

Integration Joint Board

This paper relates to
Agenda Item 1



Title/Subject: Integration Joint Board Business Case 2017/18

Meeting: Integration Joint Board

Date: 18 November 2016

Submitted By: Chief Finance Officer

Action: For Decision

1. INTRODUCTION

- 1.1 The purpose of the report is to present an update on preparation of the IJB Business Case for 2017/18 and present to the IJB the estimated budget requirements and savings proposals for Adult Social Care services and an outline of budget preparation in relation to in-scope NHS Services.
- 1.2 This document has been prepared, as far as possible, in line with the terms of the Integration Scheme and extant national finance guidance from the Integrated Resources Advisory Group (IRAG) on setting IJB budgets post the initial year. It is not currently possible to fully assess the savings proposals against performance on outcomes.

2. RECOMMENDATIONS

The IJB is asked to:

- 2.1 Note the background in which this report has been prepared including the relevant sections of the Integration Scheme and extant national finance guidance from IRAG.
- 2.2 Note the Strategic Plan Delivery Update
- 2.3 Note the Financial and Economic Outlook and current intelligence on likely financial settlements for Local Authorities and NHS Boards
- 2.4 Note the estimated resource requirement for delegated Adult Social Care Services taking account of:
 - Key Planning Assumptions
 - Estimated Cost Impact of Demographic and Other Cost Pressures
 - The impact of the Living Wage and the impact of possible scenarios modelled around the treatment of the Integration Fund within the 2017/18 Scottish Draft Budget
 - Draft Savings Programme

- 2.5 Approve the estimated resource requirement and the draft programme of savings options as outlined in Section 6 for Adult Social Care Services for submission to Falkirk Council for consideration within the 2017/18 budget setting process, and note that these will be subject to completion of equalities impact assessments and, where appropriate, consultation on the impact of the proposed savings options.
- 2.6 Note the other financial considerations
- 2.7 Note the update on budget setting for in-scope NHS Services.
- 2.8 Approve the creation of a reserve from any balance of the Integration Fund remaining at the end of 2016/17.
- 2.9 Agree that the business case is submitted to Falkirk Council as part of their budget setting process. A revised business case will be presented to the 3 February 2017 IJB as the NHS budget is developed and will be submitted to NHS Forth Valley Board as part of their budget process.
- 2.10 Note the post due diligence issues still requiring resolution.

3. BACKGROUND

- 3.1 Section 8.3 of the Integration Scheme sets out the arrangements for agreeing the IJB budget or payment for the years subsequent to the initial year. This paper has been written to support this process taking into account, as far as possible, the extant national finance guidance for partnerships from IRAG.
- 3.2 As described in the Integration Scheme a degree of flexibility and pragmatism has been applied in interpreting and applying the national guidance specifically in relation to:
- The relatively early stage of the evolution of the partnership
 - The current stage of development of performance management reporting and timing of available data
 - Differences in financial planning and budget setting cycles of Local Authorities and NHS Boards
 - Quality and availability of information in relation to in-scope services
 - Current demand and costs pressures across in-scope services
 - Ongoing work to develop the Delivery Plan and locality planning arrangements to implement the priorities of the strategic plan, including supporting detailed financial plans
 - Current levels of economic and financial uncertainty.
- 3.3 The sophistication and therefore robustness of this process will improve in the coming years as the partnership arrangements develop and the co-relation between Strategic Plan delivery (including development of localities), Performance and Finance develops.

4. STRATEGIC PLAN DELIVERY UPDATE

- 4.1 The IJB approved the Integrated Strategic Plan 2016 – 19 on 24 March 2016, with further work required to develop a local delivery plan using 'logic modelling' methodology. Workshops were held in June/July with key stakeholders and as a result of these events, 3 logic models were developed and presented to the Board for information.
- 4.2 The activities shown on the models are high level and represent multiple projects, programme and services. In order to provide the Board with more comprehensive and detailed information on the demand, capacity and performance of these services that will inform our understanding of the whole system, further work was identified. An online questionnaire has been issued to managers to score their services against agreed questions based on the RE-AIM framework.
- 4.3 The logic modelling and feedback from the service questionnaire work will be used to finalise the local delivery plan, with linkages to financial planning and workforce information being developed via the Leadership and HR workforce groups respectively.
- 4.4 It is currently anticipated the draft delivery plan will be presented to the February IJB meeting for consideration.
- 4.5 In the interim work is proceeding on key areas:-
- Development of the Frailty Pathway and rapid assessment in Emergency Department. A test of change is taking place during the week of 6 November.
 - Development and Pilot of the Discharge to Assess model due to be begin at the end of November dependent on the development of the multi-disciplinary team and results of the Test of Change and contractual arrangements being concluded
 - Development of the re-ablement programme
 - Review of partnership funded initiatives to ensure investment is aligned to the local outcomes.

5. FINANCIAL AND ECONOMIC OUTLOOK

- 5.1 As detailed in the financial report to the October IJB meeting continued economic uncertainty post the outcome of the EU Referendum will result in a single year financial settlement for 2017/18.
- 5.2 The Autumn statement will be announced by the UK Chancellor on 23 November 2016 with the Draft 2017/18 Scottish Budget following on 15 December 2016.
- 5.3 The expected impact of the above is that Local Authorities have been advised to anticipate a financial settlement of a similar order to 2016/17 and

NHS Boards to anticipate a financial settlement that would require cash releasing savings of 5%.

- 5.4 As previously advised to the IJB the treatment of the £250m Integration (or Social Care) Fund within the Scottish Budget, particularly in relation to the full year cost of the Living Wage, is pivotal to the financial position of the IJB and therefore financial planning for 2017/18. This paper examines the possible scenarios around this and their potential impact on resources available.
- 5.5 Taking the above into account the IJB should anticipate the level of budget available to deliver in-scope services in 2017/18 to be adjusted by the constituent authorities to a degree that is reasonable and proportionate.

6. ADULT SOCIAL CARE SERVICES

- 6.1 As detailed in Section 1.1 the primary purpose of this report is to present to the IJB the estimated budget requirements and savings proposals for Adult Social Care services and seek the IJB's approval to submit these to Falkirk Council for consideration in line with the terms of the Integration Scheme.

Key Planning Assumptions

- 6.2 The key planning assumptions used in calculating the estimated budget requirements are:

▪ Pay Inflation of	1.25%
▪ Prices Inflation in relation to Care at Home	1.90%
▪ Prices Inflation in relation to External Care Homes	2.00%
▪ Prices Inflation in relation to Other Supplies and Costs	2.00%

- 6.3 The impact of the pay and prices assumptions above on the 16/17 payment to the IJB from Falkirk Council is illustrated in the table below.

Falkirk Council IJB Payment 16/17 (Net Excluding Housing)

	16/17 £m	Planning Assumption Used	Requirement at Est 17/18 Prices £m
Pay Costs	2.677	1.25%	2.710
Care at Home	15.494	1.90%	15.788
External Care Homes	33.046	2.00%	33.707
Other Supplies	2.799	2.00%	2.855
Other Costs	5.060	2.00%	5.161
Other Cost Increases including Pensions increases		Per specific calculations	0.201
Reverse impact of Applying Inflation Assumptions to Income			0.621
TOTAL	59.076		61.044

Pay & Prices Requirements

1.968

- 6.4 The projected cost of in-scope adult social care services in 2016/17 is being met, in part, by utilisation of £2.896m of the Integration Fund, which is in line with the permitted use of the fund.

Estimated Cost Impact of Demographic and Other Cost Pressures

- 6.5 The significant cost pressures experienced in the Adult Social Care budgets in 2016/17 relate to demand and associated cost increases in relation to Care and Home and Residential Care.
- 6.6 Externally purchased Care at Home Services are experiencing growth in demand of around 6.8% and assuming this continues in 17/18 a further cost pressure of £0.442m is projected.
- 6.7 Demand for and cost of residential care is projected to create a cost pressure of £0.905m in 2016/17. It is assumed that the impact of the whole system approach, review of the frailty pathway and savings programme will mitigate this increase to a degree however it would be prudent to plan for a similar levels of additional cost increase in 2017/18 driven by demography and increasing costs and complexity of care.
- 6.8 The costs associated with care packages for young people in transition from Children's to Adult Services is currently estimated at £0.239m. This estimate requires further detailed review with Children's Services.
- 6.9 Per the financial report to the October IJB meeting the full year effect of the costs of care packages for Learning Disability clients being discharged from the Lochview inpatient facility is £0.153m. This estimate will require further review in light of emergent plans for further discharges.
- 6.10 It should be noted that there is some risk that the current projections for 2016/17 will increase further as a result of current demands across the system including measures being taken to address delayed discharges, expedite care packages and the numbers of clients waiting for care home places.
- 6.11 However, taking the pressures detailed in 6.6 to 6.10 together would indicate demographic and other cost pressures totalling £1.739m before being partially mitigated through some of the proposals within the savings programme.

Integration Fund and Scottish Living Wage

- 6.12 Falkirk IJBs share of the national £250m Integration (or Social Care) Fund for 2016/17 is £7.070m.
- 6.13 Per the financial report to the October IJB meeting the commitments against this funding in 2016/17 are:

INTEGRATION FUND	£m
Partnership Allocation	7.070
Commitments	
Living Wage from 1 October 2016 & Other Cost Pressures	3.540
Assumption per IJB Initial Budget Setting	1.000
Allocation per 16/17 Budget Recovery Plan	1.000
Requirement to Meet Projected Overspend Per 5 Aug IJB	0.896
Discharge to Assess Funding Per 7 October IJB	0.100
Balance Remaining	<u>0.534</u>

- 6.14 As previously reported a significant financial risk for the IJB is the full year effect of implementing the Scottish Living Wage from 1 October 2016 and the impact of the recently announced increase in the rate payable from 1 April 2017 from £8.25 to £8.45 per hour.
- 6.15 The full year cost of the Scottish Living Wage at £8.25 is estimated at £6.5m and the estimated additional cost of the increase in the rate to £8.45 is a further £1.5m giving a 2017/18 total estimated cost of £8m
- 6.16 The treatment of the Integration Fund in the 2017/18 Scottish Budget including the funding for the Scottish Living Wage is pivotal to the financial position of the IJB going forward. At the time of writing it is not clear how this will be treated with the Scottish Budget and therefore 4 scenarios have been modelled.

Scenario 1: No increase from 2016/17 Allocation

Scenario 2: 16/17 Allocation Plus Full Year Effect of Living Wage at £8.25 per hour

Scenario 3: 16/17 Allocation Plus Full Year Effect of Living Wage at £8.45 per hour

Scenario 4: The £250m allocation at a national level becomes £500m continuing the general approach started in the 2016/17 budget.

The net funding remaining after meeting the estimated full year costs of the Scottish Living Wage are detailed in the table below.

	Scenario 1 (No increase from 2016/17 allocation) £m	Scenario 2 (16/17 Allocation Plus Full Year Effect of Living Wage @ 16/17 Rate) £m	Scenario 3 (16/17 Allocation + Full Year Effect of Living Wage @ 17/18 Rate) £m	Scenario 4 (16/17 approach continued - Share of £500m nationally) £m
Estimated Allocation	7.070	10.320	11.820	14.140
Full Year Cost of Living Wage @ £8.25	6.500	6.500	6.500	6.500
Impact of Increase to £8.45 ph	1.500	1.500	1.500	1.500
Remaining Balance Available for Demographic Growth and Cost Pressures	(0.930)	2.320	3.820	6.140

Draft Savings Programme

- 6.17 It is recognised that the economic outlook will require ongoing constraint in public expenditure for the foreseeable future and that the IJB will wish to deliver cost reductions in a manner that is congruent with the direction of the Strategic Plan.
- 6.18 A draft savings programme has been developed in relation to in-scope Adult Social Care Services. The IJB will receive a report in December which will bring forward proposals in relation to Eligibility Criteria and a resource allocation Framework. Subject to the Board's consideration and decision, this could implement revised eligibility framework and operating tighter criteria and provision in line with an outcome focussed assessment. ,
- The approach to savings will be enabled and supported by implementation of revised eligibility framework, operating tighter criteria, and offering lower cost packages of care to meet need where that is appropriate. Transformational savings will be delivered through managing demand getting prevention right, diverting more people away from formal paid service, through reablement.
- 6.19 The confidence level of delivery of savings has been assessed using a scale of (1-3) where 3 represents high confidence of delivering the estimated savings.
- 6.20 The summary of the proposed savings programme is attached as Appendix I and totals a quantum of £2.415m and is split into 3 categories
- Reducing costs where feasible and appropriate in procured care at home and supported living services through efficiencies, for example by reviewing cost care packages
 - Reviewing models of service delivery
 - Increasing income through increasing charges
- 6.21 It should be noted approval of the charging policy is a decision which is reserved to be taken by Falkirk Council although it impacts the overall financial position in relation to services delegated by the IJB.

- 6.22 A full Equality and Poverty Impact Assessment will be completed on the proposed savings. Officers will seek the views of interested groups and stakeholders to assist with the decision making process.

Changes in Legislative and Other Policy Requirements

- 6.23 It is not anticipated that the financial impact associated with the Carers Act will have a material financial impact on costs until 2018/19. A further assessment of the cost implications associated with this will be undertaken as part of future planning.
- 6.24 The changes in relation to Criminal Justice Authorities do have the potential to have a financial impact. It is anticipated this will become clearer within the draft Scottish Budget in December and will be considered and reported to the Board in due course.

Estimated Adult Social Care Budget Requirement for 2017/18

- 6.25 Taking the factors above into account the total estimated budget requirements for 2017/18 are detailed below.

Summary Requirements	£m
Falkirk Council Base Payment at 17/18 Prices	61.044
Less: Proposed Savings Programme	(2.455)
16/17 Demographic Growth and Cost Pressures Being Met from Integration Fund	2.896
Demographic Growth: Significant Growth Areas	
Care at Home	0.442
Residential Care	0.905
Other Cost Pressures : Full Year Effect of LD Discharges	0.153
Transitions	0.239
Full Year Cost of Living Wage @ 8.25	6.500
Impact of Increase in Living Wage to £8.45	1.500
NET ESTIMATED 2017/18 EXPENDITURE REQUIREMENT	71.224

Consisting Of:	£m
Net Requirement at 17/18 prices excluding cost of living wage, demographic growth and other cost pressures being managed from Integration Fund in 2016/17	58.589
Cost of living wage, demographic growth and other cost pressures currently being managed from Integration Fund	12.635
TOTAL	71.224

Other Financial Considerations

- 6.26 In order to begin to lever change, support the implementation of the savings programmes and the whole system approach a degree of investment in management and business support capacity is required. Requirements are currently being developed and are currently anticipated to cost in the region of £0.220m. These proposals require further discussion and refinement and it is proposed that the IJB Chief Officer and Chief Finance officer lead the further development of the proposals and takes forward discussions around how they might be financed with the Chief Executives of Falkirk Council and NHS Forth Valley and the Chair and Vice Chair of the IJB.

7. NHS BUDGETS

Overview of Current Position

- 7.1 As referred to above NHS Budget Setting cycles have traditionally run behind those of Local Authorities for various reasons including the timing of confirmation of allocations from Scottish Government and not having the legislative requirements to set budgets and Council Tax rates in February. 2017/18 plans have not at this stage been discussed by the NHS Board and therefore the indicative savings requirements detailed in section 7.6 were calculated by the IJB Chief Finance Officer and should be regarded as illustrative.
- 7.2 Whilst the aspiration is to align budget setting cycles and in line with the Integration Scheme this will not be fully achieved for 2017/18 budget setting.
- 7.3 At the current point in time it only possible to give an outline of planning assumptions for NHS Boards and broad thematics of savings approaches.
- 7.4 As reported above current intelligence suggests NHS Boards should plan for a financial settlement which would require cash releasing savings of 5%. In terms of NHS Forth Valley this would require cash releasing savings of circa £24m.

Key Financial Planning Assumptions

- 7.5 NHS Forth Valley are currently working through financial modelling for pay, price and prescribing inflation factors and known cost commitments including national and regional developments.

Within the NHS Forth Valley's most recent published financial plan for which covers the period from 2016/17 to 2020/21 the key financial planning assumptions for 17/18 were as follows:

Basic Pay Increase	1%
Basic Prices Increase (General Inflation)	2%
Resource Transfer	1%
Prescribing in Hospitals / Secondary Care	10%
Prescribing in Primary Care	4.25%

Indicative Savings Requirements and Broad Savings Thematics

- 7.6 Based on the set-aside, operational and universal elements of the NHS budgets for the partnership at September 2016 the indicative relative shares of savings relating to the partnership would be:

	Annual Budget	5% Indicative Savings Requirement
	£m	£m
Set-Aside	24.849	1.242
Operational (excluding Partnership Funds)	42.528	2.126
Universal (excluding budgets relating to national terms and conditions)	30.269	1.513
TOTAL	97.646	4.882

- 7.7 Financial Performance to date in relation to the Set-Aside, Operational and Universal elements of the partnership budget illustrate costs pressures in relation to:

With the Set-Aside budget (not reported at partnership level in year):
Accident and Emergency Services, Geriatric Medicine, Learning Disability Inpatients; and Mental Health Inpatient Services

Within the Operational Budget:
District Nursing and Community Allied Health Professional Services

Within Universal Services Budget:
Family Health Services Prescribing

- 7.8 Clearly taking in account the pressures above, the indicative savings requirements for 2017/18 and the priorities of the Strategic Plan this represents a complex and challenging set of financial circumstances.

2017/18 Broad NHS Savings Thematics

- 7.9 Broad thematics in terms of a savings programme in relation to in-scope NHS budgets are likely to be structured across the following areas:

- Service Change –including redesign and improved productivity
- Workforce – efficient use of staffing resources
- Prescribing – both in Hospital / Secondary care and Primary Care
- Procurement – pricing and contract focus

- 7.10 Given the relatively early stage of budget preparation in comparison to Adult Social Work Services it is proposed that the IJB Chief Officer and Chief Finance Officer work closely with the Chief Executive, Director of Finance and other senior officers from NHS Forth Valley to prepare a revised business case for approval by the IJB.

8. TRANSFERS FROM THE SET-ASIDE BUDGET FOR LARGE HOSPITAL SERVICES

- 8.1 The IJB approved the service changes in relation to the Lochview Learning Disability Inpatient facility and services for female patients with complex mental health needs at its meeting of 7 October 2016.
- 8.2 As detailed within the resource implications for these service changes virement or transfer of resources between the set-aside and operational elements of the budgets will be required as a result of the changes.
- 8.3 It is proposed the relevant transfer of resources be incorporated within the IJB's detailed IJB financial plan for 2017/18.

9. POST DUE DILIGENCE ISSUES

- 9.1 As previously reported to the IJB two significant post due diligence issues remain to be resolved. These relate to Community Hospitals and Parity or Equity of the allocation of NHS Budgets between the Falkirk and Clackmannanshire and Stirling Partnerships.

The Finance Workstream has still to conclude the work examining these issues and agree professional advice to support resolution. The intention is that these matters should be concluded to allow reporting the February 2017 meetings of both Partnerships.

Until resolution is reached on these issues they should be considered a risk in terms of the IJB business case.

10. RESERVES STRATEGY

- 10.1 In line with the IJBs financial regulations and reserves strategy it is proposed to create an IJB reserve from any remaining balance of the Integration Fund in 2017/18. The creation of this reserve should be viewed as part of developing prudent financial planning and governance arrangements for the IJB and would be intended to be available to be called upon in relation to unforeseen financial pressures emerging in 2017/18 which are congruent with the restrictions applicable to the use of the Integration Fund.
- 10.2 It should be noted that it is not intended for the IJB to create significant levels of general reserves.

11. CONCLUSIONS

Resource Implications

The resource implications are detailed in the body of the report.

Impact on IJB Outcomes and Priorities

The partnership budget consists of payments from the constituent authorities, set-aside budget for large hospital services and partnership funding streams (including Integrated Care Fund and Delayed Discharges Funding) allocated from Scottish Government via NHS Boards for IJBs to invest in line with Strategic Plan priorities.

Legal & Risk Implications

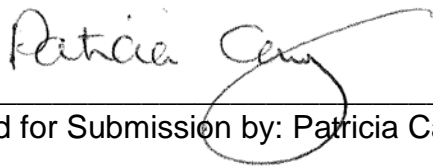
A statement that highlights any legal issues and risk that may arise, relating to the integration authority or the constituent partners.

Consultation

Requirements for consultation on the proposed savings programme will require to be considered and will utilise existing mechanisms of the partner organisations as part of their respective budget options consultation processes.

Equalities Assessment

An equalities assessment will require to be prepared for each of the savings proposals.



Approved for Submission by: Patricia Cassidy, Chief Officer

Author – Ewan C. Murray, Chief Finance Officer

Date: 15 November 2016

List of Background Papers:

Integration Scheme
Integrated Resourcing Advisory Group (IRAG) Finance Guidance
Falkirk Health and Social Care Partnership Strategic Plan and Joint Strategic Needs Assessment (JSNA)
IJB 2016/17 Budget
IJB Budget Recovery Plan
Previous IJB Financial Reports

APPENDIX I Falkirk IJB –Draft Social Work Adult Services Savings Proposals November 2016				
Savings approach		Area of Focus	£m	Confidence Level (1 – 3)
1	Reducing costs where feasible and appropriate in procured care at home and supported living services through efficiencies, for example by reviewing higher cost care packages	1.1 Review of high cost care packages	0.500	3
		1.2 Home care provision - shift from directly provided to procured services	0.200	1.5
		1.3 Increased efficiencies derived from real time monitoring	0.075	2 – Internal 1 - External
2	Reviewing models of service delivery	2.1 Review of Garden Aid Scheme	0.250	2
		2.2 Review of day services for Older People	0.100	2
		2.3 Review of day services for Younger Adults	0.230	2
		2.4 Reducing costs of in house and external provision of residential care	0.800	3
3	Increasing revenue income	3.1 Review of Charging policy	0.300	2
		Total	2.455	
The approach to savings will be enabled and supported by implementation of revised eligibility framework, operating tighter criteria, and offering lower cost packages of care to meet need where that is appropriate. Transformational savings will be delivered through managing demand getting prevention right, diverting more people away from formal paid service, through reablement.				

With regards to confidence level 3 indicates a high level of confidence, 2 medium and 1 low.

APPENDIX II – Extract from Integration Scheme

8.3 Payment in subsequent years

- 8.3.1 The method for determining the amount to be paid by the Parties to the Integration Joint Board in respect of each of the Integration Functions (other than those to which paragraph 8.2.2 above applies, i.e. the Integrated Budget) shall be based on and take account of the following:
- I. The indicative three year financial element in the Strategic Plan, subject to annual approval through the Parties' respective budget setting processes.
 - II. The Integration Joint Board business case which shall be presented to the Parties for consideration against their other priorities and negotiation of their contributions.
 - III. The business case should be evidence based with full transparency on its assumptions and take account of the factors listed at paragraph 4.2.8 (as adjusted) of the IRAG Professional Guidance.
 - IV. Regard should continue to be directed to the implications of actual and projections relative to budget for recent financial years.
 - V. Recognition that additional one-off funding may be provided to a Party or Parties by the Scottish Government, or some other body, for expenditure in respect of Integration Functions.
 - VI. Recognition that a degree of flexibility and pragmatism will be required.
- 8.3.2 The method for determining the Set aside Budget shall be as described in paragraph 8.2.2 above.
- 8.3.3 If the Strategic Plan identifies a change in hospital utilisation, the resource implications for the Set aside Budget will be determined through a detailed business case to be approved by the Parties.
- 8.3.4 Due diligence will require to be carried out by the Council's Chief Finance Officer, the accountable officer of NHS Forth Valley and the Integration Joint Board's Chief Finance Officer to assess the adequacy of the Payment made in respect of the Integrated Budget and the sum set aside in terms of the Set aside Budget.

APPENDIX III – Extract from IRAG Guidance

Extract From IRAG Guidance

4.2.8 The Chief Officer, and the Integration Joint Board financial officer where such is appointed separately, should develop a case for the Integrated Budget based on the Strategic Plan and present it to the Local Authority and Health Board for consideration and agreement as part of the annual budget setting process. The business case should be evidence based with full transparency on its assumptions and take account of:

- **Activity Changes.** *The impact on resources in respect of increased demand (e.g. demographic pressures and increased prevalence of long term conditions) and for other planned activity changes;*
- **Cost inflation.** *Pay and supplies cost increases;*
- **Efficiencies.** *All savings (including increased income opportunities and service rationalisations/cessations) should be agreed between the Integration Joint Board, Local Authority and Health Board as part of the annual rolling financial planning process to ensure transparency;*
- **Performance on outcomes.** *The potential impact of efficiencies on agreed outcomes must be clearly stated and open to challenge by the Local Authority and Health Board;*
- **Legal requirements.** *Legislation may entail expenditure commitments that should be taken into account in adjusting the payment;*
- **Transfers to/from the notional budget for hospital services** *set out in the Strategic Plan. See section 4.3.1*
- **Adjustments to address equity.** *The Local Authority and Health Boards may choose to adjust contributions to smooth the variation in weighted capita resource allocations across partnerships; information to support this will be provided by ISD15 and ASD.*

*4.2.9 The partner Local Authority and Health Board will evaluate the case for the Integrated Budget against their other priorities and are expected to negotiate their respective contributions accordingly. The allocations will be a negotiated process based on priority and need and it should not be assumed that they will be the same as the historic or national allocations to the Health Board and Local Authority. The method for determining the contributions is required to be included in the Integration Scheme (**Section 1(3)**).*

Enquiries to: Patricia Cassidy
Direct Dial: 01324 504013
Our Ref: PC/AS/010-16
Date: 7 December 2016

Mrs Mary Pitcaithly
Chief Executive Officer
Falkirk Council
Municipal Buildings
West Bridge Street
Falkirk
FK1 5RS

Dear

Integration Joint Board (IJB) Business Case 2017/18

Please find attached the IJB's Business Case for financial year 2017/18 which was approved by the IJB at its special meeting of 18 November 2016.

The business case was prepared, as far as possible, using the relevant element of the Finance Guidance for IJB's, also known as IRAG guidance, published by Scottish Government. Given the current level of maturity of the performance reporting arrangements for the partnership it is not currently possible to realistically assess the impact of savings on the performance of the partnership.

The document itself is fairly self-explanatory however we would wish to draw out a few key points as follows:

- The key planning assumptions applied to the payment from the Council from the IJB are consistent with those being used by the council overall in terms of pays and impact of general inflation.
- The assessment of the cost impacts of demographic growth have been based on information available from finance and procurement teams at the time of writing. Whilst we are of the opinion the overall quantum of these cost pressures is realistic the relative share of the increase between care at home and residential care is likely to change as measures are taken forward to implement the priorities of the IJB's Strategic Plan such as discharge to assess.

The financial report being presented to the IJB meeting on 2 December 2016 documents a notably reduced level of projected overspend in relation to residential care in

Denny Town House,
23 Glasgow Road,
Denny, FK6 5DL

Telephone: 01324 506400
Fax: 01324 506401

relation to the projected impact of on-going work in negotiating and harmonising rates with external providers.

- An assessment of other cost pressures including transitions of care packages from children's to adult services. This assessment is undergoing further detailed review and our current understanding is that the estimate is likely to increase as a consequence. We are, however, awaiting the outputs from this review to be in a position to advise further.

It may however be prudent to consider this along with the projected reduction in the level of overspend in residential care when further information becomes available.

- The treatment of the Integration, or Social Care Fund, within the 2017/18 Scottish Budget is pivotal to the financial planning for Adult Social Care. Given the levels of uncertainty around this a range of scenarios have been developed as detailed in Section 6.16 of the document. These include the estimated cost of the full year effect of implementation of the Scottish Living Wage and uplift to the hourly rate from 1 April 2017.

The estimates around the Scottish Living Wage are likely to still be at the prudent end of the scale and we will continue to review these with procurement and finance colleagues to be in a position to quickly assess the implications how the Integration Fund is treated within the Draft Scottish Budget for 2017/18.

- The draft savings programme incorporated within the case totals a quantum of £2.455m and has been assessed in terms of confidence of delivery with a score of 3 reflecting high confidence of delivery, 2 medium confidence and 1 low confidence. Further detail in relation to the draft savings programme being developed including Equality and Poverty Impact Assessments.
- The draft savings programme includes a proposal to review the charging policy. Approval of the charging policy is power reserved to Falkirk Council though the impact of the policy in place affects the financial position of the IJB.

The estimated quantum of an additional £0.300m in relation to charging is based on a combination of a review of charges and improving business processes and debt recovery. Further detail is being prepared however the basic premise of the proposal is increasing charges at a level in line with general inflation whilst reviewing and improving business processes to have a positive impact on debt recovery by reducing the level of debt write off.

Denny Town House,
23 Glasgow Road,
Denny, FK6 5DL

Telephone: 01324 506400
Fax: 01324 506401

- Whilst appreciating the draft saving programme is less than a pro-rata share of the savings challenges facing the council the draft programme is ambitious and challenging in an environment of rising demand and expectation. Section 6.26 of the business case document refers to the need to ensure appropriate management and business support capacity to lever and manage change both in the short and medium to longer term.

We current estimate this requirement at £0.220m and will bring forward detailed proposals in the near future for consideration. It may be that a combination of funding sources could be considered including 'Spend to Save' funding and Partnership Funding.

We trust that this letter adds some further context to the business case document approved by the IJB. Clearly, given the high level of uncertainty around the Draft Scottish Budget and, in particular the treatment of the Integration Fund including the settlement for the Scottish Living Wage there will be a need for officers across the partnership to continue to work closely to take account of implications from the budget when it is announced.

Meantime, if there are any other questions or information requirements that would help the council considerations please let us know.

Yours sincerely,

.....
Patricia Cassidy
Chief Officer
Falkirk Health & Social Care Partnership

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Ewan Murray
Chief Finance Officer
Falkirk Health & Social Care Partnership

Denny Town House,
23 Glasgow Road,
Denny, FK6 5DL

Telephone: 01324 506400
Fax: 01324 506401

www.falkirk.gov.uk

FALKIRK HSCI PARTNERSHIP**Local Authority Budget**

In Scope Function	2016/17 Budget	2017/18 Budget
	£'000	£'000
Older People	2,879	3,009
Mental Health	588	605
Learning Disability	285	296
Physical Disability	608	635
Adult Support & Protection	187	188
Carers	48	50
Care at Home	28,132	30,299
Residential Care	21,812	22,674
Respite Care	1,278	1,307
Day Care/Services: PD, LD, OP, MH	4,275	4,104
MECS/Telecare/Telehealth	482	601
Housing with Care/Sheltered Accommodation	1,081	1,098
Shopping Service	13	14
Equipment & Adaptations	415	420
Advocacy	96	96
Sensory Team	448	455
Mental Health Team	280	297
Learning Disability Team	568	586
JLES	318	328
Day Care/Centre: MH	163	167
Sensory Resource Centre	77	79
Voluntary Organisations	554	554
Garden Aid	489	489
Housing Aids and Adaptations	1,200	1,200
Improvement Grant	327	327
IJB Operation	190	193
Integration Fund (see table below)	-5,540	-9,920
	61,253	60,151

Funded by

General Fund Payment	59,512	58,410
HRA Payment	1,414	1,414
Capital Payment	327	327
	61,253	60,151

Analysis of Integration Fund

Living Wage Provision	3,540	6,356
Demographic Pressure	2,000	3,564
	5,540	9,920

2017/18 Integration Joint Board Budget

Sub Service - Objective Analysis

	2016/17 Budget Outturn Prices £	2017/18 Budget September 2016 Prices £	2017/18 Budget Outturn Prices £
Adult Provision General	612,230	612,230	625,070
Residential Care	5,475,500	4,761,500	4,868,780
Housing with Care	1,128,250	1,128,250	1,145,470
Meals & Lunch Clubs	95,710	95,710	98,760
Home Care Service	14,376,510	14,693,960	14,941,180
M.E.C.S.	481,700	586,700	600,590
Day Centres	2,259,820	2,029,820	2,065,330
Community Care General	2,398,760	2,522,180	2,566,740
Health Integration	(3,334,000)	(7,714,000)	(7,711,490)
FVHB Joint Support	(10,384,850)	(10,384,850)	(10,384,850)
Community Care Teams	8,535,090	8,757,040	8,913,050
SW Central Budget	38,711,330	40,592,150	41,515,150
Mental Health - General	410,950	410,950	415,110
Dementia Initiative	485,670	485,670	492,340
NET EXPENDITURE	61,252,670	58,577,310	60,151,230

2017/18 Integration Joint Board Budget

Sub Service - Subjective Analysis

	2016/17 Budget Outturn Prices £	2017/18 Budget September 2016 Prices £	2017/18 Budget Outturn Prices £
<u>EMPLOYEE EXPENSES</u>			
SJC Employees	26,778,850	26,008,490	26,411,920
Indirect Employee Expenses	337,140	337,140	337,140
Total Employee Expenses	27,115,990	26,345,630	26,749,060
<u>PROPERTY EXPENSES</u>			
Repairs and Maintenance	12,030	12,030	12,210
Maintenance of Grounds	489,000	489,000	489,000
Housing Repairs - BMD	1,200,000	1,200,000	1,200,000
Energy Costs	17,200	17,200	17,300
Rents	124,670	124,670	126,910
Rates / Council Tax	25,620	25,620	26,370
Water Services	1,160	1,160	1,180
Cleaning & Domestic Supplies	10,490	10,490	10,710
Other Property Expenses	200	200	200
Total Property Expenses	1,880,370	1,880,370	1,883,880
<u>TRANSPORT EXPENSES</u>			
Direct Transport Costs	2,100	2,100	2,100
Transport Recharges	45,770	45,770	46,850
Transportation Costs	279,860	279,860	283,890
Total Transport Expenses	327,730	327,730	332,840
<u>SUPPLIES & SERVICES</u>			
Equip, Furniture and Materials	966,280	759,510	759,510
Training Materials	7,680	7,680	7,680
Services	50,820	50,820	51,800
Catering	440,420	440,420	449,340
Clothing, Uniforms & Laundry	34,470	34,470	34,470
Printing, Staty & Gen Off Exps	8,270	8,270	8,350
Client Amenities	24,680	23,180	23,180
Communications & Computing	48,980	48,980	49,480
Miscellaneous Supplies	1,221,880	1,220,720	1,220,720
Total Supplies & Services	2,803,480	2,594,050	2,604,530
<u>THIRD PARTY PAYMENTS</u>			
Health Authorities	405,020	405,020	415,150
Other Local Authorities	86,470	86,470	89,060
Private Contractors	18,702,790	19,512,350	19,886,100
Other Agencies	3,648,580	3,628,010	3,642,180
Repair/Improvement Grants	327,000	327,000	327,000
Residential/Long Term Paymnt	33,485,280	35,554,440	36,227,650
Residential/Respite Payments	243,210	243,210	249,300
Day Care	1,459,890	1,439,190	1,475,150
Payments to Voluntary Orgs	76,730	76,730	76,730
Grants to Voluntary Orgs	29,140	29,140	29,140
DSS Transfer Projects	845,020	845,020	863,840
Total Third Party Payments	59,309,130	62,146,580	63,281,300

2017/18 Integration Joint Board Budget

Sub Service - Subjective Analysis

	2016/17 Budget Outturn Prices £	2017/18 Budget September 2016 Prices £	2017/18 Budget Outturn Prices £
<u>TRANSFER PAYMENTS</u>			
Payments Individuals	1,301,640	1,343,620	1,363,150
Total Transfer Payments	1,301,640	1,343,620	1,363,150
TOTAL EXPENDITURE	92,738,340	94,637,980	96,214,760
<u>INCOME</u>			
Other Government Grants	(5,590,000)	(9,970,000)	(9,970,000)
Other Grants, Reimburse & Conts	(11,218,450)	(11,218,450)	(11,218,450)
Customer and Client Receipts	(11,829,550)	(12,024,550)	(12,024,550)
Rents Received	(8,500)	(8,500)	(8,500)
Internal Recharges	(290,240)	(290,240)	(290,240)
Charges to Other Bodies	(2,536,000)	(2,536,000)	(2,538,860)
Charges to Staff	(6,600)	(6,600)	(6,600)
Miscellaneous Income	(6,330)	(6,330)	(6,330)
Total Income	(31,485,670)	(36,060,670)	(36,063,530)
NET EXPENDITURE	61,252,670	58,577,310	60,151,230

INTEGRATION JOINT BOARD BUDGET 2017/18
Summary of Movements

£' 000

2016/17 Budget 61,253

Add: Budget Changes

1	<u>Employee Expenses</u>	
	Provision for Employer Contribution to Pension	107
	Provision for Living Wage	23
	Savings - Reducing Costs of Residential Care	(700) *
	Savings - Shift of Home Care to External Provision	(100) *
		<u>(670)</u>
2	<u>Supplies & Services</u>	
	Savings - Review of Day Services for Younger People	<u>(230) *</u>
3	<u>Third Party Payments</u>	
	Provision for Demographic Growth	1,914
	Living Wage Provision	1,661
	Savings - Review of High Cost Care Packages	(500) *
	Savings - Reducing Costs of Residential Care	(100) *
	Savings - Review of Day Services for Older People	(100) *
	Savings - Efficiencies from Real Time Monitoring	(75) *
		<u>2,800</u>
4	<u>Income</u>	
	Savings - Review of Charging Policy	(195)
	Integration Fund	(4,380)
		<u>(4,575)</u>

2017/18 Base Budget at September Prices 58,578

Add: Inflation 1,573

2017/18 Budget at Outturn Prices 60,151

* These saving are indicative based on the IJB Business Case and discussion with Officers.
However, it will be for the IJB to decide and approve their savings programme.
The budget papers will be updated as necessary following IJB budget approval.

SOCIAL WORK SERVICES**REVIEW OF FEES AND CHARGES 2017/18****Older Peoples Homes**

	<u>Current Charge</u> <u>Per Resident</u> <u>Per Week</u> £	<u>Proposed Charge</u> <u>Per Resident</u> <u>Per Week</u> £	<u>Proposed Charge</u> <u>For pre-April 2008 residents</u> <u>Per week with</u> <u>Transitional Protection</u> <u>And maximum 2.5% increase</u> £
		Current Charge Plus 2.5% Increase	
Burnbrae	754.20	773.06	701.52
Cunningham House	754.20	773.06	773.06
Grahamston	754.20	773.06	765.94
Summerford	754.20	773.06	709.90
Torwoodhall	754.20	773.06	773.06

All placements made to our Older Peoples Homes by other Local Authorities or Health have been charged at actual cost from 1 April 2010.

Day Centre Charges to Other Local Authorities

	<u>Current Charge</u> <u>Per client</u> <u>Per day</u> £	<u>Proposed Charge</u> <u>Per client</u> <u>Per day</u> £
Bainsford	96.31	98.72
Camelon	100.28	102.79
Oswald Avenue	84.31	86.42
Dundas	153.86	153.86

Caledonia Services

	<u>Current Charge</u> <u>Per client</u> <u>Per day</u> £	<u>Proposed Charge</u> <u>Per client</u> <u>Per day</u> £
Caledonia Services	84.31	86.42

Meals on Wheels, Lunch Clubs and Day Centre Lunches

	<u>Current Charge</u>	<u>Proposed Charge</u>
	<u>Per Meal</u>	<u>Per Meal</u>
	£	£
Meals on Wheels	3.40	3.40
Lunch Clubs	3.40	3.40
Day Centre Clients	3.40	3.40

Housing with Care Meal Charges

	<u>Current Charge</u>	<u>Proposed Charge</u>
	<u>Per Meal</u>	<u>Per Meal</u>
	£	£
Breakfast	0.78	0.80
Lunch	2.02	2.07
Tea	0.91	0.93

Joint Dementia Initiative

	<u>Current Charge</u>	<u>Proposed Charge</u>
	<u>Per client</u>	<u>Per client</u>
	<u>Per week</u>	<u>Per week</u>
	£	£
“Time to Share” - Respite	82.45	84.51

Rowans Short Breaks Service

	<u>Current Charge</u>	<u>Proposed Charge</u>
	<u>Per night</u>	<u>Per night</u>
	£	£
Client's contribution	See NOTE	

Note: From 1 April 2016, the charge has been determined through a full financial assessment to take account of individuals' personal income and DWP benefits and allowable statutory deductions. This procedure is applied to other service users regardless of their care group/establishment when they attend respite provision.

Charges for Non Residential Services Subject to Weekly Cap

	<u>Current Charge</u> <u>Per Week</u>	<u>Proposed Charge</u> <u>Per Week</u>
	£	£
Domicillary Care (over 65's)	5.74	5.88
MECS	3.38	3.46
Day Care (Over 65's)	5.13	5.26

	<u>Current Charge</u> <u>Per Delivery</u>	<u>Proposed Charge</u> <u>Per Delivery</u>
Shopping Service	5.69	5.83

	<u>Current Charge</u> <u>Per Hour</u>	<u>Proposed Charge</u> <u>Per Hour</u>
Care at Home (under 65's)	10.30	10.56

	<u>Current Charge</u> <u>Per Week</u>	<u>Proposed Charge</u> <u>Per Week</u>
Day Care (Under 65's)	27.32	28.00

Maximum Weekly Charges for Services Subject to Weekly Cap

	<u>Current Charge</u> <u>Per Week</u>	<u>Proposed Charge</u> <u>Per Week</u>
Under 65's	27.32	28.00
Over 65's	14.81	15.17

Background Reports

AGENDA ITEM 7**FALKIRK COUNCIL**

Subject: MEDIUM TERM FINANCIAL STRATEGY
Meeting: FALKIRK COUNCIL
Date: 22 June 2016
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 Given the ever increasing complexity of the Revenue Budget process, it is believed that Members will find it helpful to be presented with a broad Medium Term Financial Strategy early in the financial year.

2. FINANCIAL BACKCLOTH

- 2.1 The Executive considered the financial outturn for the 2015/16 financial year at its meeting on 7 June. This showed that the General Fund balance, after allowing for decisions taken by Council in February, was showing a balance of £7.16m. This is close to the Reserves Strategy indicative floor of £6.6m. Further reductions may be made dependent on decisions still to be made, for example equal pay. Consequently, it will be clear that in these terms there is little scope to apply reserves towards helping to balance the 2017/18 Budget. This is notwithstanding the points highlighted to Members in previous reports on the appropriateness of using reserves for this purpose.
- 2.2 Flowing from the above, it is essential that Services, in the current financial year, adhere to the instruction of Council at the Budget meeting in February that, "Chief Officers deliver Services within the specific budget allocation for each Service".
- 2.3 Local Government will be taking a close interest in the actions of the Scottish Government and the Scottish Parliament and in particular:-
- a) Council Tax reform and revised grant arrangements [see section 3.2].
 - b) How the Parliament's new tax raising powers will be used.
 - c) How local government will be treated in funding terms relative to other spending blocks. Health will continue to receive funding beyond inflation protection and Police are currently inflation protected.
 - d) Any amendments to the current responsibilities and configuration of local government.
 - e) Future funding arrangements for Integration Joint Boards.
 - f) The proposal to transfer more responsibility and monies directly to Headteachers.
- 2.4 It is expected by COSLA that the Scottish Government Budget in the Autumn will cover a three year timeframe, albeit the Scottish Government has not confirmed this. Robust information beyond one year would be most welcome and be instrumental in informing medium term planning.

3. PROJECTED BUDGET GAPS

- 3.1 The very provisional Budget Gap ranges are set out below. Ranges have been used rather than a specific figure to reflect the wide number of uncertain variables and particularly with respect to Government Revenue Grant. .

<u>2017/18</u>	<u>2018/19</u>
<u>£m</u>	<u>£m</u>
15-20	12-17

This represents a significant challenge particularly when set against the savings which have had to be made over the past decade. The following paras set out the main sources from which the gap can be bridged.

3.2 Council Tax

- 3.2.1 The Scottish Government has advised that it will end the council tax freeze and change the format of the tax. Based on previously released proposals this will comprise several elements. Firstly, the band multipliers above band D will be increased with the estimated £100m yield expected to be allocated to education, possibly direct to schools. Secondly, the tax can be increased up to a maximum of 3% which is estimated to yield £70m nationally. It would seem then that this Council's share of this element could be used to help close the gap. Thirdly, there will be revisions to the Council Tax Reduction Scheme.
- 3.2.2 There is also a proposal to switch revenue support grant for a share of assigned tax receipts. This is a significant development with inherent risk, and as with council tax, details of the intended changes are urgently required.

3.3 Strategic Review

Flowing from the decision taken by Council at its Budget meeting in February, a range of Strategic Reviews have been established per the table below. These reviews are expected to produce significant savings options. Following the decision of executive in June, the Community Trust review will come under the wing of the Trust Policy Development Panel.

Strategic Areas	Leads	Sponsors
Trust Service Delivery & property portfolio	M Campbell	R Naylor
Council's property portfolio review	D Duff	G Greenhorn
Income Generation	D Cairney	M Pitcaithly
Childrens Social Work Delivery	K McCarroll	R Geisler
Adult Social Work Delivery	J McElholm/P Cassidy	S Ritchie
External Organisations	F Campbell	RM Glackin
Alternative Service Delivery Models	D McGhee	B Smail

3.4 **Terms & 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.

3.5 **Reserves**

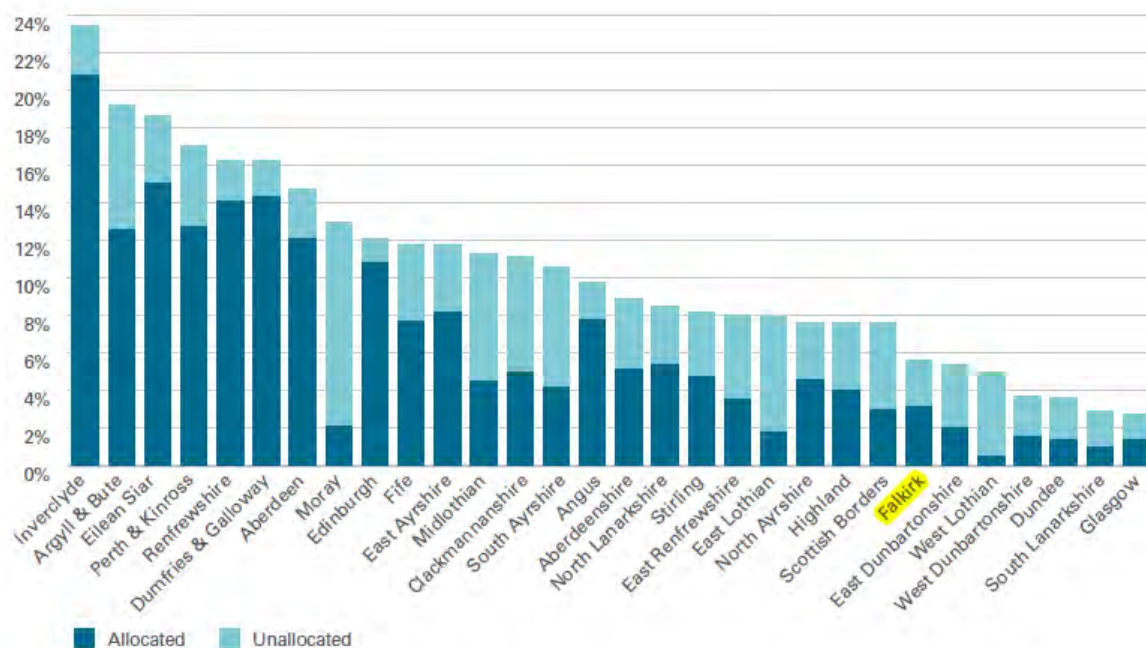
3.5.1 As noted in section 2, the reserves balance on General Fund is £7.6m. In addition, the balance on the Repairs & Renewals Fund is c£4m. The financial report to June 2016 Executive provided details of the status of this Fund.

3.5.2 There are in addition five Earmarked Reserves and they are noted below, together with their projected balance at 31 March 2016. The position with these Reserves was also explained in the Financial Position report to June 2016 Executive, noting that they are established for particular purposes and in consequence their funds, in large measure, are already committed.

<u>Earmarked Reserves</u>	<u>Balance £'m</u>
Devolved School Management	3.890
Economic Development	1.003
Central Energy Efficiency Fund	0.500
Insurance Fund	5.180
Spend to Save	3.136
	13.709

3.5.3 It is useful to see how Falkirk Council's reserves compare with other councils and the following chart sourced from Audit Scotland is helpful in this respect.

General Fund reserves held as a percentage of Service Costs 2014/15



Notes:
 1. Figures exclude Orkney and Shetland Islands councils, which hold large reserves and balances arising mainly from harbour and oil-related activities, which affect what is included in their General Funds.
 2. Service costs in this context are taken as the General Fund net cost of services, as reported in councils' annual accounts.
 Source: Councils' annual accounts and data returns from auditors, 2014/15

3.6 **Service Saving**

- 3.6.1 Members will recall that a wide range of officer savings options were presented to Council in October 2015 for both 2016/17 & 2017/18. Approval was given to progress these in terms of equality and poverty impact assessments (EPIA's) and general consultation. In the event, many of the 2017/18 options were required to be used to balance the 2016/17 Budget given the scale of the grant loss for that year. Officers are currently updating the EPIA's where necessary for those 2017/18 savings which were not brought forward to 2016/17.
- 3.6.2 It will be evident that considerably more savings options will need to be identified for the projected budget gap (paragraph 3.1) to be bridged, which of course is essential in that it is a statutory requirement to produce a balanced Budget. Services are currently exploring options for future consideration by Members, in particular focussing on top 20 areas of Council expenditure as they account for c90% of total expenditure. It is inevitable though that there will also be a particular focus on areas of discretionary spend. In the interim, to ensure such proposals are appropriately developed for Member assessment and recognising the compressed timeframe within which savings need to be developed ready for implementation on 1st April 2017, appropriate consultations and preparation of EPIA's will take place.
- 3.6.3 Similar to last year it is intended to bring these savings options, together with these arising from the Strategic Reviews per para 3.3, to a meeting of Council in early Autumn.

3.7 **Falkirk Community Trust & Integration Joint Board**

- 3.7.1 It is expected, given the scale of the projected Budget Gaps that both these organisations will be required to "share the pain".
- 3.7.2 Members will be familiar with the protocol for the Trust, consistent with the Funding Agreement. This entails the Trust submitting their budget proposals to the Council in November and these in turn are presented to Council in December together with officer comments. Feedback as appropriate is then relayed to the Trust with an expectation that any agreed adjustments are reflected in the integrated Budget report considered by Council in February.
- 3.7.3 It is anticipated that a parallel process will be followed with the Integration Joint Board.

4. **MEMBER BUDGET WORKING GROUP**

- 4.1 It is expected that this recently constituted Group will be instrumental in driving the Budget process forward and adding value to the exercise.
- 4.2 With respect to the forthcoming Budget round the Group has met twice. At the first meeting on 12th April 2016 a paper was considered which was both a review of the 2016/17 Budget process and a look forward to the next budget cycle.

5. COMMUNITY EMPOWERMENT (SCOTLAND) ACT 2015

- 5.1 This is a major new piece of legislation comprising 11 topics with implication for local government. For most of these elements secondary legislation and guidance have to be developed before the legislation can come into full effect. Nevertheless, it is expected that most parts of the legislation will come into effect within the next year. The Executive at its meeting on 7 June considered a status report on the Act.
- 5.2 There are a number of these elements which will have an impact on the Budget process, notably, but not limited to, Community & Locality Planning, Participatory Budgeting, Participation Requests and Asset Transfer Requests.
- 5.3 Officers are working through the practical implications of this new legislation and will keep Members informed as secondary legislation and guidance emerges. To this end a seminar on the Act is being arranged for Members.

6. OTHER MATTERS

- 6.1 Members subsequently determined that the savings proposal relating to Garden Aid approved at part of the February budget proposals, would not be implemented. Consequently, the in-scope amount of £0.275m now requires to be passed across to the Integration Joint Board. A further consequence, in terms of the February Council decision on the Budget, is that the responsible Director requires to bring forward alternative savings to the same value. At this early stage in the financial year, it is anticipated that the cost of re-instating Garden Aid will be offset by a higher than anticipated Council Tax yield.

7. BUDGET TIMELINE

- 7.1 The attached high level Budget Timeline captures the main stages in the process. It will be evident that much needs to be achieved in a short timeframe.
- 7.2 The diagram shows that, in addition to specific events, there are a range of processes that run in parallel. These are notably engagement with the public, staff and trade unions and dialogue with the Trust and the Integration Joint Board.

8. CONCLUSION

- 8.1 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.

9. RECOMMENDATIONS

The Executive is invited to:-

- 9.1 consider the Revenue Budget Framework set out in this report;
- 9.2 agree the process for developing savings options per para 3.6.2; and
- 9.3 agree the alternative Budget savings option per para 6.1 .

Director of Corporate & Housing Services

Date: 14 June 2016

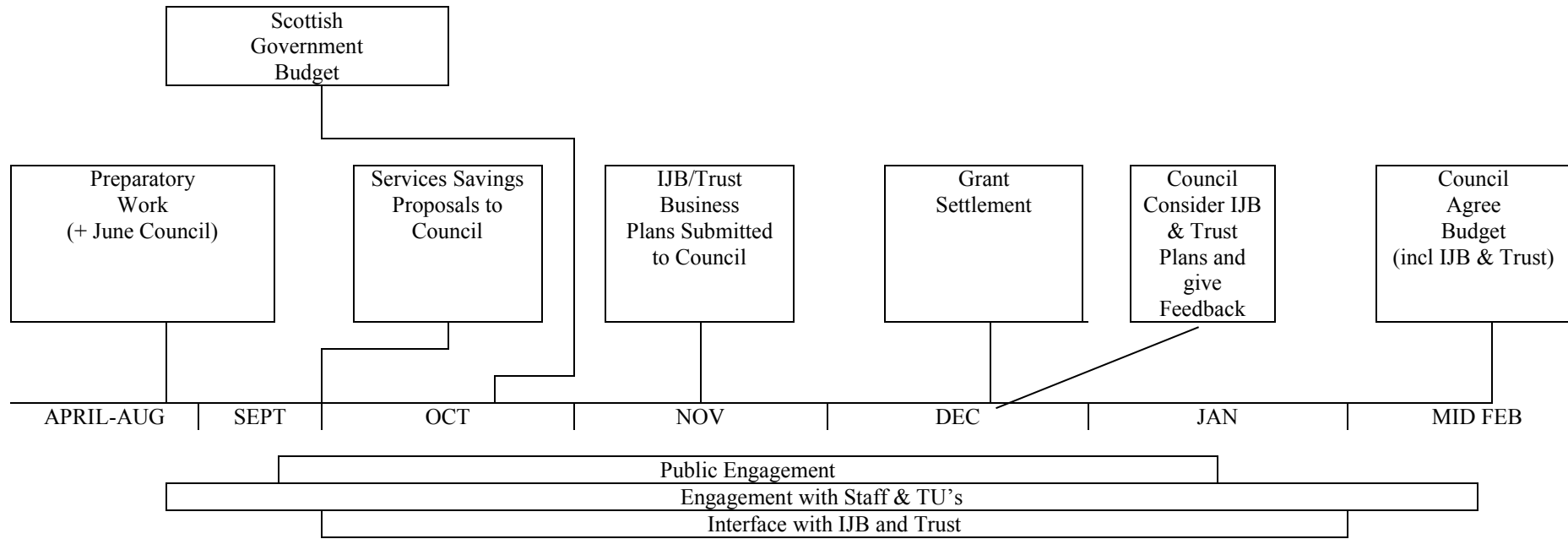
Ref: AAA220616 – Medium Term Financial Strategy

Contact Officer: Bryan Smail

LIST OF BACKGROUND PAPERS

- 1. Report to Executive 7 June 2016 – Financial Outturn 2015/16

HIGH LEVEL BUDGET TIMELINE



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>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.

Director of Corporate & Housing Services

Author – Bryan Smail, Chief Finance Officer 01324 506300,
bryan.smail@falkirk.gov.uk

Date: 13 September 2016

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

Agenda Item 10

Falkirk Council

Title: 2017/18 Budget – Initial Savings Options
Meeting: Executive
Date: 18 October 2016
Submitted By: Director of Corporate & Housing Services

1. Purpose of Report

- 1.1 Flowing from the Council meeting on 21 September, this report and the attached templates bring formally to Members' attention, Budget savings options identified to date by Officers.

2. Recommendations**2.1 Executive is asked to note:-**

- (1) The Budget savings options identified by Officers in the appended templates and that these will be the subject of consultation with stakeholders, and**
- (2) That Officers will continue to research further savings options which can be brought before Members later in the 2017/18 Budget process**
- (3) And in terms of section 4.2 of the report with respect to workforce:-**
 - a) the potential impact on the workforce if the options being consulted on were to subsequently be agreed;**
 - b) the current position in relation to negotiations on terms and conditions and agree that officers progress these in order to achieve, if possible, an agreement on a revised package, keeping the Leader and Leader of the Opposition advised of progress;**
 - c) the discussions being progressed with Trade Unions on the removal of the 35 hour protection and that an update will be provided at an appropriate stage on the outcome of these discussions.**

3. Background

- 3.1 Further to a report on the Medium Term Financial Strategy which was presented to Council on 22 June 2016, an update report on the Budget fiscal environment was considered by Council at its meeting on 21 September 2016. That meeting agreed that Officer savings options would be presented to this meeting of the Executive.
- 3.2 A fourth meeting of the Member Budget Working Group was held on 4 October focused on the 2017/18 Budget cycle. This meeting gave initial consideration to the attached Officer savings options.

4. Considerations

4.1 Budget Gap

- 4.1.1 Council at their meeting on 21 September were advised that based on information from the Scottish Government relayed by Cosla, on the likely level of Revenue Support Grant, the Council should certainly prepare for a Budget gap in the order of £20m.
- 4.1.2 Council were also advised that there was still considerable uncertainty underpinning this estimate, including the treatment of the Integration Joint Board funding, the Scottish Government penalty rules and the nationally agreed pay awards.
- 4.1.3 A summarised Budget Gap table was presented in that report showing the primary options to achieve the statutory requirement of a balanced Budget and that is repeated below.

	<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 Rebasing	-
Council Tax increase	-
Terms & Conditions	-
Reduce Provision for Budget Pressures	-
Application of Reserves	-
<u>Gap bridged</u>	<u>£20m</u>

- 4.1.4 Council was provided with some contextual information on these options to bridge the gap. Engagement on the Budget continues with both Falkirk Community Trust and the Integration Joint Board (IJB). With the latter, there is an expectation that the inroads to transformational change it was established to achieve, will enable it to make an appropriate contribution to helping the Council achieve a balanced Budget.
- 4.1.5 Members were advised of the two significant changes to Council Tax. Firstly, the option to increase Council Tax by up to 3%. Secondly, the mandatory change in the higher bandings with the yield from that being centralised by the Scottish Government and then redistributed to schools directly in pursuit of its policy of closing the Attainment Gap. The table below captures both these elements:

Increase (%age)	2016/17 forecast out- turn	2017/18 forecast growth in tax base	Estimated SG Levy (net)	Empty Levy	Total	Total retained (exc. SG levy)	Increased yield
	£'m	£'000	£'m	£'000	£'m	£'m	£'m
No increase	55,103	351	2,200	200	57,854	55,654	551
0.50%		353	2,211	201	58,143	55,932	829
1.00%		355	2,222	202	58,433	56,211	1,108
1.50%		356	2,233	203	58,722	56,489	1,386
2.00%		358	2,244	204	59,011	56,767	1,664
2.50%		360	2,255	205	59,300	57,045	1,942
3.00%		362	2,266	206	59,590	57,324	2,221

4.2 Workforce

4.2.1 As referred to in para 4.3.2, the options presented to Members on the budget templates, along with further reductions required if an agreement on changes to terms and conditions were not to be achieved (see para 4.2.6), result in a reduction in workforce numbers of 228.2 FTE. Whilst this number has still to be finalised and is subject to consultation on the options and negotiations on terms and conditions, if reductions of this level are required, they are always difficult. For Members' information, from 31 March 2014 to 31 March 2016, the Council's workforce reduced by c7%.

4.2.2 Work continues to be undertaken on workforce changes, with a view to implementing these by voluntary methods as far as possible. For those reductions made to date, this has been achieved using the following methods:

- Deleting vacant posts;
- Ending temporary contracts;
- Implementing a recruitment moratorium;
- Using any other voluntary method that can be agreed with the employee group;
- Offering voluntary severance.

Given however, the current financial position and as noted above, it has been necessary to consider options which include further reductions in workforce spend. The aim will be to continue to achieve these by the above voluntary methods although Members will note from the appended templates, that this is becoming increasingly difficult.

4.2.3 To ensure full engagement with employees throughout this process, a series of employee briefing sessions are being held by all Services, to give all Council employees the opportunity to be advised of the options and to comment on these. Trade Unions have also been invited to attend these meetings. Members may also recall the negotiations which took place with Trade Unions on changes to terms and conditions. As reported to Council in February 2016, agreement was not possible to enable implementation of changes for the 2016/17 financial year and as a result, Council agreed to achieve the savings attached to terms and conditions through the use of reserves.

4.2.4 As Members will appreciate, the use of reserves only resolved this issue for the 2016/17 financial year. As a result, Council decided at its meeting in February 2016 that discussions should continue with Trade Unions to find a solution to achieving the £1.5m of savings from workforce costs as soon as possible. Officers have implemented this decision by continuing to meet with the Trade Unions to find a way forward. Based on these discussions, a final package has now been presented to the Trade Unions which includes (but is not exclusive to) changes to, or removal of, conditions such as:

- Annual Leave;
- Night shift allowance;
- Overtime;
- Unsocial Hours;
- Subsistence and Excess Travel.

The option of a buy out for some of these conditions, and consideration of the Council's pay structure, are also included as part of the package. The package has recently been discussed in more detail with the Leader of the Council and the Leader of the Opposition, and they will continue to be provided with updates on negotiations as these progress. The aim is to reach a package on which the Trade Unions are willing to ballot.

4.2.5 It is worth highlighting however, that even if the Trade Unions proceed to ballot on the package, and were to receive a positive response, they have indicated that they would be required to sign individual collective agreements for each Trade Union. This could potentially mean that some Trade Unions are in a position to sign a collective agreement whilst others are not. In such circumstances, Council would be required to consider the options for implementation of the package for those employees who were not covered by a collective agreement, in order to ensure the Council avoids having a two tier workforce. This could potentially mean approaching some employees direct to seek voluntary acceptance of the changes, or the changes may ultimately require to be imposed.

4.2.6 As Members will note, achievement of the £1.5m of savings from terms and conditions has been built in to the options for the Council to achieve a balanced budget. If negotiations are not successful, this money must be found from elsewhere and, given the current position in relation to reserves, it would be very problematic for the Council to use this option for 2017/18. As a result, it is likely that such savings will require to come from a reduction in jobs if no agreement can be reached. Based on the average employee salary, the workforce reductions provided at paragraph 4.2.1 include a reduction of c65 FTE jobs which would allow the Council to achieve savings of c£1.5m if this cannot be achieved from changes to terms and conditions. The specific jobs which would be reduced if changes are not made to terms and conditions, are not at this stage included within the options on the templates, but would require to come from a split of the 65 jobs across all Services. Clearly if an agreement to changes to terms and conditions were to be reached, this would reduce the impact on the jobs by 65 FTE (i.e., taking the total job reduction from 228.2 to 163.2 FTE).

4.2.7 One condition which has not been included in this package is the protection of 35 hours work for 37 hours pay which was implemented in 2006 for some employees. Currently c1,450 employees receive this protection at a cost of c£1.4m. Discussions are currently taking place with Trade Unions to assess whether this protection now needs to be ended as a result of equality issues. If it were to be ended, employees currently in receipt of this protection would be provided with the option to continue to receive the same pay for 37 hours work, i.e., work an additional 2 hours per week, or, reduce their pay by two hours per week and continue to work 35 hours (all pro rated for part time employees). It is anticipated that the majority of employees would choose to continue to receive the same pay and as a result, it is unlikely that significant savings will be achieved from this change if it were to be implemented.

4.3 Service Savings Options

4.3.1 The local government Settlement is expected to be announced in mid-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 Consistent with this, the Council's three Services have been working over the summer to identify officer savings options. Each identified option has been prepared in a standard template format which looks to capture key information dimensions. These are appended, together with a summary for each Service with the options ranked by value. The savings totals, to date, for each of the Services are:-

	£m	FTE
Childrens' Services	4.188	73
Development Services	3.170	17
Corporate & Housing Services	<u>3.280</u>	<u>73.2</u>
	<u>10.638</u>	<u>163.2</u>

There will also be savings expected from the Strategic Reviews approved by Council in February, and an update on these will be provided to Council in December. Work will progress over the Autumn by Services to identify and work-up further options. If in the event the funding gap proves to be less than projected then the level of savings can be rolled back, albeit they will inevitably need to be considered again in the subsequent Budget round.

4.3.3 Identifying savings options has proved to be a particularly challenging task when set against the cumulative Budget gaps of £108m that have had to be bridged over the past decade. Consequently, to help identify yet further and significant savings, several approaches have been harnessed:-

- (a) Services were set a target of 15% of their (adjusted) budget
- (b) A focus on the top 20 areas of spend
- (c) Spend that is underpinned by a statutory requirement relative to spend that is discretionary

The 15% target in a) was derived from the size of the anticipated aggregate savings needed. Service budgets were adjusted for known significant spend components over which they had no real control. This resulted in a more realistic target, albeit an extremely challenging one and this is evident in the content in the attached templates.

4.3.4 It will be apparent from the figure at para 4.3.2 that Childrens' Services as the Council's largest Service has not yet managed to identify savings consistent with the 15% target and it is highly unlikely that it will be able to do so. Whilst this is attributable to large elements of fixed costs, notably the government requirement on teacher numbers and PPP/NPDO payments, it does mean that significantly disproportionate pressure is then put on the other Services, with important consequences for service delivery in these areas. It will be apparent in reading the individual templates attached that there are very few options which are painless.

4.3.5 The report to September Council anticipated that savings in the order of £15m would need to come from Service provision, with the £5m balance from other areas such as reserves. The total of all the Council's Service savings options identified to date at para 4.3.2 is £10.7m. Savings are still to be identified from Falkirk Community Trust, Integration Joint Board and External Organisations.

4.4 Engagement with Stakeholders

4.4.1 Flowing from today's meeting, information will be made available to the public about the savings options the Council will be considering. A range of channels will be used, including the Council's website, Falkirk Council News and the Citizens' Panel. There will also be engagement via Community Councils and Parent Councils for Education. The IJB will undertake consultation with service users, carers and key stakeholders. 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.

4.4.2 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 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.

4.5 Looking Forward

- 4.5.1 The Council's medium term financial planning and scenario planning is being developed and will feed into and inform the 2017/18 Budget process as it progresses. Moreover, the Council's Budget and forward planning processes will be informed by the priorities within the Strategic Outcomes Local Delivery Plan (SOLD) which is currently progressing through due process with the Council's Community Planning partners.
- 4.5.2 It is apparent from comments by Audit Scotland in their Best Value reviews, both specific to Falkirk and to councils generally, and the projected medium term financial climate for local government, that the Council is going to have to fundamentally review what Services it can afford to continue to deliver and how they are delivered. This essential project will stretch the resource capacity of the Council.

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 (EPIAs) are an integral part of the Budget process.

Sustainability/Environmental Impact

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

7. Conclusions

- 7.1 The report and attached templates bring formally to Members' attention Budget savings options identified to date by Officers. This will allow necessary EPIAs and consultations to be pursued and thus inform Member decision-making later in the 2017/18 Budget cycle. A further report will be presented to Council in December.

Director of Corporate & Housing Services

Author – Bryan Smail, Chief Finance Officer 01324 506300,
bryan.smail@falkirk.gov.uk

Date: 10 October 2016

Appendices

Service Savings Templates

List of Background Papers:

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

- None

Agenda Item 3

Falkirk Council

Title: Scottish Government Budget and Local Government Settlement 2017/18
Meeting: Falkirk Council
Date: 19 December 2016
Submitted By: Director of Corporate & Housing Services

1. Purpose of Report

- 1.1 The report advises Members of the key matters coming out of the Scottish Government draft Budget for 2017/18 which will impact on local government, together with the Local Government Financial Settlement for 2017/18. The latter, subject to the standard process of checking the figures, advises the Council's 2017/18 revenue support grant and thus establishes what the Council's Budget gap is for 2017/18.
- 1.2 The Settlement also advises the level of General Services Capital Grant for 2017/18.

2. Recommendations

- (1) Council is asked to note the Draft Scottish Government Budget and Local Government Settlement 2017/18
- (2) Council to determine whether a response is required to Mr Mackay's appended letter in terms of para 4.2.1

3. Background

- 3.1 The Revenue Budget 2017/18 report at item 4 on this agenda, noted that the timing of the Scottish Government announcement necessitated the need for this supplementary report. The former report provides Council with a broader context for considering both the Settlement itself and the Council's 2017/18 Budget position.

4. Considerations**4.1 Draft Scottish Government Budget 2017/18**

- 4.1.1 In his foreword to his draft Budget the Cabinet Secretary for Finance and the Constitution notes that, "these proposals are rooted in the priorities expressed in the Programme for Government published in September and the direction provided by Scotland's Economic Strategy and the National Performance Framework". Policy imperatives of inclusive economic growth, reforming public services and empowering communities are emphasised. Moreover, "Education is our Government's defining mission".

- 4.1.2 This is the first Budget in which the Scottish Government has wider powers over income tax under the Scotland Act 2016. The draft Budget proposes to freeze rates at 20, 40 and 45%. The higher rate threshold will increase by inflation and this differentiates Scotland from the rest of the UK treatment.
- 4.1.3 The Fiscal Framework and the Scotland Act 2016 increase the Scottish Government's capital borrowing limit to £3b with an annual limit of £450m. There are also new powers to borrow up to £600m per annum for resources (revenue) within an overall cap of £1.75b.
- 4.1.4 The previously announced City Region Deals including Stirling (and Clackmannanshire) and the Tay Cities (Perth & Dundee together with Angus and the north of Fife) are to be progressed. There is also encouragement for regions facing economic challenge to identify and deliver a vision for inclusive growth, beginning with the proposals being developed by the three Ayrshire Councils.
- 4.1.5 The draft Budget launches the £500m Scottish Growth Scheme which provides for digital investment to improve connectivity together with the provision of 50,000 affordable homes, including 35,000 for social rent, over the life of this Parliament.
- 4.1.6 In terms of Business Rates, the poundage will be 46.6p which matches the rate in England and represents a 3.7% reduction. The Large Business Supplement is set at 2.6p and with the threshold increased to £51,000. The Small Business Bonus Scheme threshold for 100% relief will rise to £15,000. The Scottish Government has committed to respond promptly to the Barclay review of business rates when it concludes in the summer.
- 4.1.7 With respect to Welfare Reform, funding is retained to support the Welfare Fund, mitigation of the "bedroom tax" and Discretionary Housing Payments. The draft Budget gives notice that using the new powers under the Scotland Act 2016 a new devolved social security system for Scotland will be developed.
- 4.1.8 The Scottish Government's Public Sector Pay Policy for Staff Pay Remits sets the framework for public sector pay and was published on 15 December 2016. The key elements of this policy are an overall cap of 1% on the cost of the increase in the baseline paybill for those earning more than £22,000, specific measures for supporting the lower paid, including providing for a minimum pay uplift of more than 1% and the intention to negotiate extensions to No Compulsory Redundancy agreements.

4.2 **Local Government Settlement**

- 4.2.1 The Settlement is set out in terms of Derek Mackay's letter dated 15 December 2016 to Leaders which is appended. Council will see at the bottom of the penultimate page of the letter that the offer "must be viewed as a package" and Councils "will not be able to select elements of the package". Any Council not agreeing to the full package is required to write to Mr Mackay no later than 13 January 2017 and with a consequential less favourable settlement resulting. The Settlement letter does not contain an explicit penalty regime in the manner of previous letters. The letter also "opens the way for a new partnership between the Scottish Government and COSLA".

- 4.2.2 The following paragraphs provide initial and high level comment on the elements of the Settlement.

Public Sector Reform

- 4.2.3 Continuing dialogue on this agenda is anticipated with COSLA. The Scottish Government has already advised that it is intending to pursue the de-centralisation of local government functions, financial and democratic oversight and reform of education to empower communities to drive improvement in schools.

Health & Social Care

- 4.2.4 The circular provides information on Integration Funding. The £250m allocated through NHS Board budgets in 2016/17 has been base-lined for 2017/18 and increased by a further £107m. This sum will once again be allocated to Integration Joint Boards via NHS Boards. At this stage, individual allocations have not been provided.
- 4.2.5 The additional £107m noted above is to meet the full year costs of delivering the living wage, sleepovers and sustainability and removal of social care charges for those in receipt of war pensions along with pre-implementation work in respect of the new carers legislation pressures. It is anticipated that further details on this funding will be available shortly.
- 4.2.6 Initial review suggests that the funding provided will be sufficient to cover the full year costs of the living wage for Falkirk Health and Social Care Partnership, but further analysis is being conducted.
- 4.2.7 The circular limits the adjustment that local authorities can make to their funding allocation to Integration Authorities. The limit is based on each local authorities' share of £80m below the level of budget agreed with the Integration Authority for 2016/17. At this time, Falkirk Council's allocation of the £80m has not been provided but it is estimated to be c£2.2m. No difficulties are anticipated with meeting this requirement in terms of the savings proposal submitted by the IJB for Council consideration.
- 4.2.8 Overall, the treatment of the Integration Funding is much more straight forward than last year and this is to be welcomed.

Education

- 4.2.9 A significant change in position has been advised with the additional council tax yield arising from the statutory changes to the higher bandings now being retained by local government. For Falkirk Council, this represents a very welcome c£2m. An enhanced sum of £120m will now be centrally funded and distributed directly to schools, via Councils as a ring-fenced grant, allocated on the basis of free school meals. This is part of the £750m Attainment Scotland Fund. "It is a condition of this agreement that this funding is additional to each Council's individual spending on schools rather than substitutional ...".
- 4.2.10 Councils are required to continue to maintain the overall pupil:teacher ratio at 2016/17 levels and secure places for all probationers who require one under the teacher induction scheme. In terms of the Settlement, this constrains the Council's actions on teacher numbers.

4.2.11 Additional funding outwith the Local Government settlement is also noted for the expansion of early learning and childcare to 1,140 hours. This includes £30m of revenue funding to support workforce development and capacity building and a further £30m to support infrastructure investment. The Scottish Government will engage with local authorities and COSLA over how this will be deployed.

Council Tax

4.2.12 After nine years, the Council Tax freeze has been lifted and councils now have the flexibility to raise the rate by up to 3%. A rise at the maximum level would yield an estimated £1.7m for Falkirk Council. Further reform of local taxation is flagged.

Revenue and Capital Grant Settlement

4.2.13 On 15 December 2016 the Scottish Government issued Finance Circular No. 9/2016 which provides local authorities with details of their provisional revenue and capital allocations for 2017/18.

4.2.14 As part of the Settlement arrangements, there is a checking process, led by COSLA, to review the provisional allocations and inform the Scottish Government by the 13 January 2017 of any discrepancies. Indeed the circular notes that the allocations for Strategic Waste Funds (both revenue and capital) will have to be revised. Therefore the circular properly stresses that the allocations detailed in the letter are very much provisional at this stage.

4.2.15 In his letter to Leaders, the Cabinet Secretary notes that overall package of proposals represents an increase of around 2.3% in comparison with 2016/17. This increase is disputed by COSLA, who point to the overall reduction in the grant of £350m. The difference in the two positions is (largely) explained by taking the overall grant (incorporating the £350m reduction) and adding back the increase in Council Tax of £181m, which includes the £111m from Council Tax reform and the 3% uplift, and the £107m to support the integration of Health and Social Care.

4.2.16 Falkirk's provisional revenue allocation is £261.457m, after adjusting for specific revenue grants of £6.361m which includes the school attainment fund and criminal justice funding. This is broadly consistent with our overall estimated reduction in grant of £10m and thus budget gap of c£20m, although subject to further checking and review.

4.2.17 The 2017/18 general capital grant settlement provisionally announced by the Scottish Government, does not include the 2016/17 re-profiling adjustment of £150m across all Councils. Falkirk Council's share of this is c£2.6m and Scottish Government has advised that this will be repaid in the next Settlement period 2018-20.

4.2.18 The 2017/18 settlement has been provisionally confirmed at £17.167m. In comparison to the 2016/17 grant, after amending for the re-profiling adjustment, this is an increase of c£0.4m which equates to 2.18%. Grant figures for 2018/19 and 2019/20 have not been announced but Scottish Government has indicated that they will adhere to their commitment to maintain the local government share of the overall Scottish Government capital budget.

5. Consultation

- 5.1 Consultation has taken place as an integral part of the broader Budget process.

6. Implications

Financial

- 6.1 The Settlement contains vital information informing Council's determination of the 2017/18 Revenue Budget.

Resources

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

Legal

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

Risk

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

Equalities

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

Sustainability/Environmental Impact

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

7. Conclusions

- 7.1 The draft Scottish Government Budget for 2017/18 reflects their grant settlement from Westminster and the Scottish Government's policy priorities, including protection for Health & Police.
- 7.2 The Council now has the key figures of its revenue and capital grants, subject to checking, and this will allow the progression of the 2017/18 Budget. It is clear that there is still a very significant challenge to achieve a balanced revenue Budget with a gap of c£20m to be addressed.
- 7.3 The Settlement is presented as a package, albeit this year without the range of explicit sanctions for non-compliance.

- 7.4 It is disappointing, if understandable, that there is only a one year Settlement as this is not conducive to medium term planning.
- 7.5 The Scottish Parliament will consider the draft Budget in February.

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Director of Corporate & Housing Services

Author –Bryan Smail, Chief Finance Officer, 01324 506300,
bryan.smail@falkirk.gov.uk
Date: 15 December 2016

Appendices

Letter from Scottish Government dated 15 December 2016

List of Background Papers:

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

- None



T: 0300 244 4000
E: scottish.ministers@gov.scot

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

Copy to: The Leaders of all Scottish local authorities

15 December 2016

Dear David

Thank-you to you, Cllr Cook and the COSLA political leadership for participating in negotiations over recent weeks on the shape of the Local Government settlement for 2017-18. I have sought to engage with you and your team on the basis of openness and mutual respect and with the intention of building relationships around shared ambitions for people and communities.

As a result of these negotiations, I am able to set out the package of proposals below which I believe are a fair and reasonable offer that delivers on our shared ambitions. This letter, therefore, contains proposals for the local government finance settlement for 2017-18 resulting from the 2016 Budget process.

While the terms of the settlement have been negotiated through COSLA on behalf of its member councils, the same proposal is being offered to those councils who are represented by the Scottish Local Government Partnership. I believe this proposal opens the way for a new partnership between the Scottish Government and COSLA and, from that, the wider benefits of partnership working, including joint work on public service reform.

The Scottish Government and local government share the same ambitions for stronger communities, a fairer society and a thriving economy. This funding proposal delivers a fair financial settlement for local government, which will be strengthened by our joint working to improve outcomes for local people by improving educational attainment and through health and social care integration.

Following the work of the joint Settlement and Distribution Group, details of the indicative allocations to individual local authorities for 2017-18 are also being published today as set out in Local Government Finance Circular No. 9/2016.

I have carefully 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 now invite local authorities to agree the terms of the settlement which are set out below.

Under the settlement we will look to all local authorities to work in partnership with the Scottish Government in pursuit of our Joint Priorities, including delivery of the Government's programme as set out in *A Plan For Scotland: The Scottish Government's Programme For Scotland 2016-17* published on 6 September and the *Draft Budget 2017-18*.

Renewing our partnership approach will enable close working on public service reform building on recent joint political and joint officer discussions.

On key priorities and following consideration of specific points you have raised I propose the following:

Public Service Reform

As an essential partner in the delivery of public services, the Cabinet sub-committee on Public Service Reform prioritised early discussion with COSLA to explore how we might work together around our shared priorities of health & social care, education attainment & governance, tackling inequalities & inclusive growth and enterprise, innovation, skills & employability. This political engagement and the productive discussions which followed at official level, including SOLACE, is an example of what we can achieve through a re-setting of partnership working at national level.

The Cabinet sub-committee anticipates further dialogue with COSLA on these emerging themes early in the New Year.

Health and Social Care

In 2017-18 an additional £107 million will be transferred from NHS Boards to Integration Authorities to protect our collective investment in social care. Of which, £100 million will support continued delivery of the Living Wage, sleepovers and sustainability in the care sector, and £7 million to disregarding the value of war pensions from financial assessments for social care and pre-implementation work in respect of the new carers legislation. This is additional to the £250 million added in the 2016-17 budget, bringing the total support available from the NHS through Integration Authorities to protect social care to £357 million. NHS contributions to Integration Authorities for delegated health functions will be maintained at least at 2016-17 cash levels. The provision included for sleepovers (£10 million) will be reviewed in year to consider its adequacy, with a commitment to discuss and agree how any shortfall should be addressed. To reflect this additional support local authorities will be able to adjust their allocations to integration authorities in 2017-18 by up to their share of £80 million below the level of budget agreed with their Integration Authority for 2016-17 (as adjusted where agreed for any one-off items of expenditure which should not feature in the baseline). Taken together, these measures will enable Integration Authorities to ensure the collective overall level of funding for social care is maintained at £8 billion. I am sure you would agree that that would be a significant achievement and reflects the shared priorities of local government, the NHS and the Scottish Government.