Reserve

As noted in previous reports, this Reserve comprises proceeds from the sale of Council Assets. The movement on this Reserve is as detailed below:

	GF £'m	HRA £'m	TOTAL £'m
Balance at 1 April 2015	3.354	2.424	5.778
To be applied to 2015/16 Capital Programmes	(0.910)	-	(0.910)
Projected Balance at 31 March 2016	2.444	2.424	4.868

It should be noted that the projected General Fund Balance at 31 March 2016, includes £1.6m of Business Property Re-investment receipts.

Further application of the Capital Receipts Reserve continues to be reviewed as part of the budget process for the roll forward of the Capital Programme.

As part of the 2015/16 Revenue Budget process, Members approved the potential to deploy capital receipts to meet the costs of voluntary severance. To the extent that course of action is taken, capital receipts will be replaced by borrowing.

Capital Grants Unapplied Accounts

As noted in previous reports, this Reserve comprises Section 75 contributions from developers as well as capital grants/contributions for which conditions often apply. The movement on this Reserve is as detailed below:

	GF £'m	HRA £'m	TOTAL £'m
Balance at 1 April 2015	2.787	1.082	3.869
To be applied to 2015/16 Capital Programmes	(0.632)	-	(0.632)
Balance at 31 March 2016	2.155	1.082	3.237

It should be noted that the projected General Fund Balance at 31 March 2016 includes £0.504m of Business Property Re-investment receipts in relation to ERDF grants for the historical Alcan project.

Further application of the Capital Grants Unapplied Account continues to be reviewed as part of the budget process for the roll forward of the Capital Programme.

7. CONCLUSION

- 7.1 Net General Fund expenditure is currently forecast to be marginally below the overall assumptions made in setting the 2015/16 Budget. Significant variations within budget headings are explained in Section 2 above.
- 7.2 Spending within the Housing Revenue Account is in line with budget, leading to projected year-end reserves of £5.093m which will be deployed in a planned manner over time.

8. RECOMMENDATIONS

Members are invited to:-

- (i) note the Council's projected year-end financial position for 2015/16;
- (ii) note the position with reserves

LIST OF BACKGROUND PAPERS

1. Financial Monitoring Statements 2015/16

Any person wishing to inspect the above background papers should telephone Falkirk (01324) 506388 and ask for Danny Cairney/Amanda Templeman/Bryan Smail.

FALKIRK COUNCIL

GENERAL FUND

PROJECTED REVENUE OUTTURN STATEMENT 2015/16 AS AT 31/12/15

	Budget	Projected	(Fav)/ Adv		Previous
	£'000	Outturn	Variance		Projection
		£'000	£'000	%	
Childrens Services - Education	163,353	161,588	(1,765)	(1.1)	163,049
Childrens Services - Social Work	20,939	22,384	1,445	6.9	22,329
Social Work - Adult Services	69,848	71,267	1,419	2.0	71,248
Development Services	34,915	34,934	19	0.1	34,932
Corporate & Housing Services	5,089	4,758	(331)	(6.5)	4,692
Miscellaneous Services	10,696	10,454	(242)	(2.3)	11,047
Central Support Services	23,043	22,447	(596)	(2.6)	22,318
Less: Central Support Recharges	(23,043)	(23,043)	-	-	(23,043)
Trading Accounts	(738)	(752)	(14)	1.9	(761)
Provision for Budget Pressures	2,000	-	(2,000)	(100.0)	-
Sub - Total	306,102	304,037	(2,065)	(0.7)	305,811
Falkirk Community Trust	12,660	12,660	-	-	12,660
Valuation	1,119	1,119	-	-	1,119
Compensatory Lump Sums	-	1,470	1,470	-	1,326
Transfers to/(from) Earmarked Funds	(400)	(400)	-	-	(400)
Adj. for Capital Financing Costs / Capital Charges	16,712	16,712	-	-	16,712
NET EXPENDITURE	336,193	335,598	(595)	(0.2)	337,228
Financed By :					
General Revenue Funding	221,151	221,151	-	-	221,151
Non-Domestic Rates	62,336	62,336	-	-	62,336
Council Tax / Council Tax Reduction Scheme	52,706	54,166	(1,460)	(2.8)	54,016
NET INCOME	336,193	337,653	(1,460)	(0.4)	337,503
SURPLUS/(DEFICIT)	-	2,055	(2,055)	(0.6)	275
Add : General Fund Surplus as at 1 April 2015		8,369			
Projected General Fund Balance as at 31 March 2016		10,424			

Appendix 2

FALKIRK COUNCIL					
HOUSING REVENUE ACCOUNT					
PROJECTED REVENUE OUTTURN STATEMENT 2015/16 AS AT 31/12/2015					

	Budget	Projected	(Fav)/ Adv		Previous
	£'000	Outturn	Variance	%	Projection
		£'000	£'000		
Employee Expenses	6,848	6,236	(612)	(8.9)	6,236
Property Expenses	25,979	25,996	17	0.1	25,789
Transport Expenses	8	8	-	-	8
Supplies and Services	4,348	3,847	(501)	(11.5)	3,847
Third Party Payments	1,796	1,521	(275)	(15.3)	1,521
Support Services	4,007	3,907	(100)	(2.5)	3,907
Capital Charges	13,498	15,008	1,510	11.2	15,220
Gross Expenditure	<u>56,484</u>	<u>56,523</u>	<u>39</u>	<u>0.1</u>	<u>56,528</u>
Income	56,484	56,523	(39)	(0.1)	56,528
Surplus/(Deficit)	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>
Add: Surplus brought forward at 1 April 2015		5,093			
Projected Surplus at 31 March 2016		<u>5,093</u>			

ANALYSIS OF REPAIRS & RENEWALS FUND

Service	Description	Balance 01/04/15 £'000	Spend £'000	Transfers £'000	Balance 31/03/16 £'000
Chief Executive	Printworks	206	-	-	206
Development	Roads	80	(80)	-	-
	Waste Strategy	619	(619)	-	-
	Flood Prevention	395	(395)	-	-
	Birkhill Mine Demolition	27	(27)	-	-
	Pavilion Improvement	50	(50)	-	-
	Planning Enquiry	32	(10)	-	22
Social Work	Older People's Accommodation	1,335	(150)	-	1,185
Corp & Housing	Vehicle Replacement Programme	879	(350)	-	529
	General Fund Housing	897	-	-	897
	Mobile & Flexible Working	167	(33)	-	134
Other	Drummond House Dilapidations	20	(20)	-	-
	Mariner Centre	37	(37)	-	-
TOTAL		4,744	(1,771)	-	2,973

ANALYSIS OF EARMARKED RESERVES

Description	Balance 01/04/15 £'000	Spend £'000	Transfers £'000	Balance 31/03/16 £'000
Devolved Schools Management	4,898	(2,600)	700	2,998
Economic Development	1,083	(200)	-	883
Central Energy Efficiency	456	-	-	456
Insurance	4,826	-	-	4,826
Spend to Save	2,614	(610)	-	2,004
TOTAL	13,877	(3,410)	700	11,167

AGENDA ITEM**FALKIRK COUNCIL**

**Subject: LOCAL GOVERNMENT FINANCIAL SETTLEMENT 2016/17 –
UPDATE POSITION**
Meeting: SPECIAL EXECUTIVE
Date: 5 February 2016
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 A report was submitted to Executive on 12 January 2016 setting out the Local Government Financial Settlement flowing from Mr Swinney's Budget and his letter to Council Leaders dated 16 December 2015. In the interim, there have been protracted negotiations between the Scottish Government and Cosla leading to a letter from Mr Swinney dated 27 January 2016 confirming "final details of the Local Government Financial Settlement for 2016/17".

The trail of engagement is attached for Members' review:-

- Appendix 1 Mr Swinney's letter to Leaders dated 16/12/15
- Appendix 2 Cosla Report
- Appendix 3 Mr Swinney's letter to Moray Council
- Appendix 4 Mr Swinney's letter to Leaders dated 27/01/16

- 1.2 The primary purpose of this report is to focus on the terms of Mr Swinney's final Settlement Letter dated 27 January 2016. There are four primary elements:-

- Council Tax Freeze
- Teacher Numbers
- IJB Integration Fund
- The complete package is to be agreed or grant penalties will apply.

The following Sections of the report consider each of these in turn.

2. COUNCIL TAX FREEZE

- 2.1 Mr Swinney reaffirms his government's mandate to freeze the Council Tax and notes, moreover that with the release of the report from the Commission on Local Tax Reform, "now is not the time to dispense with the protection the freeze offers". Consequently, the Council Tax freeze is to remain in place for the ninth consecutive year.
- 2.2 It is now clear that any Council which elected to break the Council Tax Freeze would incur severe grant loss.

3. TEACHER NUMBERS

- 3.1 The Scottish Government has indicated that it seeks to maintain the national pupil teacher ratio (PTR) at 1:13.7. In Falkirk the PTR is currently 1:13.5 (i.e. better than the national position). Over the last two years it has been clear that Councils were required to maintain their own PTRs to contribute towards the national target and officers are working on this assumption even although this is not specifically articulated in the letter from the Cabinet Secretary. Provided our ratio remains unchanged, it is anticipated that the Council should receive approximately £1.6m from the Scottish Government allocation of £51m to maintain pupil teacher ratios.
- 3.2 The requirement to maintain PTR is not advantageous to Falkirk Council as our pupil roll is rising. This requirement therefore limits our flexibility regarding teacher deployment and our ability to make savings or reduce expenditure. Based on our current roll projections we anticipate needing to recruit a further 6FTE teachers (cost £240k) to meet this target. This is an additional pressure over and above the £1.6m funding provided.
- 3.3 Falkirk Council has well developed practice in meeting our stipulated core probationer commitments and will be able to continue to comply with this requirement. It should be noted however that should Falkirk Council be allocated fewer probationers than in recent years from the national allocation it will require to recruit additional teachers to meet the PTR requirement and this will also increase our expenditure.

4. IJB INTEGRATION FUND

- 4.1 This is in many respects the most significant and problematic element in Mr Swinney's letter and the main reason why negotiations between the Scottish Government and Cosla have been protracted. It has to be said that the final iteration of the terms contained in this letter still leaves uncertainties. A sum of £250m has been made available to the new Adult Social Work & Health Integration Joint Boards (IJB). This sum is to be routed via Health and it can reasonably be argued that this has been taken from the Local Government Settlement. It is split into two equal tranches of £125m and the Falkirk IJB share is £3.54m for each tranche. The position with each tranche is considered in the following paragraphs.
- 4.2 With respect to the first tranche, Mr Swinney's letter states this, "is provided to support additional spend on expanding social care" and "this additionally reflects the need to expand capacity to accommodate growth in demand for services as consequence of demographic change". As the Council had provisionally identified an element of uplift in the funding for the IJB to reflect demographic pressures and the IJB will now have funding made available for the same purpose, it is proposed that the payment made to the IJB will be reduced to the extent of that identified element of the uplift. Engagement with the IJB will be required in relation to this adjustment.

4.3 Turning to the second tranche of £125m, Mr Swinney's letter states that this "is provided to help meet a range of existing costs faced by local authorities ... this includes our joint aspiration to deliver the living wage for all social care workers. The allocation of this resource will enable Councils to ensure that all social care workers including in the independent and third sectors are paid £8.25 an hour. This assumes that private and third sector providers will meet their share of the costs. "The Council already pays its existing staff the Living Wage and thus this element is already built into the Council's 2016/17 Budget. The difficulty arises with external contract arrangements which cover a significant proportion of our social care outlay. The following bullet points, which are not exhaustive, illustrate the variety of variables in the mix and the complexity of the matter:-

- C200 Adult Service providers, with over 3,000 service users
- Wide range of payment arrangements in place from hourly to weekly to block funding arrangements
- 50% of Adult Services spend contracted through Cosla/Scotland Excel via National Care Home Contract (which is currently being negotiated) and Other Adult Residential Homes
- Falkirk Council contracts in place for Community Care and Care at Home
- The Settlement letter allows until 1 October 2016 for implementation of the Living Wage
- It is assumed that external providers will provide 25% of the cost of the Living Wage, although there is no basis for believing that they will be willing to do so even if they could afford it.

4.4 Financial modelling has been undertaken reflecting the scenario outlined above and it is believed that an additional outlay of circa £3.5m is a reasonable estimate of the additional cost attributable to the Living Wage. This would broadly match the Council's share of the second tranche. To the extent that costs proved to be more than that, it could be left to the Integration Joint Board to manage within its overall resources, or the Council could elect to support the position from its reserves. This would be a matter for consideration once the relevant costs crystallised. To the extent Living Wage costs proved to be less than the Council's share of this tranche, there will be other cost elements reflected in the 2016/17 Budget base that could legitimately be claimed against the available grant.

4.5 Notwithstanding the financial risk reflected in the above paragraph, there is a further concern contained in Mr Swinney's letter. That relates to the Scottish Government's potential to clawback elements of grant where that element of the package is not delivered in practice. The relevant part of the letter is quoted at paragraph 5.2 of this report. The practical difficulty is that it is not in the Council's gift to ensure all external contractors do actually pay the Living Wage (procurement rules bar us from stipulating this in contracts) and consequently it is not reasonable to hold a Council responsible in such a situation. In responding to Mr Swinney's letter, it would seem appropriate and necessary to highlight this reality, but making clear that we do share the "joint aspiration" to deliver the Living Wage, notably by paying it to our own staff, and by making best endeavours with respect to external providers.

5. REQUIREMENT TO AGREE THE COMPLETE PACKAGE

- 5.1 Mr Swinney's letter of 27 January 2016, as was the case with his letter of 16 December 2015, requires Councils to "agree the full package of measures". Moreover, "any Council that does not sign up to the complete package will not receive their share of:-

	<u>£'m</u>
• Integration Fund	250
• Support for Teachers	88
• Council Tax Freeze/Support	<u>70</u>
	<u>£408m</u> "

Falkirk's share of this on a population basis would be £11.75m.

- 5.2 There is a section of the letter which deals with circumstances where a Council does formally agree to the package but then does not manage to deliver on any element and this is repeated below:-

"If in the event, however, a Council that does sign up then does not deliver any of the remaining specific commitments on council tax freeze, social care spend, including delivery of the £8.25 per hour Living Wage or national teacher targets then the Scottish Government reserves its position to take action to remove access to or recover that element of the additional funding support earmarked to deliver each of the remaining specific measures. In the case of pupil teacher ratio not being maintained nationally then the Scottish Government reserves its position to recover monies allocated to individual authorities whose pupil teacher ratio rises. This action will be proportionate and apply only to that element of the funding for a specific measure that a local authority subsequently does not deliver as set out in the paragraph above."

- 5.3 Council Leaders are required to respond to Mr Swinney by 9 February 2016 at the latest advising their response to the package of measures he has offered.

6. CONCLUSIONS

- 6.1 The Council is now at the stage where the proposals to be considered at the Budget meeting on 17 February 2016 need to be collated to allow the timeous issue of the agenda.
- 6.2 This has proved to be an exceptionally challenging Budget cycle, compounded by both the scale of the grant loss the Council has incurred and the very late negotiations between Scottish Government and Cosla.
- 6.3 A decision now needs to be taken on the Council's response to Mr Swinney's letter of 27 January 2016. Based on the content of this report, the following particular points are highlighted to inform this response:-
- a) There is no relaxation of the Council Tax Freeze and any move to breach this would trigger severe grant penalty loss

- b) The requirement to maintain teacher numbers retains a focus on inputs rather than outputs. The measure has expenditure implications, albeit this will wholly or substantially be expected to be covered by Scottish Government grant.
- c) With respect to the IJB Integration Fund, there still remains some lack of clarity and the Council seems to be being asked to deliver an outcome with respect to the delivery of the Living Wage by external contractors, where it is not master of its own destiny and with consequent risk of grant clawback. The basis of a response is contained in para 4.5. Moreover, looking forward there will be full year costs of the Living Wage to be paid in 2017/18 and in future years and we have no information as to the grant arrangements which will apply in 2017/18 and beyond.
- d) The package as a whole must be delivered, with the penalties for failure to accept the package or deliver on it are both clear and significant.

7. RECOMMENDATIONS

Members are invited to:-

- 7.1 Consider whether the terms of Mr Swinney's letter of 27 January should be accepted; and**
- 7.2 Consider the matters they would wish reflected in that response.**

DIRECTOR OF CORPORATE & HOUSING SERVICES

Date: 3 February 2016

Ref: AAB05.02.16 – Special Executive Local Government Financial Settlement

Contact Officer: Bryan Smail

LIST OF BACKGROUND PAPERS

NIL

Deputy First Minister
and Cabinet Secretary for Finance, Constitution and Economy
John Swinney MSP

T: 0300 244 4000
E: dfm@gov.scot

Councillor David O'Neill
President
COSLA
Verity House
19 Haymarket Yards
Edinburgh
EH12 5BH



Copy to: The Leaders of all Scottish local authorities

16 December 2015

Dear Cllr O'Neill

This letter contains proposals for the terms of the settlement to be provided to local government for 2016-17 under the 2015 Spending Review which is set against the UK Government's continuing austerity programme and the real terms reduction in the Scottish Budget. This has required tough decisions to be taken about expenditure across government and careful consideration of pressures and priorities in all portfolios including local government. I propose that we engage in further discussions to consider the approach to implementing the budget in advance of Stage 3 of the Budget Bill, and associated Local Government Finance Order, and recognise that we need to conclude these discussions as early as possible so councils can confirm their plans for setting their budgets in the new year.

The proposals are framed by the ongoing partnership between the Scottish Government and local government and our commitment to working together on our Joint Priorities. We have reaffirmed our commitment to our partnership and are clear about the benefits which have flowed from it in the form of more effective delivery of the outcomes on which the people of Scotland and their communities rely.

Local government is an essential partner in the Scottish Government's transformative programme of public service reform. This funding proposal delivers a strong but challenging financial settlement for local government which will be strengthened by our joint working to improve outcomes for local people through health and social care integration and by improving educational attainment.

Following the report from the joint Settlement and Distribution Group, details of the indicative allocations to individual authorities for 2016-17 are also being published today as set out in Local Government Finance Circular No. 7/2015.

Under the settlement we will look to all local authorities to continue to work in partnership with Scottish Government in pursuit of our Joint Priorities, including delivery of the Government's programme as set out in the *Draft Budget 2016-17* and the *Scotland's Economic Strategy published in March 2015*.



In addition to the pursuit of Joint Priorities, the proposition is that individual local authorities will, in return for this settlement, deliver certain specific commitments. The detail of the settlement and the package of measures included are described below.

For 2016-17 individual local authorities will require to agree to work with the Scottish Government to deliver a council tax freeze for the ninth consecutive year.

As we have previously committed to, the consequential for health will be passed on in full to the health budget. However, by contrast with the UK Government, we see health as being about all the services that help people to maintain their wellbeing, not just front line NHS services. For that reason, we will go further than the annual investment of £130 million in the Integration and Delayed Discharge Funds, and direct in the allocations to NHS boards for 2016-17 that an additional £250 million per annum will be transferred to the health and social care partnerships to protect and grow social care services and to deliver our shared priorities in respect of reform.

We agree the need to pick up the pace on health and social care integration by developing better community and primary services to help people to stay safe and cared for at home and the provision of good quality social care provided through local government is central to that reform process.

We understand the pressures on local government spending, including in relation to the Living Wage, and these are the same as for all public services in Scotland. We also recognise that these pressures have implications for all areas of service delivery, but the actions that we have taken under this budget and our commitment to provide support for social care means that the totality of social care spend through health and social care partnerships can be protected and enhanced. We would expect to see the process of reform make clear progress during 2016-17 in terms of sustainability and outcomes for people. Given good progress on reform in localities we would anticipate that health and social care partnerships could deliver cash releasing efficiencies. We would like to work with you to consider that approach further and the extent to which cash releasing efficiencies could be retained by local authorities to offset the contribution they make to health and social care partnerships for social care.

Turning to education I note the positive results at a national level published in the latest Teacher and Pupil census statistics which confirmed that pupil teacher ratios and the number of teachers in Scotland's schools have been maintained since last year.

Taking that into account I confirm the proposal makes provision for a return to a national agreement to maintain teacher numbers at 2015-16 levels, and secure places for all probationers who require one under the teacher induction scheme 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.

Our position on teacher numbers has been consistent that we see this as a central part of our priority to raise attainment. In parallel we have been developing the National Improvement Framework, to bring together key information to evaluate performance and inform action to improve attainment and wider outcomes for every child in Scotland. We wish to work with COSLA and all local authorities to fully implement the Framework, as the next phase of Curriculum for Excellence to build on our strong record of achievement recognising our shared commitment to improved educational outcomes.

Following the report from the Commission on Local Tax Reform the Scottish Government is considering its position in response to that on the future of council tax. We will bring forward our proposals in the new year and I can confirm our commitment to engage with COSLA as part of our partnership working to help inform our position.

The proposition is that the measures set out in this settlement offer must be viewed as a package to protect shared priorities and maintain a journey of reform. As noted I propose that we engage in further discussions to consider the approach to implementing the measures set out in this budget in advance of Stage 3 of the Budget Bill and this would include agreement on the scale and retention of cashable efficiency savings for local authorities contribution for social care to the health and social care partnerships.

Following those discussions and agreement on the implementation of the measures I have set out in the settlement offer I will write to you and council Leaders again confirming all the details we have agreed. My expectation is that I will again ask any Council not intending to take up the offer and agree the terms of the full package of measures to write to me setting out the reasons why they do not wish to comply and to do that by no later than Friday 22 January 2016 in Order to meet with our Parliamentary timetable for the Budget Bill and Local Government Finance Order.

For 2015-16 I can also confirm that as an act of good faith, I will maintain the existing distribution of the £41 million to support teacher numbers across all 32 local authorities and will not seek to claw back funding which I am entitled to under the terms of my agreement with individual local authorities. However, in the interests of fairness, I will reward only those authorities who have maintained or increased teacher numbers and maintained pupil teacher ratios, by distributing the additional £10 million which I provided last year among them in recognition of the additional staff costs they have incurred and for their contribution to maintaining the national figures.

Having listened to the representations from COSLA, the total funding which the Scottish Government will provide to local government in 2016-17 as part of this package of measures is £10,244 million.

This total includes the Government's estimate of non-domestic rate income in 2016-17. Within this total, revenue funding will amount to £9,637 million and capital £607 million.

This takes into account the re-profiling of -£150 million from the 2016-17 capital budget and comes with a commitment that £150 million will be added to Local Government's capital share in the next Spending Review covering the period 2017-20. Taking into account the reprofiling the capital settlement meets our commitment to maintain local government's share of the Scottish Government's capital budget.

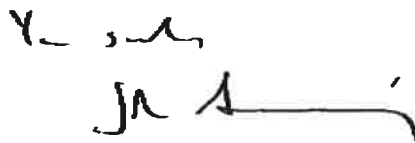
Taking into account non-baselined funding provided in the 2015-16 capital allocation (this includes funding to support implementation of the Children and Young People Act, repayment of the earlier reprofiling agreement and housing support for Shetland) and the further reprofiling proposed for 2016-17, a like for like comparison of the adjusted baseline position shows that capital provision in the settlement will have increased by 9% or £62 million in 2016-17. I can also confirm our intention that, if re-elected, the commitment to protect the local government share of the capital budget, which was due to end in 2018-19, will be extended by a further year to the end of the next Spending Review period in 2019-20.

In addition local authorities will receive £250 million from Integration Authorities to support spending on social care which as set out above will allow, subject to our further discussion

and agreement for cash releasing efficiencies delivered through reform to be retained by local authorities.

As in previous years councils will be free to retain any savings they can generate through efficiencies to re-invest in reform and the challenge for them along with the rest of the public sector is delivering transformational change in service delivery, together in key partnerships and through a step change in the implementation of transformation programmes, including shared services between local authorities and between local authorities and other public sector partners.

I believe that in the circumstances this settlement delivers the best possible outcome that can be achieved and the package of measures I have set out, if accepted, provides local authorities with the necessary resources they need to protect our key priorities around investment in health and social care and educational attainment.



JOHN SWINNEY



Private and Confidential

Local Government Settlement 2016/17

Purpose

1. The purpose of this report is to allow Leaders to decide COSLA's collective reaction to the final proposals regarding the 2016/17 settlement as they are now presented by Government.

Recommendations

2. It is recommended that Leaders:
 - (i) Consider the review of the settlement discussions and their result that is outlined in this report and decide whether or not they form the basis of a voluntary agreement between COSLA and the Scottish Government with regard to the settlement 2016/17.

Timing of report

3. As members will be aware, the Presidential Team and Group Leaders met the Scottish Government team yesterday to discuss a revised terms of offer for the settlement for local government for 2016/17. We have been awaiting some final small changes to the draft over last night and this morning from Government. However, our deadline to Government has now passed, these changes have not been forthcoming and therefore this report contains the most current set of proposals. Also as a result of the meeting yesterday, our understanding is that a revised offer will come out to all Councils today with a revised deadline for responses. Unknown to Group Leaders and unmentioned at yesterday's meeting we now understand that Mr Swinney intends to invite an 'arbitrary' twenty Chief Executives to join him for a teleconference at which we believe he intends to emphasise his own and the Government's view of the settlement. This is an unusual move and unprecedented in terms of spending reviews.

Background

4. It is important that, in considering the following report, Leaders are in no doubt what COSLA, rather than individual councils, is being asked to decide. Following a final meeting on Tuesday, all Group Leaders and the Presidential team would agree that, in terms of the nature of the local government settlement, there is no more that can be achieved by further discussions with Government. Indeed, given the timescales involved, it is doubtful that further meetings with Government would be possible to arrange even if we wanted them.
5. In short, the settlement that councils are now being offered has developed as far as it can through discussions and will not change any further as a result of more contact with Government. In every sense, the discussion and negotiation is at an end and no improved settlement is likely to be forthcoming. The final draft of the proposals is attached as Appendix 1.
6. However, we also know that the Government are very keen to get the voluntary agreement of local government to the proposals that they have put forward. The purpose of this report is to present evidence to COSLA's Leaders about the process and

outcomes of this spending review so they can decide whether or not that voluntary agreement should be offered to the Government by COSLA.

7. For the avoidance of doubt, it is important to make a clear distinction between what individual councils may eventually have to decide by way of response to the Government's settlement offer and the role and reaction of COSLA. For a variety of reasons, ranging from the concern about the possibility of sanctions to the need to make quick decisions in order to settle budgets locally, individual councils may believe they have little option but to set a budget within the confines of the proposals put forward by Government. From past experience, COSLA is well aware of the level of pressure that can be brought to bear on any individual council which chooses not to comply with the Government's proposed arrangements.
8. However, COSLA is in a quite different position. It represents the collective national reaction to this set of proposals and should reflect local government Leaders' views on the proposal overall rather than what individual councils may feel pressured to do. Indeed, the objectives that COSLA is trying to meet may be different from those of an individual council and the tests applied to the assessment of this proposed settlement may be quite different. While individual councils must be driven by the practicalities of setting their individual budgets and funding their services, by its Constitution, COSLA is required to look at strategic issues, such as the autonomy of local councils and the effect of local democracy on the settlement that is offered.
9. There is no inconsistency between COSLA collectively deciding on one reaction to the settlement while individual councils, because of their pragmatic pressures, individually having to do something different.

Detail

10. Going into the settlement discussions, COSLA had a number of explicit objectives and the outcome of the settlement should be assessed against these. Firstly, with the explicit agreement of Mr Swinney and the Scottish Government, we agreed that the settlement discussions should exemplify the highest standards of partnership working in order to "reboot" the quality of partnership between COSLA and Scottish Government.
11. Secondly, given the intelligence regarding the likely downturn in resources, COSLA went into discussions to limit the loss of grant to the lowest possible level in order to make it manageable for local councils.
12. Thirdly, we wanted a settlement that increased the flexibility and autonomy of councils and supported the greatest degree of local decision making that was possible to achieve.
13. Fourthly, we wanted to see a redefinition of "health spend" in order that a range of local government services might benefit from the expected protection of health.
14. Lastly, COSLA wanted to negotiate a sanction free settlement.

Partnership Working

15. In terms of the way we work with Government, there is no doubt that over the period from the 5th November when the first meeting occurred, right through until the present day, we have had more contact with Mr Swinney and his team than we have had with regard to previous settlements. In addition, there is no doubt that the Government gave us greater access to their information and their officers in terms of investigating figures and proposals than has been available to us on previous occasions.

16. However, the COSLA team felt that it was difficult to genuinely debate and discuss issues with Government and that while a number of meetings occurred, little actually changed as a result of these meetings and the Government's perception of the effect their proposals would have on local government did not alter despite the most robust inputs from all Group Leaders and the Presidential team. Furthermore, while we had greater access to officers and the information they held, it appeared to our team that despite the evidence arising from these officer discussions, the political discussions failed to take that evidence into account.
17. For instance, Mr Swinney and his team continue to insist that there is an inevitability about local government cuts as a result of Westminster's treatment of Holyrood. The officer figures we received from the Government's Central Finance Unit tell quite a different story and, indeed, Leaders will recall that when visiting a Leaders meeting, Alex Neil quite correctly asserted that what he thought Scotland would receive would be a minor cash increase from Westminster. Even despite the fact that the Chancellor's statement was more generous than anybody expected, Mr Swinney's recounting of the position in Scotland altered not one bit.
18. Lastly, in partnership terms, the COSLA team found it very difficult to get clarity about issues from the Scottish Government. Not only was this frustrating in its own right but it has led directly to the situation that despite the fact councils should all now be setting budgets, we have not had until this week clarity about the treatment of certain major issues like the £250 million integration monies and the likely position with regard to sanctions.

The Eventual Financial Outcome

19. The COSLA team were led to believe by Government from the very first meeting that a loss of grant of something in the order of £500 million or 5% could be expected. As Leaders would imagine, COSLA's reaction to this was an immediate and robust view that this was entirely unacceptable. There is no doubt that the Government heard that message and, as a result, the £500 million reduction was reduced to £350 million. This must be seen in the context however, that the COSLA team felt this figure could have been reduced to something much closer to the average assumed by councils in Scotland of something in the order of £160 million or 1.6%.
20. Within the £500 million reduction proposal, there was a treatment of non-domestic rates income which the COSLA team recognised as being inappropriate. When this was pointed out to Government, these ideas were taken on board and much of the reduction between £500 million and £350 million can be attributed to that change in policy.
21. However, whilst the Government must be given some credit for taking that issue on board, the COSLA team were very clear that there were actions available to Government which could mitigate the loss of resources still further. COSLA believes that different policy choices could have been made about the distribution of resources between the various public services in Scotland or that the Government could choose to raise more money directly by using its income tax raising powers or by allowing local government the freedom to alter its tax base. That none of these things happened are policy choices by Government in Scotland, not inevitable outcomes of the Chancellor's budget, and Leaders must judge whether by making these choices, the Scottish Government did everything in its power to reduce the size of the budget difficulties that local government and local councils would face.
22. This was particularly frustrating because COSLA had produced a list of ways in which the impact of the cuts could be mitigated. Mr Swinney's reaction to that list was to suggest that it was not innovative enough or long enough and we should go away and think of more ways in which our difficulties could be eased. In the event, no mitigation,

not even those things that had no resource implication were discussed or considered by Government and none of them have appeared in the final settlement announcement.

23. Local government offered the Government 17 separate proposals to mitigate the cash cut, ranging from issues with a high political tariff, like teacher numbers, to those of a much less contentious political nature, such as further work on planning fees, right through to issues with no cash implications at all, like the protection of local government in a constitutional sense. Leaders received a copy of these in the November Leaders report. Despite the enormous pressure that Government recognised they have placed on local government and individual councils, none of these mitigating factors are deemed to have been worthy of any serious discussion.
24. In the final analysis, despite all these other issues, the COSLA negotiating team have consistently come back to a single main theme, i.e. that the level of cash reduction is simply too high. Other than the initial move from £500 million to £350 million, little or no account seems to have been taken of those representations.

Flexibility and Autonomy

25. COSLA's political team always knew that whatever the exact figures were, the 2016/17 settlement was never going to be a good one. As with all councils, COSLA anticipated a cut and recognised that the cut would place pressure on local government overall. Therefore, while we wished to negotiate the smallest cut possible, another major plank of our strategy was that, with less money, councils would find it easier if they had the greatest degree of flexibility and autonomy regarding how these resources could be spent.
26. There were three key issues for COSLA. Firstly, that the two major impediments to flexibility that had existed in previous settlements should be removed, namely the Council Tax freeze and the requirement to deliver a particular number of teachers. Secondly, we wanted no new burdens that represented virtual ring-fencing. Lastly, we wanted no sanctions within the settlement which could be used to coerce councils into making budgetary decisions that they really did not agree with.
27. Once again, it was difficult to make progress on these three issues although the Government must be given some credit for recognising that last year's council by council arrangement for the teacher number condition was inappropriate and are now willing to move to a national agreement based on teacher/pupil ratios.
28. However, even taking that minor movement into consideration, evidence suggests that freedom and autonomy for councils to make their own decisions regarding how they spend resources is even more limited in this settlement than it was previously. In order to comply with the Government's proposals, councils must agree to both the Council Tax freeze continuing and to play their part in a national agreement regarding teacher/pupil ratios. However, in addition to that, in order to make use of any part of the £250 million available for integration boards, councils must agree to pay the living wage to adult social care workers and refrain from reducing their contribution to integration partnerships by more than their assumed share of £125 million.
29. No flexibility has therefore been offered within this settlement and, indeed, when one takes into account an increased set of linked sanctions, the level of risk built into this settlement, whether or not a council seeks to comply with its conditions, is more extreme than we have seen in any other settlement over the last ten years.
30. Furthermore, both the settlement and discussions with Government regarding an issue like the teacher numbers commitment are predicated on a false premise. The First

Minister and Angela Constance continually say that they have paid £88 million for the teacher number and probationary teachers target and therefore they should get something back in return. This is an annoying misrepresentation of the situation. Local government's spend on education is approximately £4.6 billion with £2.5 billion attributable to the cost of teachers. In that context, the £88 million for these targets is nothing more than a minor top up. The difficulty for councils is that as the £4.6 billion reduces by 3.5%, the top up does not even compensate for the loss of resources in the base allocation for this service.

Broader Definition of Health Spend

31. COSLA's objective going into these discussions was that a definition of health spend could be developed that would allow councils to benefit directly from either the protection of health spend or, as is now the case, the increase in health spending. Once again, the Government have to be given some credit for recognising the pivotal position of integration authorities and for attributing additional resources to be spent through these bodies. The difficulty is that the money is allocated through Health Boards and is therefore not immediately available to councils to mitigate budgetary pressures they are suffering.
32. COSLA's team consistently put to the Government the straightforward proposal that if they wished to support council services with regard to social care to the value of £250 million, that £250 million should have been allocated direct to councils. The rather complicated route that the Government have chosen to allow this money to become available disguises the fact that the money is effectively ring fenced. No matter how robustly this proposition was put to the Government, the COSLA team could create no movement around this issue.
33. The COSLA team's understanding has always been that there are two distinct elements to the £250m. It is a 50:50 split giving two pots of £125m. The first pot of money (£125m) would remain in the partnership and it is for the partnership to decide upon its use. In terms of additionality, they have defined this as increasing community capacity. This is aimed to address the existing demand pressures but also an element for real growth in capacity in community care.
34. The second pot of £125m is available to genuinely offset local government pressures. However, the real issue here is that there is an expectation that a significant amount of that will be used to offset the living wage and therefore it will only be around £50m that could offset budget pressures.
35. At the meeting yesterday, it was clear that the Cabinet Secretary has a different interpretation and sees a much finer distinction between the two packages of £125m, one which leads the Government to a view that the whole £250m is available to local government to reduce pressures.

Post Settlement Issues

36. There are two further issues which COSLA believes will be part of the narrative that Government use to promote acceptance of the settlement proposals. The first of these is that the cut is only 2%, not 3.5% as COSLA understands. There is no doubt that using a set of figures we have never used before and going back to the year 2014/15 you can create a calculation that suggests we only have 2% less resources to spend than we had reason to expect. This comes about because not all of local government's spend is delivered through Government grant. However, the simple truth is that we have received a 3.5% reduction in our grant and trying to portray this in any other way is exactly the sleight of hand that the Government accused George Osborne of doing to Scotland at the beginning of our settlement discussions.

37. Secondly, the Government are seeking to portray this settlement that has at its heart reform. They believe they understand the reform process and they believe that when we catch up with their thinking on reform, we will see that this is a reasonable settlement to have put in place. As all Group Leaders and the Presidential team will no doubt assert, our discussions on reform have been fraught with difficulty. Nobody in Government runs services or had run services and therefore their exposition of the reform process is always hugely vague, hugely aspirational and contains none of the detail about how you would go about it that would be necessary to safely include it in this year's settlement. Group Leaders have pointed out that public sector reform, especially across agencies, probably is an area that requires attention and may even be an area where, over time, the possibility of reducing costs exists. However, such reform cannot be driven by local government alone and requires the willing participation of other public sector partners who are currently directed by Government. In many cases, as we have seen with regard to Transport Scotland, such commitment is difficult to rely on.
38. The COSLA team has emphasised to Government that we should be pushing on reform and we should have a real plan to ensure that it happens but we must look in detail at where the greatest advantage in reform will lie, what the business case for reform is, how it will be managed and what the governance arrangements after reform will look like. We believe this can and is being done but the COSLA team is absolutely sure that no significant reform is going to occur in a timescale that allows any council to include the outcome of such reform in the budget that it is approving in the next couple of weeks for 2016/17. This has been pointed to the Government team by COSLA's president in every phone call he has had with Cabinet Secretaries. Despite that, the Government seem to suggest that reform in the timescale required is possible and it is up to local government to move and that if we do not, we are creating a financial difficulty for ourselves.
39. These two post settlement narratives give a further indication of the state of partnership that currently exists between COSLA and national Government and we have to consider whether it is these attitudes that may be carried in to the forthcoming discussions on the remaining three years of this spending review, which are due to take place started early in the Summer.

Conclusion

40. Officers have as far as possible given an absolutely accurate description of the way the settlement discussions have progressed and the outcomes of the settlement. It is up to Leaders to weigh up the evidence presented and decide on balance whether they are convinced that COSLA as an organisation should reach a voluntary agreement with Government on the basis of the most up to date proposal.

LOCAL GOVERNMENT FINANCE SETTLEMENT 2016-17: FURTHER DETAIL ON THE TERMS OF THE OFFER

General Points

- Confirm that the aim remains to reach an agreement that councils can voluntarily agree to.
- That the measures set out in the settlement offer must be viewed as a package and that in order to access all of the funding councils must agree to deliver all of the measures.
- Confirm that for those councils that voluntarily agree to sign up to deliver the full package then sanctions will be suspended.
- Any council that does not sign up to the package will not receive their share of the Integration Funding (£250m), support for teachers (£88m) and the council tax freeze support (£70m). Steps will be taken to recover the latter two elements that have been distributed from the individual council's allocations in the local government finance settlement in-year *[Note: that only £51m will have been distributed for the teacher's support along with the £70m for the CT freeze, £37m is due to be distributed later once the number of probationary teachers is confirmed];*
- If in the event, however, a council that does sign up then fails to deliver any of the specific commitments on social care spend, including delivery of the £8.25 per hour the living wage, national teacher targets, or council tax levels nationally then the SG reserves its position to apply individual sanctions for authorities' and steps will be taken to remove access to or recover some or all of the additional funding support earmarked to deliver these specific measures. If it proves necessary to apply a sanction then this will be done in a proportionate way.

Integration Fund

The proposition being made is that the £250 million is provided from the NHS budget to integration authorities in 2016-17:

- That of the £250 million, £125 million is provided to support additional spend on social care to support the objectives of integration, including through making progress on charging thresholds for all non-residential services to address poverty. **This additionality also reflects the need to accommodate growth in demand for services as a consequence of demographic change.**
- That of the £250 million, £125 million is provided to help meet the range of cost pressures local authorities need to address in order to deliver effective health and social care services, including to offset the reduction to council budgets and the joint aspiration to make progress towards the living wage. The allocation of this resource will enable councils to ensure that all social care workers are paid £8.25 an hour by 1 April. This assumes that private and third sector providers will meet their share of the costs. Councils may reduce their contribution to Integration Authorities below their spend in 2016-17, with the only provisos that their contribution must not reduce by more than their share of the £125 million and on the basis that they deliver on the commitment in respect of the Living Wage. To ensure transparency for the flow of funding support for local authorities and delivery of the living wage commitment the arrangements will be signed off at a local level by the appropriate Integration Authority section 95 Officer.

Teacher Numbers

The Scottish Government has been consistent that the protection of teacher numbers is a central part of our priority to raise attainment. Following our discussions and the further representations COSLA has made, the Scottish Government would agree that the measure for the implementation of that target, against a forecast that pupil numbers will increase over the coming academic year, will be the maintenance at a national level of the pupil teacher ratio.

If the objective to maintain the pupil teacher ratio nationally at a value of 13.7 (the same level as in 2015) in local authority schools is met as shown in the Teacher and Pupil Census published in December 2016 then penalties against individual authorities will be suspended. If, however, the pupil teacher ratio is not maintained nationally then the Scottish Government reserves its position on individual sanctions for authorities' whose pupil teacher ratio rises and steps will be taken to recover proportionate shares of the £88 million which is being provided for the teacher and probationer commitments in 2016-17. In order to support delivery, the Scottish Government will continue to monitor these commitments throughout the year.

Council Tax Freeze

The Government was elected on a commitment to freeze the council tax for the entirety of this Parliamentary session and is committed to delivering this policy. Many local authorities have a commitment to freeze the Council Tax over a similar timescale. Against the questions of the wider revenue-raising challenges raised in the Budget we believe that it is important to provide protection for household incomes in what has been a very financially challenging period for many households.

We have now received the report from the Commission on Local Tax Reform and the Government believes now is not the time to dispense with the protection the freeze offers for what we all agree is an unfair tax. Looking ahead we will be bringing forward plans for reform of the present Council Tax, reflecting the principles of the report, and we are committed to working in partnership with local government on the implementation of that.

The package of funding therefore includes freezing the Council Tax in 2016-17.

Deputy First Minister
and Cabinet Secretary for Finance, Constitution and Economy
John Swinney MSP

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Copy to: The Leaders of all Scottish local authorities

29 January 2016

Dear Cllr Cree,

I refer to your letter of 28 January.

You have asked, if the Moray council were to sign up to the terms of the offer set out in my letter of 27 January by the deadline of 9 February and then subsequently decided to raise council tax, would I restrict the recovery of just the council tax freeze element of the package of support, which in Moray's case would be £1.156 million, or would I also deny access to Moray's share of the Integration Fund and the funding to support the teachers commitment.

I can confirm that any Council that confirmed by 9 February that it signed up to the deal then a few days or weeks later reneged on that position, either at their council Budget setting meeting or through another measure, and subsequently increased their 2016-17 Council Tax levels then I would judge that to have overturned their earlier position statement and I would deny them access to all of the money. It is an all encompassing deal to which they must sign up to.

I am copying this response to all Council Leaders.

JOHN SWINNEY

Deputy First Minister and Cabinet Secretary for Finance, Constitution and
Economy
John Swinney MSP

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President
COSLA
Verity House
19 Haymarket Yards
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Copy to: The Leaders of all Scottish local authorities

27 January 2016

Dear David

I write now to confirm the final details of the Local Government Finance settlement for 2016-17, following the conclusion of our partnership discussions to consider the package of measures contained in my initial letter of 16 December 2015.

This funding package is focussed on delivery of our joint priorities to deliver sustainable economic growth, protect front-line services and support the most vulnerable in our society.

I have considered the representations made to me by COSLA and this is reflected in the detail of the settlement and the package of measures included in this letter. My aim throughout our extensive discussions has been to reach an agreement with councils around the implementation of these commitments. I invite local authorities to agree the terms of the settlement.

The measures set out in the settlement offer must be viewed as a package to protect shared priorities and intensify a journey of reform. In order to access all of the funding involved, of £408 million, local authorities must agree to deliver all of the measures set out below and will not be able to select elements of the package.

Integration Fund

The offer being made is that £250 million will be provided from the Health budget to integration authorities in 2016-17 for social care:

That of the £250 million, £125 million is provided to support additional spend on expanding social care to support the objectives of integration, including through making progress on charging thresholds for all non-residential services to address poverty. This additionality reflects the need to expand capacity to accommodate growth in demand for services as a consequence of demographic change.

That of the £250 million, £125 million is provided to help meet a range of existing costs faced by local authorities in the delivery of effective and high quality health and social care services in the context of reducing budgets. This includes our joint aspiration to deliver the Living Wage for all social care workers as a key step in improving the quality of social care. The allocation of this resource will enable councils to ensure that all social care workers including in the independent and third sectors are paid £8.25 an hour. This assumes that private and third sector providers will meet their share of the costs. The Government would prefer implementation on the 1 April but we accept COSLA's point that preparatory work will be required to ensure effective implementation. We therefore agree to an implementation date of 1 October. In 2016-17, Councils can allocate up to £125 million of their 2015-16 costs of providing social care services to Integrated Joint Boards including the uprating of staff to the Living Wage. This will ensure an overall benefit to the provision of health and social care of £250 million. To ensure transparency for the flow of funding support for local authorities and delivery of the Living Wage commitment the arrangements will be signed off at a local level by the appropriate Integration Authority Section 95 Officer.

Teacher Numbers

The Scottish Government has been consistent that the protection of teacher numbers is a central part of our priority to raise attainment. Following our discussions and the further representations COSLA has made, the Scottish Government have agreed that the measure for the implementation of that target, against a forecast that pupil numbers will increase over the coming academic year, will be the maintenance at a national level of the pupil teacher ratio.

The objective will be to maintain the pupil teacher ratio nationally at a value of 13.7 (the same level as in 2015) in local authority schools as shown in the Teacher and Pupil Census published in December 2016 and the teacher and probationer commitments in 2016-17. In order to support delivery, the Scottish Government will continue to monitor these commitments throughout the year.

Council Tax Freeze

The Scottish Government was elected on a commitment to freeze the council tax for the entirety of this Parliamentary session and is committed to delivering this policy. Many local authorities have a commitment to freeze the Council Tax over a similar timescale. Against the questions of the wider revenue-raising challenges raised in the Budget the Scottish Government believes that it is important to provide protection for household incomes in what has been a very financially challenging period for many households.

The Scottish Government has now received the report from the Commission on Local Tax Reform and the Government believes now is not the time to dispense with the protection the freeze offers. Looking ahead we will be bringing forward plans for reform of the present Council Tax, reflecting the principles of the report, and we are committed to working in partnership with local government on the implementation of that.

For 2016-17 individual local authorities will again require to agree to work with the Scottish Government to deliver a council tax freeze for the ninth consecutive year.

Any council that does not sign up to the complete package will not receive their share of the Integration Funding (£250 million), support for teachers (£88 million) and the council tax freeze support (£70 million). Should that be the case, steps will be taken to recover the latter two elements that have been distributed from the individual council's allocations in the local government finance settlement in-year.

If in the event, however, a council that does sign up then does not deliver any of the remaining specific commitments on council tax freeze, social care spend, including delivery of the £8.25 per hour Living Wage or national teacher targets then the Scottish Government reserves its position to take action to remove access to or recover that element of the additional funding support earmarked to deliver each of the remaining specific measures. In the case of pupil teacher ratio not being maintained nationally then the Scottish Government reserves its position to recover monies allocated to individual authorities whose pupil teacher ratio rises. This action will be proportionate and apply only to that element of the funding for a specific measure that a local authority subsequently does not deliver as set out in the paragraph above.

I will require those Council Leaders who intend to take up the offer and agree the full package of measures to write to me to set out their position, including on the council tax. Given that I am setting out changes to the proposals we previously discussed, I want to give local authorities every opportunity to consider these issues in full. Leaders should therefore provide their response to me by no later than Tuesday 9 February 2016.

I fully understand the pressures on budgets, which is being felt across the whole of the public sector, but I firmly believe that the funding proposals I have set out for local government protects our shared priorities and delivers practical financial support to intensify the pace of reform. I hope you and your fellow Council Leaders can agree that in the circumstances the proposals deliver a strong but challenging financial settlement. The key to addressing this challenge is reform and local government is a key partner in our programme to reform and improve public services.

A handwritten signature in black ink, appearing to read 'John Swinney', with a stylized flourish at the end.

JOHN SWINNEY

LOCAL GOVERNMENT FINANCE SETTLEMENT 2016-2017***INTEGRATION FUNDING******Distribution and allocation***

The Scottish Government will distribute the £250 million to Health Boards via their annual allocations. A letter was issued on Tuesday setting out individual allocations to Integration Joint Boards, which explained that the distribution methodology for the money will be the same as was applied to the Integrated Care Fund.

In terms of allocation of the money, Ministers will give written direction to Health Boards to pay the full sum of £250 million to their Integration Joint Boards, via the due diligence mechanism set out in the Integration Scheme, noting that this sum is not intended to mitigate any other Health Board pressures. Ministers will direct IJBs to use the money to purchase social care.

Once uprating of staff to the Living Wage from 1 October 2016 is taken into account, Local Authorities may amend their allocation to IJBs, agreed as per the due diligence mechanism, up to £125 million of their 2015-16 costs of providing social care services. A further £125m will be allocated by IJBs through their Strategic Plan for the purchase of social care. In every area, the Integration Scheme sets out the process of due diligence via which the Health Board and Local Authority will determine their financial allocation to the Integration Joint Board, for the first year of integration and for subsequent years. The S95 Officer for the Local Authority will be accountable to the Local Authority for ensuring that the Local Authority's allocation to the IJB, in full, is in line with its agreed process of due diligence; the Director of Finance of the Health Board will be accountable for the same assurance to the Health Board; and the S95 Officer of the IJB will provide assurance to the IJB that the respective budgets have been appropriately delegated to the IJB.

Living Wage

Regarding the Living Wage component: while estimates have been made at a national level relating to the investment required to meet the Living Wage in contracted out adult social care services the circumstances will vary across authorities in Scotland for example in the volume and balance of contracted out care and the progress some councils have already made towards payment of the Living Wage. We are allocating a significant resource towards this shared policy objective and as per the agreement made with Councils this year it is anticipated that this will be a shared endeavour between Scottish Government, Councils and Providers.

We have not stipulated a specific contribution expected from Providers in light of the varying circumstances as described above. We would expect a more finely grained analysis of the situation regarding wages and fair work within contracted out care services at Integration authority level and that is why the target date has been extended to 1 October.

We are aware of state aid implications and this is something that Councils and Integration authorities will need to consider. There is of course experience from this year for example in the development of the National Care Home contract and there is potential to build on this experience in taking forward our shared objectives. We are mindful of the fact that there may

be a requirement for reviewing and where necessary refreshing existing contracts and is another reason why we have extended the target date for payment of the Living wage.

This comes at a time where Integration Authorities, Councils and Health Boards are closely examining the means of commissioning services in partnership with providers and users. It is expected that the commitment to the Living Wage should be a key component of reshaping the delivery of care services.

Scottish Government are clear that achieving the Living Wage in social care is a joint aspiration with local government. We accept that a requirement on contractors to pay their employees the Living Wage set at a higher rate than the UK's National Minimum Wage, is unlikely to be compatible with EU law. There is however considerable scope for a Council, in commissioning social care services to encourage the payment of the Living Wage as a significant indicator of an employer's commitment to fair work practices. This is also one of the clearest ways an employer can demonstrate that it takes a positive approach to its workforce. We are firmly of the view that a contractor's approach to fair work practices, including payment of the Living Wage is a matter which can and should be evaluated during the procurement process, in line with the guidance we have issued. As above, there is time built in to the commitment to allow for review and where necessary refresh of contracts.

It is accepted that Councils have no such leverage in respect of care providers offering services exclusively to self-funding clients.

Charging thresholds for all non-residential services

The intention is to make charging fairer, prioritising those on low incomes. Councils would increase the income level from which social care charging is applied. The threshold is the level of money guaranteed to an individual from their income. By raising the threshold from 16.5% to 25%, individuals will have more of their money disregarded from charging. We have prepared a paper outlining this in more detail. Further details are available on request. Any costs accrued by moving to the new charging threshold can be met from the funding being provided. In the event that a Local Authority is already applying a higher threshold, its allocation will not be adjusted downwards.