

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. The crest is a shield divided into four quadrants. The top-left quadrant shows a sailing ship on wavy lines representing water. The top-right quadrant depicts a stag's head with large antlers. The bottom-left quadrant shows a beaver. The bottom-right quadrant features a grizzly bear. Above the shield is a crown with four maple leaves. A banner at the bottom of the shield contains the motto "A NE FOR A".

Agenda Item 6

2017/18 Budget Update

Falkirk Council

Title: 2017/18 Budget Update
Meeting: Falkirk Council
Date: 21 September 2016
Submitted By: Director of Corporate & Housing Services

1. Purpose of Report

- 1.1 This report brings Members up to date with the fiscal environment within which the Council will consider its 2017/18 revenue Budget.

2. Recommendations

2.1 Council is asked to note:-

- (1) The updated 2017/18 Budget landscape and estimated Budget gap of circa £20m.**
- (2) That Officers will bring savings options to a special meeting of Council in October.**

3. Background

- 3.1 A report on the Medium Term Financial Strategy was presented to Council on 22 June 2016. That report estimated that the 2017/18 Budget gap would be in the range of £15-20m and noted that because of the size of the 2016/17 Budget gap, many of the previously identified savings options for 2017/18 had required to be harnessed to achieve a balanced Budget in 2016/17. Consequently, it was noted that Services were actively exploring further savings options, with a particular focus on the top 20 areas of spend and on discretionary functions.
- 3.2 There have to date been three meetings of the Member Budget Working Group focused on the 2017/18 Budget:-
- a) Meeting 12 April considered a discussion paper which reviewed the 2016/17 Budget process and looked forward to the 2017/18 Budget cycle.
 - b) The meeting on 13 June was the platform for a Budget Seminar to which all Members were invited.
 - c) The meeting on 22 August considered a report on the 2017/18 Budget process.

4. Considerations

4.1 Developments Since June Report to Council

4.1.1 The most significant development has been the UK's vote to exit the European Union. This has had a number of ramifications notably:-

- (a) Created uncertainty
- (b) Dramatically reduced growth projections for 2017/18 which in turn means lower tax revenue
- (c) Cut in bank base rate to 0.25% and with the possibility of a further cut later in the year
- (d) It will divert government and civil servant focus and capacity

4.1.2 It has also resulted in what will be an important Autumn Statement with the Scottish Government initially advising that their Budget, along with the local government Settlement, will not now be announced until December, probably in the second half of that month. As with the 2016/17 Budget, this would result in a very pressurised period leading to preparing the Budget for Council in February. The Scottish Parliament Finance Committee are, however, pressing for this announcement to be brought forward to allow them more time for scrutiny, so that timeframe may change. Moreover, it is understood that the UK Treasury has advised the Scottish Government to anticipate a reduction in its grant for 17/18.

4.1.3 In addition, the Scottish Government has announced they will set a one year Budget rather than the previously anticipated 2/3 year Budget. This is disappointing as it will undermine the effectiveness of the Council's medium term financial planning. Nevertheless, the Council's medium term financial plan is currently being developed and this will provide a frame within which Members can consider Budget reports in December and February.

4.1.4 Clearly, the situation outlined above does not auger well for the Local Government Finance Settlement, particularly when allowance is made for the protection the Scottish Government has already announced for Health & Police for the life of the current Scottish Parliament. Indeed, the Scottish Government has recently informed Cosla that Councils should be preparing for a grant settlement similar to 2016/17.

4.1.5 A recent paper prepared for the Local Government Information Unit (LGIU) by George Black, former Chief Executive at Glasgow City, speculates that local government could face in each of the next 3 financial years the same level of grant cuts as was experienced in 2016/17. Were that to prove the case, the Council's existing grant base could reduce by a further circa £30m over the three years, but the Budget gap to be addressed, because of inflation and other cost drivers, would aggregate to a figure in the order of £60m over the three years.

4.2 Estimated Budget Gap 2017/18

4.2.1 As noted at para 3.1, Members were previously advised to expect a Budget gap in the range of £15-20m. In the light of the updated advice relayed by Cosla the Council should certainly prepare for a gap in the order of £20m.

- 4.2.2 There still remains considerable uncertainty underpinning this estimate e.g. the amount of Integration Joint Board funding, including whether allowance is made for full year funding of the Living Wage, and also the rules applied relative to the Council. Moreover, the penalty regime the Scottish Government attaches to the Settlement conditions is another important aspect. The actual impact of the new Apprenticeship Levy is another area of uncertainty as is the level of pay awards to be negotiated nationally.
- 4.2.3 The Budget gap table below shows the primary options available to achieve the statutory requirement of a balanced Budget.

	<u>£m</u>	<u>£m</u>
<u>Estimated gap</u>		<u>20</u>
<u>Options to Bridge the Gap</u>		
Council Service Savings		-
Falkirk Community Trust		-
Integration Joint Board		-
External Organisations		-
Strategic Reviews		-
Budget Rebased		-
Council Tax increase		-
Terms & Conditions		-
Reduce Provision for Budget Pressures		-
Application of Reserves		<u>-</u>
<u>Gap bridged</u>		<u>£20m</u>

- 4.2.4 The above table shows that the £20m gap does not need to be bridged exclusively from Service savings, there are other options in the mix available to Members. Having said that, it is anticipated that there will need to be savings options in the order of £15m identified from across Council Services, the IJB and FCT. Some of these savings options may only be achieved by redundancy.
- 4.2.5 The Strategic Reviews in the table flow from the decision of Council in February to take a more strategic approach by initiating a range of reviews [refer Budget report para 4.3]. An update on progress with these reviews will be reported to Council in December.
- 4.2.6 With respect to terms and conditions, engagement is currently taking place with the trade unions to explore the potential in this area. Members will recall that in the 2016/17 Budget round, following a ballot, no savings were delivered from this source.

- 4.2.7 Applications of reserves have been included as an option in the table above, but Members will be aware from comments previously and regularly made by the Chief Finance Officer and Audit Scotland, that this is not a sustainable course of action. Essentially this is because the level of reserves are finite and the underlying cause of the gap between expenditure and resources is not being addressed. Nevertheless, it does provide a limited breathing space to allow the Council to progress the necessary transformational changes which patently are necessary. It is worth noting that the Accounts Commission's "Overview of Local Government in Scotland 2016" shows Falkirk has the 7th lowest level of reserves in Scotland (excluding Orkney and Shetland).

4.3 Budget Process

- 4.3.1 As noted earlier in the report, the local government Settlement is expected to be announced in late November at best, but more likely in December. This then inevitably means a very compressed timeframe, including festive shutdown, between then and when a voluminous and very detailed Budget report needs to be ready for a February Council agenda. Consequently, savings options need to be worked up ahead of the Settlement announcement to ensure that the options are fit for purpose in terms of allowing informed decision-making by Members. This will include progression of Equality and Poverty Impact Assessments and any necessary consultations.
- 4.3.2 Officers will bring specific saving options prepared by Services to a special meeting of Council in October.
- 4.3.3 Consideration also needs to be given to the savings contributions required from Falkirk Community Trust and the Integration Joint Board. This is outlined in the following paras.
- 4.3.4 A protocol is now well established with the Trust, reflecting the Funding Agreement, albeit the protocol continues to evolve. Informal Budget related discussions are currently taking place between the Council Leader, Chief Executive, Portfolio Holder and the Chair and Chief Executive of the Trust. This then is placed within the frame of the Policy Development Panel's current review of the Trust.
- 4.3.5 The Trust is actively considering savings options at a similar scale to that of Council Services. It is expected that a business case will be submitted to the Council by the Trust in November and this will be reported to the December meeting of Council. This affords the opportunity for Members to give feedback to the Trust and hopefully allow a consensus position to be reached, recognising due governance processes, by the time of the February Budget meeting.
- 4.3.6 Turning to the Integration Joint Board (IJB), this is a new entity currently progressing through its first full financial year. It is anticipated that, from the Council's perspective, the IJB will follow a process similar to that outlined for the Trust. In practice that will mean a business case submitted to the Council in November and that then also being presented to the Council meeting in December, to allow Member feedback. This aligns with the IJB Integration Scheme which provides that their, "... business case shall be presented to the Parties for consideration against their other priorities and negotiation of their contributions".

- 4.3.7 At that point it is expected Members will be able to give the IJB clarity on the level of resources it can afford to provide. The IJB senior officers are aware of the level of savings the Council's own Services are progressing. Moreover, they do have a significant overspend in the current financial year to address and work is ongoing to tackle this. With a budget of circa £60m it seems inevitable that the Council will require the IJB to make a proportionate contribution towards bridging our estimated £20m gap.
- 4.3.8 It is important to note that the IJB is a partnership also involving Forth Valley Health Board (FVHB) which will be facing its own particular financial pressures, notwithstanding the relative financial protection afforded to health by the Scottish Government. The IJB will need to manage its governance processes and timetable to align with those of both the Council and FVHB.
- 4.3.9 Given the cumulative scale of Budget gaps Members have had to address over the past decade, it is inevitable that many of these savings options will be very unpalatable and Members should prepare themselves for the very difficult decisions that they necessarily will have to take to secure the statutory requirement of a balanced Budget. There will need to be a critical focus on the areas of Council spend which are discretionary.

4.4 Council Tax

- 4.4.1 The Council Tax freeze has been lifted and Councils will now be allowed to increase the Tax by up to 3% which, as noted above, would be a contribution to closing the Budget gap. The necessary regulations have not yet been passed and in consequence guidance is outstanding. At least 6 months is required to allow software suppliers to develop system appropriately.
- 4.4.2 As previously flagged, the Scottish Government will allocate the element of Council Tax arising from the revised bandings directly to schools. Moreover, this will in effect be pooled and redistributed to Councils based on their relative free school meal take-up. This basis of distribution may change. Cosla has aired its concerns over this arrangement.
- 4.4.3 To protect the less affluent households impacted by the banding charges, those with an income of less than £479 per week (couples) or £321 per week (single adults) will receive Council Tax Reduction to cover the full increase.

4.5 Community Empowerment

- 4.5.1 As previously reported to Members, the Community Empowerment (Scotland) Act 2015 is a major piece of new legislation with significant implications for local government. A number of elements will have an impact on the Budget process, notably but not limited to, Community & Locality Planning, Participatory Budgeting, Participation Requests and Asset Transfer Requests. A seminar was recently arranged to provide Members with more information.
- 4.5.2 Officers are continuing to work through the practical implications of this legislation and Members will be kept informed as guidance from the Scottish Government emerges.

4.6 Related Matters

- 4.6.1 The date for the December Council meeting has been set for 7th. If this proves to be incompatible with the announcement of the local government Settlement, this may require consideration being given to either putting this date back or holding a Special Council meeting later in December.
- 4.6.2 It is worth noting that notwithstanding this report is focused on the General Fund Revenue Budget, there are also parallel processes in train to work up budget proposals for HRA and General Services Capital and the Housing Revenue Account.

5. **Consultation**

- 5.1 Engagement will be conducted with stakeholders as the Budget process progresses.

6. **Implications**

Financial

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

Resources

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

Legal

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

Risk

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

Equalities

- 6.5 Preparation of Equality & Poverty Impact Assessments (EPIA's) are an integral part of the Budget process.

Sustainability/Environmental Impact

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

7. Conclusions

- 7.1 The report updates Members on the landscape impacting on the preparation of the 2017/18 Budget. Based on advice from the Scottish Government, councils should be preparing this budget on the basis of a similar grant level to 2016/17. This implies a Budget gap for Falkirk Council of circa £20m. The position remains uncertain until the announcement of the local government Settlement, probably in December, and the inevitable sequence of clarifications that follow that.
- 7.2 Work is continuing to ensure that there will be a balanced Budget approved for 2017/18. The identification of savings options by officers will be presented to a special meeting of Council in October.
- 7.3 It is inevitable that savings of the magnitude implied in this report will have a material impact on the Council's service delivery capacity, internally as well as externally and on jobs.

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List of Background Papers:

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

- LGIU Policy Briefing