

The background of the slide features the coat of arms of the City of Vancouver. It is a shield divided into four quadrants. The top-left quadrant shows a sailing ship on the water. The top-right quadrant shows a stag's head with antlers. The bottom-left quadrant shows a beaver. The bottom-right quadrant shows a grizzly bear. Above the shield is a crown with four maple leaves. Below the shield is a banner with the motto "A NE FOR A".

Agenda Item 6

Financial Overview

Title: Financial Overview
Meeting: Falkirk Council
Date: 30 September 2020
Submitted By: Director of Corporate and Housing Services

1. Purpose of the Report

- 1.1 The main purpose of the report is to provide an updated assessment of the impact on the Council's finances in this unparalleled and uncertain time due to COVID-19. There is also some initial considerations for the budget planning process going forward.

2. Recommendations

2.1 The Council is invited to:

- (1) Note the updated assessment of the current financial year and to recognise the need for all Services to exercise effective financial control
- (2) Approve a revenue allocation of c£180k to provide school meal support during the October 2020 school holiday
- (3) Approve revenue funding of £300k in the current financial year to support the Economic Recovery Plan, with further funding considered as part of the 2021/22 and 2022/23 Revenue Budgets
- (4) Confirm to the Trust Board that the Council will fund the Trust's 20/21 covid driven deficit
- (5) Note the initial considerations of the MTFP and 2021/22 budget process
- (6) Agree the ZBB budget approach presented in the report
- (7) Agree that the Member Budget Working Group should now be reconvened

3. Considerations

3.1 General Fund

- 3.1.1 Appendix 1 sets out both General Fund net expenditure by Service and how it is financed. Movements between budget and projected outturn are expressed in monetary and percentage terms.
- 3.1.2 The net projected impact on reserves at 31 March 2021 is forecast to be a reduction of £0.928m. This is a significant improvement from the deficit of £12.4m (excluding HRA costs) reported to Members in June. The main reasons for the movement include the receipt of additional Scottish Government funding, operational savings and significantly reduced impact arising from COVID-19. This illustrates the scale of the uncertainty prevailing.

- 3.1.3 The significant variations are summarised for each Service below with further information on the financial movements from the June report detailed at Section 3.4.

Children's Services – (Over budget by £5.179m, 2.5%)

- 3.1.4 To date the Service is projected to incur £6.9m of additional costs related to COVID-19. Primarily this includes £1.3m for teaching and support staff, increased school operational costs (i.e. school transport, cleaning, school meals, food vouchers and learning materials) of £2.9m and residential care costs of £1.3m.
- 3.1.5 The projection also reflects the loss of income totaling £1.4m for services that were not fully provided during the lockdown, such as school meals, breakfast clubs, childcare fees and music tuition. Planned budget savings (see para 3.3.1) of £3.3m will also not be achieved.
- 3.1.6 In addition to the financial issues arising from COVID-19, there are other ongoing budget pressures. Increasing demand for children's residential care has added £0.6m of unbudgeted costs, which is over and above the £2.4m attributed to direct COVID-19 costs and unachievable closer to home savings. There is also an anticipated overspend on NPDO insurance contracts of £0.333m due to a change made by our provider's insurer in the method of calculating a rebate. This remains an ongoing matter being pursued by the Gateway Board and their insurers on how the rebate is calculated and as such the receipt of refunds due to the Council have not been assumed in this projection.
- 3.1.7 The budget pressures have been partially offset by Scottish Government funding of £4.8m. The additional government funding is noted below:
- In April £0.878m was received to support the provision of free school meals and food to the wider community. Since then a further £0.8m has been received. Member's will be provided with an update on the use of this funding in due course.
 - £1.5m over the next school year (c£1m for 2020/21 and c£0.5m for 2021/22) has been received for teachers and support staff. This will cover the cost of newly qualified teachers, which was not factored into the initial COVID-19 cost.
 - The Scottish Government recently announced a further £30m for additional teachers and support staff. Falkirk's share for 2020/21 is £0.6m and a further £0.3m in 2021/22
 - £20m for school operational costs (i.e. building cleaning and transport) and further £30m to be disbursed based on need. Falkirk's estimated share of these funding streams is £0.6m and £0.9m respectively
- 3.1.8 As noted in the previous report to the Emergency Executive in June, the Scottish Government has agreed flexibility can be applied to early years

funding. A total of £2.4m, including £1.7m carried forward from 2019/20 can be utilised to support the response to COVID-19 and services provided children of key workers and vulnerable children.

- 3.1.9 The Emergency Executive on 28 May 2020 agreed to pay all pupils in receipt of Clothing Grants or Educational Maintenance Allowance £3.50/day for school meals over the summer holiday period. This decision aligned with the same daily payment being made to cover the Easter holidays also. It is therefore proposed that all eligible pupils receive £3.50/day to cover the October holiday period. As schools this year will be closed from Monday 12 October to Friday 23 October (10 days) this will mean each eligible pupil receiving a payment of £35. The overall cost of this is estimated to be c£180k.

Development Services – (Over budget by £2.179m, 8.0%)

- 3.1.10 The Service is currently projected to be over budget by £2.179m. The main pressure is waste collection and treatment costs of £1.7m due to changes in operating arrangements arising from COVID-19. The restricted provision of services has also resulted in a projected loss of income of £0.5m, which includes car park income, planning fees and building warrants. These pressures are partially offset by operational savings of £0.4m.
- 3.1.11 The Council has developed a rent deferment scheme for commercial tenants who have fallen into rent arrears during the lockdown. The primary focus of this is to retain businesses within the portfolio which will mitigate vacancies and rental income loss. This area will continue to be monitored closely, but there appears to be good demand for industrial property and so far occupancy levels are better than maybe expected. The current projected shortfall in budgeted income is £0.3m.
- 3.1.12 Development Services has led the preparation of the Covid-19 economic recovery plan, agreed at Emergency Executive on 19 September. Economic recovery has been reinforced as a key priority in the recent consultation work undertaken with business and the wider community. The plan identified the need for additional resources to deliver on the measures contained in the plan, particularly to assist work relating to the Investment Zone, support for business, employability and town centres. Acknowledging the need to support this priority, it is proposed that revenue funding of £300k should be allocated (2020/21), with further incremental sums included in future Budget proposals, £500k (2021/22) and £500k (2022/23) to support the plan. Periodic reports on progress will be made to the Executive.

Corporate and Housing Services – (Under budget by £0.044m, (0.1%))

- 3.1.13 Projected additional expenditure arising from COVID-19 is £1.4m and includes a cost of £1m for personal protective equipment (PPE) for all Council Services. Loss of income of £0.5m is anticipated and includes printing charges, licensing fees and registration fees. This is being offset by operational savings arising from staffing vacancies. In addition a budget of £0.5m that was created to cover costs to consolidate the Scottish Local Government Living Wage will now not be required until next financial year.

Integrated Joint Board – (Over budget by £0.659m, 0.1%)

- 3.1.14 For 2020/21, a net sum of £68.965m (£67.224m from the General Fund) was passed to the IJB. It is for the IJB to manage its expenditure within the resources provided. Excluding additional costs associated with COVID-19, the latest finance report presented to the IJB on 4 September 2020 noted this delegated budget is projected to overspend by £0.659m.
- 3.1.15 In respect of COVID-19, the IJB is currently assuming that all additional costs, which includes the non-achievement of planned saving, associated with the crisis will be fully funded by the Scottish Government. The Council's financial exposure would be any additional costs and unachieved savings that were not covered by government funding. Of the planned savings only c£0.5m out of the £2.8m is currently deemed achievable.

Falkirk Community Trust – (Over budget by £1.384m, 12.7%)

- 3.1.16 FCT are currently projecting a deficit of £1.384m, which is a significant improvement from the £3.2m deficit reported in June. The main reasons are additional funding from the Job Retention Scheme, further modelling of income once facilities open and higher operational savings.
- 3.1.17 The most significant reason for the deficit of £1.384m is the loss of customer income due to the closure of facilities during the lockdown period. As sites reopen, it also is expected that it will take a considerable period of time to return to the levels of income previously received. In comparison with a budget of £7.4m, projected operational income is only around c£1.3m for the current financial year.
- 3.1.18 Lower operational costs as a result of the lockdown have helped to mitigate the loss of income. If the Trust can maintain these savings and operate within a pro-rata share of the remaining operational budgets as facilities reopen, the total projected operational savings are c£3m.
- 3.1.19 Significantly, the Trust has also successfully applied for additional support through the UK Government's Job Retention Scheme. The scheme is aimed at maintaining the current workforce by placing employees on furlough and then applying for a grant that covers 80% of employees' usual monthly wage costs, up to £2,500 a month plus associated employee national insurance contributions and minimum employee pension contributions. The Scheme is due to end in October and changes from August will reduce the amounts payable by the Government each month. However, it was also announced a Job Retention Bonus will result in a one-off payment of £1,000 for every employee furloughed and remains in continuous employment with the Trust through to 31 January 2021.
- 3.1.20 Based on the current planned reopening dates, the expected grant funding, from both Government Schemes is £2.5m. If any of the sums paid were to be recovered by the Government at a later date, then a net cost will arise. The maximum exposure could be the equivalent value to lost monthly income of £0.750m less any operational savings.

3.1.21 Given that like the Council, the Trust budgeted for a balanced position at the start of the financial year the Trust Board are seeking formal confirmation that the Council will cover the COVID-19 driven year end deficit. Whilst this is the anticipated position, Council is asked to confirm this is the case. The letter from the Board is attached at Appendix 2.

Capital Financing Costs – (Under budget by £0.293m, (2.5%))

3.1.22 Ongoing debt restructuring and management will result in loan charge savings of £0.293m.

Revenue Support Grant – (Over budget by £9.193m, (3.1%))

3.1.23 The Council's Revenue Support Grant is currently expected to increase by £9.193m in response to COVID-19. This incorporates the following funding streams that were noted in the June report

- £4.485m, funding reflects the Council's share of £155m and will be applied to cost pressures arising from the crisis
- £1.447m from the Hardship Fund. This is a discretionary fund and no specific purpose has been identified. This will be applied to general cost pressures arising from the crisis, although there was a notional allocation to meet excess food costs. As noted at para. 3.1.7 an update report will be provided to Members on the use of the food funding.

3.1.24 A further announcement of a new funding package for councils in England also generated £49m of revenue consequential for Scotland. Falkirk's estimated share is £1.416m and again will be applied to general cost pressures that are arising from the crisis.

3.1.25 The package in England also included a new income loss scheme, where councils would be compensated for the loss of their budgeted fees and charges. The current projected loss of income for Council Services is £2.5m. If an income loss scheme comparable to England is implemented, then losses over 5% of budgeted fees and charges will be compensated for 75p in every pound lost. This scheme could potentially reduce the impact of lost income by £1.792m.

3.1.26 It should be noted the scheme in England currently excludes commercial rent income and lost income for ALEOs (i.e. Falkirk Community Trust). Discussions are ongoing with the Scottish Government to design and develop for Scotland that would include lost income for ALEOs.

3.1.27 Cosla's Local Government Finance Team together with Directors of Finance has also been discussing with the Scottish Government a range of options to help alleviate the financial pressures in both the current and next financial years. There were a number of requests made to the Scottish Government, which included looking for flexibility to defer debt, use borrowing to fund revenue costs, and apply capital grant to revenue costs.

3.1.28 Four options have now been presented to the UK Government, although in the view of the Scottish Government only one requires specific approval. A copy

of the letter to the Chancellor of the Exchequer is attached at Appendix 3. Once the outcome from these discussions are known, officers will evaluate how any such flexibility might best be deployed. Members will be updated in due course.

- 3.1.29 COSLA also confirmed a commitment to work Jointly with the Scottish Government to review whether there is a need for further funding once costs become clearer over the next few months.

Council Tax (Under budget by £0.500m, 0.7%)

- 3.1.30 At the Emergency Executive in June it was reported that the expected growth in Council Tax base (which is number, and band, of properties less any reliefs) this year to be around £0.150m below budget estimate and that remains the case.
- 3.1.31 However, there has been an improving position in terms of collection and, while situation remains challenging, it is now estimated that the likely value of any additional bad debt is now likely to be a maximum of £0.350m, and not the £0.900m referenced in June report. The total financial impact of Covid on Council Tax is now estimated at a maximum of £0.500m.
- 3.1.32 All recovery action has recommenced, but in a sensitive manner, and a limited number of accounts, where taxpayer has not engaged, have progressed to Summary Warrant stage of recovery and will be passed to the Sheriff Officer to pursue.
- 3.1.33 At the end of May the amount of council tax uncollected was £1m higher than equivalent point in 2019 but that deficit had reduced to £0.890m by end of July, with the recovery actions taken helping to improve the overall position.

3.2 Trading Account

- 3.2.1 Normally the General Fund receives a share of surpluses on work undertaken by the BMD. Given the BMD's work programme has been severely restricted by the current crisis and the current BMD trading account is showing a deficit of £2.7m, there is little prospect of surpluses being generated. This will result in a cost to the General Fund of £0.5m.

3.3 2020/21 Agreed Savings

- 3.3.1 In light of the current crisis, Services reported to the Emergency Executive in June the deliverability of savings for 2020/21. Overall there is no substantial changes to the position that was previously reported in June. The status of savings is detailed at Appendix 4 and summarised in the table below.

	Savings Agreed £'000	Savings Achievable £'000	Net Cost/ (Saving) £'000
<u>Agreed Savings</u>			
Childrens Services	(6,204)	(2,889)	3,315
Development Services	(2,380)	(1,673)	707
Corporate & Housing Services	<u>(1,547)</u>	<u>(1,122)</u>	<u>425</u>
	(10,131)	(5,684)	4,447
<u>Service Operational Savings</u>			
Property Savings	-	(142)	(142)
HRA Recharges	-	(70)	(70)
Misc Supplies & Services	-	<u>(70)</u>	<u>(70)</u>
	-	(282)	(282)
<u>Council Wide Savings</u>			
Living Wage	-	(500)	(500)
Non Domestic Rates	-	(180)	(180)
Loan Charges	-	<u>(293)</u>	<u>(293)</u>
	-	(973)	(973)
Sub Total Savings	-	(1,255)	(1,255)
Overall Totals	(10,131)	(6,939)	3,192

- 3.3.2 The report in June also identified new savings proposals totalling £0.668m that required Member's approval. It was agreed that that these savings would not be taken forward at this time to allow further work to be done on the Council priorities, on recovery plans and the evolving financial position.

3.4 General Fund Reserves

- 3.4.1 The current estimated full year financial effect on the General Fund is as noted earlier a reduction of £0.928m. This is a significant improvement from the position reported in June, reflecting additional Scottish Government Funding and lower covid impact than previously projected as detailed in Section 3.1. The table below provides a comparison with the position reported in June

	June £'000	Current £'000	Diff £'000
Government Funding	(7,425)	(14,552)	(7,127)
Loss of Income:-			
Service Fees and Charges	4,000	2,515	(1,485)
Council Tax	1,000	500	(500)
Commercial Rents	1,100	273	(827)
Additional Costs	6,600	6,957	357
Budget Savings Not Achieved	4,485	4,447	(38)
New Budget Savings	(1,923)	(1,255)	668
Integration Joint Board	1,400	659	(741)
Falkirk Community Trust	3,200	1,384	(1,816)
Overall Net Cost	12,437	928	(11,509)

Note – The difference between the figure of £14.187m is costs (repairs and bad debts) attributable to the HRA

3.4.2 Appendix 1 shows a projected General Fund balance of £8.462m, an decrease of c£0.928m. The balance is still comfortably within the 2% policy range of annual revenue expenditure (giving a range of £7.5m-£11m) and is there to continue help mitigate the pressures flowing from the current crisis. It is important to note that the covid driven crisis will last for several years at least, witness the projected unemployment levels, and it is essential that reserves are maintained to deal with this rolling pressure. It is also important not to lose sight of the other, non covid, pressures that will place a strain on reserves eg child abuse claims. As demonstrated by the significant movement in the projection from June, the financial position is very volatile and will need to be monitored closely over the coming months as circumstances can change very quickly.

3.4.3 The actual year end deficit will be managed by a combination of financial prudence by Services, harnessing of approved Fiscal Flexibilities and as needed a prudent application of reserves.

3.5 Housing Revenue Account (HRA)

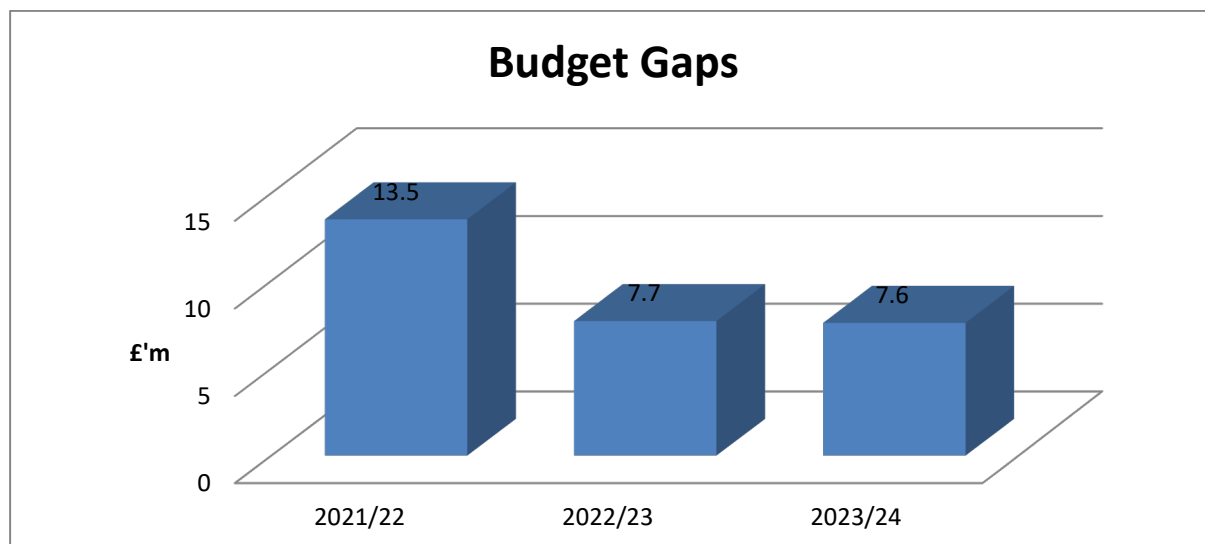
3.5.1 Overall, the HRA spending of £64.607m (Appendix 5) is c£2.4m below the budgeted sum of £67.033m. The figure for the HRA incorporates the costs of additional temporary accommodation of £1.5m and increase in the housing rents bad debt provision of £0.6m due to COVID-19. In addition this also absorbs the BMD projected deficit of £2.7m. This follows agreement between COSLA and Audit Scotland that even if works are not carried out, the relevant costs (primarily employee costs and overheads) can still be charged to the HRA.

- 3.5.2 The overall budget saving of c£2.4m primarily reflects a reduction in the repair work undertaken of £4.446m, savings in employee costs of £0.721m and capital charges of £0.645m, offsetting the additional costs of Covid-19 (included within supplies and services), increased support services (£0.350m), reduced house rents/other income (£0.300m) and increased bad debt provision (£600m).
- 3.5.3 Similar to Council Tax there has been an improvement in the trend of rent arrears. The estimate for the increase in bad debt that will ultimately have to be written-off is now £600,000, rather than the £950,000 reported in June.
- 3.5.4 All tenants who have fallen into arrears have been contacted and offered support and advice to those who had difficulty in catching up with the rent that was overdue. This has been relatively successful but in a small number of cases the legal process has commenced by servicing a Notice for Recovery of Possession and these notices will be issued, only where absolutely essential, from September onwards. These notices offer tenants an opportunity to resolve matters before court action commences.
- 3.5.5 At all stages the eligibility for tenants to receive help from Tenancy Support Fund, or through any other available means is assessed, along with the offer of specialist Debt Advice where appropriate.
- 3.5.6 The reserves balance brought forward at 1 April 2020 was £5.093m and it is anticipated that the current year surplus will increase reserves to £7.519m at 31 March 2021.

3.6 Medium Term Financial Plan

- 3.6.1 Based on updated assumptions, and most particularly of the key variables of revenue support grant, pay and demographic cost drivers, revised projected Budget Gaps have been estimated. In addition to a base projection for the next three years, outlier projections will also be estimated to reflect more optimistic and pessimistic assumptions. These will change over time and updated Budget Gap estimates will be provided. This approach of scenario planning is suited to an environment where significant uncertainty prevails.

- 3.6.2 The graph below shows the base or central projections.



3.6.3 From 2021/22 the aggregate of these estimated Budget Gaps amounts to c£29m. Importantly, it is highlighted that these annual Gaps already reflect a 3% rise in council tax. Identifying how these Gaps are to be bridged in a credible, robust and timeous manner is the key challenge of the Business Plan and Finance is working with colleagues to establish how this may best be achieved. The Fiscal Flexibilities may offer the option to be harnessed in 2021/22 and this will be explored. It will be evident that a significant range of options will need to be identified for Member consideration, and in turn Members will need to make very difficult decisions to ensure the Council achieves a balanced Budget whilst delivering its Corporate Plan and key priorities within the envelope of the resources available. It would be sensible for the Member Budget Working Group to convene in the near future to start work on these challenges.

3.6.4 Flowing from the February Council Budget meeting Members want to pursue a Zero Based Budget (ZBB) approach and mandated officers to explore this. Corporate Management Team considered this and with particular guiding criteria, notably the process needs to be tailored to be effective in Falkirk and should be as streamlined and as non-bureaucratic as possible. Moreover, there is a clear expectation this approach would identify substantial savings options for Members to consider. The suggested approach was shared with Members at the recent series of Workshops.

3.6.5 A three strand approach is proposed:-

a) Identify the Council's areas of Discretionary spend i.e. the areas which albeit provide valuable services, the Council is not required to provide. This readily aligns with the essence of ZBB.

b) The ZBB approach is formally integrated into existing and future Council of the Future projects

c) Service areas are targeted for in-depth reviews. It is suggested that this should start with the Council's largest area of expenditure, Education, and that primary schools could be the specific area. This would be supplemented by a second more cross-cutting review of Transport. If Members were agreeable to those two initial projects, Member suggestions for further areas would be pursued.

4. Consultation

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

5. Implications

Financial

5.1 The financial implications are detailed within the report.

Resources

- 5.2 There are no resource implications arising from the report recommendations.

Legal

- 5.3 There are no legal implications arising from the report recommendations.

Risk

- 5.4 The report has flagged significant risks to the financial sustainability of the Council.

Equalities

- 5.5 EPIAs, as appropriate, were carried out as part of the Budget process which led to the approved Budget Savings and are updated as appropriate.

Sustainability/Environmental Impact

- 5.6 A sustainability assessment was not required.

6. Conclusions

- 6.1 The projected financial position for the current financial year has significantly improved. The deficit of c£1m can be managed by a judicious combination of effective financial control by Services, implementation of the expected Fiscal Flexibilities and if necessary application of reserves.
- 6.2 Whilst the position for the current financial year now looks manageable, a major challenge looms in the next financial year with a significant deficit to be bridged. Work on that needs to start now. This report has presented proposals to implement a form of ZBB which will help with that task. Some application of Fiscal Flexibilities may also be an option.

Director of Corporate & Housing Services

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Date: 9 September 2020

APPENDICES

Appendix 1 – General Fund Outturn Statement 2020/21

Appendix 2 – Letter from Falkirk Community Trust

Appendix 3 – Scottish Government Letter to Chancellor of the Exchequer

Appendix 4 – Savings Assessments

Appendix 5 – Housing Revenue Account 2020/21

FALKIRK COUNCIL

GENERAL FUND

PROJECTED REVENUE OUTTURN STATEMENT 2020/21

	Budget	Projected	(Fav)/ Adv		Previous
	£'000	Outturn	£'000	%	(Fav)/ Adv
		£'000			Variance
					£'000
Childrens Services	208,411	213,590	5,179	2.5	-
Social Work - Adult Services	3,692	3,692	-	-	-
Development Services	27,404	29,583	2,179	8.0	-
Corporate & Housing Services	34,676	34,632	(44)	(0.1)	-
Trading Accounts	(503)	-	503	(100.0)	-
Sub - Total	273,680	281,497	7,817	2.9	-
Falkirk Community Trust	10,896	12,280	1,384	12.7	-
Valuation Board	1,392	1,392	-	-	-
Integration Joint Board	67,222	67,881	659	1.0	-
Earmarked Funds	(2,571)	(2,571)	-	-	-
Capital Financing Costs	11,576	11,283	(293)	(2.5)	-
NET EXPENDITURE	362,195	371,762	9,567	2.6	-
Financed By :					
Revenue Support Grant	246,424	255,563	(9,139)	(3.7)	-
Non-Domestic Rates	46,281	46,281	-	-	-
Council Tax	69,490	68,990	500	0.7	-
NET INCOME	362,195	370,834	(8,639)	(2.4)	-
SURPLUS/(DEFICIT)	-	(928)	928	0.3	-
Add : General Fund Surplus as at 1 April 2020		9,542			
Transfers (to)/from Earmarked Funds		-			
General Fund Balance as at 31 March 2021		8,614			
Reserves Strategy Policy - Range	7,500 - 11,000				

Enquiries to: Maureen Campbell
Direct Dial: 01324 590902
Date: 1st September 2020

Bryan Smail
Chief Finance Officer
Falkirk Council
Municipal Buildings
Falkirk

Dear Bryan

Request for Confirmation of Financial Support 2020/21

Thank you very much to you and Kenneth for attending part of our Board meeting held on 27 August 2020. The update on the Council strategic plans and financial position was much appreciated.

Your comments acknowledging the Council's awareness of our financial position and our earlier dialogue around ongoing financial support to ensure that we are able to continue trading was helpful.

The Board have asked that I write to you to seek written confirmation of the ongoing support of the Council to meet any shortfall at the year end. As noted in our most recent financial statement we are currently estimating a shortfall of £1.4m. This takes account of the use of the Job Retention Fund Scheme, grant funding attracted, reductions in expenditure during the period we were closed and has very modest assumptions about income derived from customers between reopening and the end of the current financial year.

You will appreciate that the figure of £1.4m is an estimate and may change in a range of scenarios, however the steps we have taken to date have significantly reduced the much larger estimate reported to you in the first quarter of the year.

I will continue to keep you apprised of our financial position and any further external support that may help mitigate the funding required from the Council.

Should you require further information please let me know. I look forward to hearing from you

Yours sincerely

Maureen Campbell OBE

Chief Executive

arts heritage libraries fitness sport parks outdoors

Rùnaire a' Chaibineit airson Ionmhas
Ceit Fhoirbheis BPA
Cabinet Secretary for Finance
Kate Forbes MSP



Scottish Government
Riaghaltas na h-Alba
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Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

9 September 2020

Dear Rishi,

Councils have played a crucial role in supporting local communities throughout the pandemic. I recognise and welcome the additional funding for Councils already announced by the UK Government to help meet their additional costs, together with the lost income scheme to address the additional financial impact on Councils of lost income from sales, fees and charges. As you would expect during this difficult period, there remains unmet funding pressures for Scottish Councils both in the short term for the immediate mobilisation effort and as we move into the recovery phase in the medium term.

While drawdowns from reserves may be sufficient to make a contribution for a number of Councils to address these, particularly high pressures or low reserves mean this is unlikely to be enough for all Councils. In the absence of further additional funding other financial flexibilities are necessary.

We have worked jointly with the Convention of Scottish Local Authorities (COSLA) to identify a package of financial flexibilities for our Councils to address the funding pressures they face due to COVID. None of these flexibilities are for additional funding, but they are vital if we are to ensure our Councils remain financially sustainable and critically to protect local services as Councils seek to balance their budgets and support the recovery phase.

Our assessment is that none of these measures should adversely impact the Scottish Budget. With the exception of the Capital Grant/borrowing proposal, which requires your formal approval, the three remaining proposals are in our view within Scottish Ministers' gift and an exercise of our powers. However, given the nature and scale of the financial flexibilities, to be transparent and ensure there is no risk to the Scottish Budget, we are sharing with you details of our proposed measures.

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire
Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh www.lobbying.scot

Scottish Ministers, special advisers and the Permanent Secretary are covered
by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

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Capital Grant/Borrowing

The Scottish Government provides Councils with a non-specific General Capital Grant to fund capital expenditure. In 2020-21 this grant totals some £468 million. During lockdown the construction sector came to a complete standstill for four months, and as a result Councils are seeing underspends against their current capital budgets due to the resultant slippage of projects which cannot be recovered in the current financial year.

Our preference is to allow Councils to spend up to £156 million ($£468 \text{ million} \times 4/12$) of the capital grant to fund revenue pressures arising from COVID. Due to significant COVID pressures on the Scottish Government's resource position, we do not have scope to manage this switch within our current budgetary allocations and are therefore seeking for this transfer to be undertaken by offering up to a £156 million underspend in the overall Scottish capital budget.

Alternatively, we ask that our Councils can borrow for COVID revenue funding pressures, up to £156 million. We recognise that allowing our Councils to borrow for revenue purposes is cost neutral for the Scottish Government budget only where the UK Government includes this as a facility within the Scottish Government Spending Review. In the absence of such a facility such borrowing is conditional on Scottish Government budget cover equal to the amount of borrowing being permitted. We would therefore provide a corresponding underspend of £156 million within the overall Scottish capital budget.

Capital receipts received in 2020-21 and 2021-22

There is precedent for allowing capital receipts to meet significant one-off revenue funding pressures, and COVID related costs meet the usual criteria. Whilst COVID has also had an impact on the sale of assets, permitting this facility over two financial years will support Councils with their financial recovery from COVID.

Credit arrangements

From 2021-22 the public sector will adopt a new accounting standard – IFRS 16 Leases. IFRS 16 introduces a new lease definition with an increased focus on control of the underlying asset. This sees most leases on-balance sheet with the lessee recognising a right-of-use (ROU) asset and a lease liability. The IFRS 16 approach is to treat the transaction as a purchase of an asset on a financed basis.

This will mean a local authority will be required to recognise additional assets on its balance sheet, and at the same time this will bring these assets within the scope of the statutory capital framework. This will further increase the complexity of local authority accounts. We are seeking to reform the statutory framework for leases by reverting back to proper accounting practices, that is no statutory adjustments for leases.

Service concession arrangements are akin to a lease. The statutory intervention on service concession arrangements in Scotland was introduced in 2010 to address a financial impact when service concession assets, mostly schools, were first brought onto a local authority's balance sheet. The current statutory arrangements require the repayment of the liability to be charged to the revenue account over the contract period, usually 25 years. Accounting standards allow depreciation of the asset to be over the useful life of the asset where the asset will remain with the authority at the end of the contract period.

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire
Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh www.lobbying.scot

Scottish Ministers, special advisers and the Permanent Secretary are covered
by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot



For consistency we wish to see the statutory reforms, i.e. reverting to accounting standards, being applied to all leases and service concession arrangements. We have assessed that this will generate a saving for Councils, as the cost is spread over the useful life of the asset rather than the contract period. Allowing a local authority to revert in either 2020-21 (early) or 2021-22 (as planned) will allow any saving arising from the restatement to be available to fund the financial impact of COVID.

Loans fund repayment holiday

The statutory arrangements for the repayment of borrowing in Scotland, like the English minimum revenue provision (MRP), requires a local authority to make an annual repayment they consider prudent. As an exceptional measure we plan to allow a local authority to take a loans fund repayment holiday, the maximum permitted being the planned repayment for 2020-21, which is estimated at some £400 million. A council will be required to repay the missed payment within the period of the loan fund advance but, where the loan period exceeds 20 years, within 20 years.

Each council is facing different financial pressures arising from COVID, and by offering a package of financial flexibilities to Scottish Councils we consider this will enable them to tailor a financial solution that fits their circumstances.

Councils are currently reworking their budgets to take into account the financial impact of COVID and are therefore looking for some certainty as to the funding and financial flexibilities available to them to manage their financial position. I would like to be able to be in a position to confirm these flexibilities before the end of September, i.e. the financial year midpoint, to provide Councils with the certainty they need as they are now urgently engaged in reviewing their budget plans and the options they will need deploy to reach a balanced position. I would therefore request your early response to my capital grant/borrowing proposal, and a confirmation that there is no risk to the Scottish Budget from our other proposals.

I can confirm that the financial flexibilities contained in this letter are being proposed following full and comprehensive discussions with COSLA, on behalf of all 32 local authorities in Scotland, and they are in full support of me making this request. To reach this point, I have been working closely with COSLA's Resources Spokesperson Councillor Gail Macgregor, who is writing to you separately to confirm their position and full support for the financial flexibilities outlined in this letter.

I trust this letter is helpful in informing you of our intentions and look forward to an early response. I am happy to discuss any aspects with you or the Chief Secretary who I have copied this letter to.

KATE FORBES

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire
Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh www.lobbying.scot

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INVESTORS
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No	Year	Ref	Description	Agreed		Deliverability		
				Savings £'000	FTE Impact			
1	20/21	CS21	Support and Learning Review of Additional Support Needs Services	427	2.0		276	151
2	20/21	CS25	Review and Reduction of Childrens Services Central Support Staff	72	2.0			72
3	20/21	CS26	Fees and Charges	75	0.0	75		
4	20/21	CS29	Secondary and Digital Learning Review	380	9.7			380
5	20/21	CS30	Primary Learning Review	367	7.6			367
6	19/20	CS12	Reprovisioning of the School Estate-Mothballing. Full Year Effect of 2019/20 Budget decision	76	0.0			76
7	19/20	CS13	ELC-Realignment of Early years Peripatetic Team. Full Year Effect of 2019/20 Budget decision	225	6.5			225
8	19/20	CS15	Secondary Savings Target - Re-provisioning of school registration process. Full Year Effect of 2019/20 Budget decision	261	0.0			261
9	19/20	CS16	Adjusting the demogaphic growth projections within secondary schools. Full Year Effect of 2019/20 Budget decision	151	0.0			151
10	19/20	CS18	Primary Savings Target - Redesign of teaching support in nursery classes. Full Year Effect of 2019/20 Budget decision	315	0.0			315
11	19/20	CS19	Primary Savings Target - Removal of additional discretionary support classess. Full Year Effect of 2019/20 Budget decision	109	0.0			109
12	19/20	CS28	Closer to Home - Social Work Childrens Services. Shifting the balance of care and external provision to support children	1,879	0.0	1,097		782
13	20/21		Demographics and Inflation rebasing	1,867	0.0	1,867		
				6,204	27.80	3,039	276	2,889

Assessment of 2020/2021 Agreed Savings Options
Development Services

No	Year	Ref	Description	Agreed		Deliverability		
				Savings £'000	FTE Impact			
1	20/21	DV9	Review of the Waste Strategy	65	1.00			65
2	20/21	DV31	Staff reduction within the Planning and Environment Unit.	30	1.00			30
3	20/21	DV36	Smart Working Smart Travel Project	200	0.00		200	
4	20/21	DV43	Review of Cemeteries and Crematorium operations	34	0.00			34
5	20/21	DV44	Staff reduction in waste Services	90	2.00			90
6	20/21	DV45	Savings through improved efficiency of service - Roads and Grounds Maintenance	155	2.00	132	23	
7	20/21	DV46	Reform of the Planning and Building Standards Service	186	2.80		186	
8	20/21	DV47	Staff savings through improved efficiency of design, Roads and Transport Services	100	1.50			100
9	20/21	DV48	Review of short term vehicle/plant hires	50	0.00			50
10	20/21	DV50	Reduce revenue budgets in Planning & Environment Unit	54	0.00			54
11	20/21	DV55	Reduce the NHSFV travel contractover provision	39	0.00			39
12	20/21	DV61	Electric Vehicle (EV) chargepoint income	10	0.00		10	
13	20/21	DV63	Cemeteries and Crematorium staff Savings	31	0.65	31		
14	20/21	DV64	Reduction in Roads Maintenance Budget	110	0.00			110
15	20/21	DV66	Reduction in Overtime Working - Roads Maintenance	200	4.00	100		100
16	20/21	DV67	Reduction in Overtime Working - Grounds Maintenance	50	1.00	25		25
17	20/21	DV68	Staff reduction in Environmental Health services	50	1.00			50
18	20/21	DV75	Review of commercial property and asset management - third party payments	32	0.00			32

Assessment of 2020/2021 Agreed Savings Options
Development Services

No	Year	Ref	Description	Agreed		Deliverability		
				Savings £'000	FTE Impact			
19	20/21	DV79	Commercial property & Asset Management Unit staff savings.	70	1.50			70
20	20/21	DV80	Commercial property & Asset Management review of head leases.	58	0.00			58
21	20/21	DV81	Commercial property & Asset Management savings in supplies & services	20	0.00			20
22	19/20	DV37	Savings from installing LED street lighting	199	0.00			199
23	20/21		Inflation Rebasing	547	0.00			547
				2,380	18.45	288	419	1,673

Assessment of 2020/2021 Agreed Savings Options
Corporate & Housing Services

No	Year	Ref	Description	Agreed		Deliverability		
				Savings £'000	FTE Impact			
1	20/21	CHS4	Procurement savings from supplier contracts	300	0.0	200		100
2	20/21	CHS5	Increased income from contract rebates and prompt payment of invoices	79	0.0	79		
3	20/21	CHS7	Procurement - staffing - vacancy management	25	0.5			25
4	20/21	CHS12	PT&I Staffing Restructure	98	1.0			98
5	20/21	CHS41	Absence Service Review	134	-			134
6	20/21	CHS47	Increased fee income - licensing and registration	18	0.0	9		9
7	20/21	CHS48	Increased legal fee income	12	0.0	6		6
8	20/21	CHS54	Increase vacancy management	16	0.0			16
9	20/21	CHS55	Licensing digital channel shift	28	1.0	28		
10	20/21	CHS60	Health & Safety Incident Reporting System	30	1.0			30
11	20/21	CHS61	Self-service payroll support	25	1.0			25
12	20/21	CHS69	Reduction in customer and business support staffing levels	527	24.0	50		477
13	20/21	CHS72	Reduce audit and checking undertaken on the payroll	25	1.0			25
14	20/21	CHS82	Extend purchase of annual leave	20	0.0			20
15	20/21	CHS85	Digital subscriptions	3	0.0			3
16	20/21	CHS86	Telecoms - Review Provision of Telephony	53	0.0	53		
17	20/21	CHS90	Savings from lower commission on debt recovery	54	0.0			54
18	20/21	CHS93	Staff savings - Communications & Participation	21	-			21

Assessment of 2020/2021 Agreed Savings Options
Corporate & Housing Services

No	Year	Ref	Description	Agreed		Deliverability		
				Savings £'000	FTE Impact			
19	20/21	CHS95	Staff savings - Policy & Community Planning and Welfare Reform	21	0.5			21
20	20/21	CHS96	Staff savings - Governance	18	0.5			18
21	20/21		Inflation Rebasing	40				40
				1,547	30.50	425	0	1,122

				Alternative Savings		Deliverability		
				£'000	FTE Impact			
22			20/21 Property Savings for Bo'ness/Camelon One-stop shop (one year only - underspend)	142				142
23			Miscellaneous Supplies & Services	70				70
24			Recharge to HRA	70				70
				282				282

425	0	1,404
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FALKIRK COUNCIL

HOUSING REVENUE ACCOUNT

PROJECTED REVENUE OUTTURN STATEMENT 2020/21

	Budget	Projected	(Fav)/ Adv		Previous
	£'000	Outturn	Variance		(Fav)/ Adv
		£'000	£'000	%	Variance
					£'000
Employee Expenses	8,421	7,700	(721)	(8.6)	-
Property Expenses	24,867	20,421	(4,446)	(17.9)	-
Transport Expenses	30	20	(10)	(33.3)	-
Supplies and Services	4,051	6,667	2,616	64.6	-
Third Party Payments	1,850	1,980	130	7.0	-
Support Services	4,746	5,096	350	7.4	-
Capital Charges	21,954	21,309	(645)	(2.9)	-
Sub-Total	65,919	63,193	(2,726)	(4.1)	-
Integration Joint Board	1,414	1,414	-	-	-
Compensatory Lump Sums	-	-	-	-	-
Gross Expenditure	67,333	64,607	(2,726)	(4.0)	-
Income	67,333	67,033	(300)	(0.4)	-
Surplus/(Deficit)	-	2,426	2,426		-
Add: Surplus brought forward at 1 April 2020		5,093			
Projected Surplus at 31 March 2021		7,519			