



Report

Report to:	Executive Committee
Date of Meeting:	27 June 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	2019/2020 Revenue Budget Strategy and Savings Requirement
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1. Purpose of Report

1.1. The purpose of the report is to:

- ◆ provide a Revenue Budget Strategy for the Council for 2019/2020. The report sets out the principles and the assumptions which have been adopted to construct the revenue budget for 2019/2020.
- ◆ advise on the savings requirement for 2019/2020.

2. Recommendation(s)

2.1. The Committee is asked to note the following recommendation(s):

- (1) that the Revenue Budget Strategy for 2019/2020, as detailed in the report to arrive at the 2019/2020 savings requirement, be approved;
- (2) that the estimated savings requirement for 2019/2020 (conditional on grant allocation), before any corporate solutions, of £18.3 million (section 6.1), be noted; and
- (3) that the proposal to prepare and present a package of savings to members by Autumn 2018, be approved.

3. Background

- 3.1. This paper will look at the Revenue Budget Strategy for 2019/2020, and will include estimation of grant levels, requirement for additional expenditure budget, and ultimately the estimated level of savings required over these years.
- 3.2. At the end of May the Scottish Government published a Fiscal Outlook report which included their medium term financial strategy. This document can be accessed using the following link <http://www.gov.scot/Resource/0053/00535972.pdf>. The Council will consider the potential impact of this on future budgets and a longer term financial strategy will be presented to Executive Committee on 15 August 2018, and it is intended to hold a members briefing session on the Strategy prior to this meeting.
- 3.3. This 2019/2020 Savings Requirement paper will cover:-
- ◆ Grant Estimations (section 4)
 - ◆ Other Budget Movements (section 5)
 - ◆ Savings Requirement (section 6)
 - ◆ Summary and Next Steps (section 7)

4. Grant Estimations

- 4.1. The fact that the level of grant the Council will receive is at this point unknown makes it difficult to form a Budget Strategy with any degree of certainty. It is likely that we will not be advised of our grant for 2019/2020 until at least the middle of December 2018.
- 4.2. As has been the case in recent years, to progress with budget planning, information provided to the CIPFA Director of Finance Group has been used to assist in estimating the grant levels going forwards. There are a number of variables that will affect the level of funding that we receive (including UK and Scottish Government budget decisions), therefore at this stage, we cannot predict grant levels with any accuracy.
- 4.3. A range of options have been provided, based largely around predictions on the level of Non Domestic Rate Income increases that may be seen by the Scottish Government, and also an estimate of what may be an appropriate level of general revenue grant reduction.
- 4.4. The range of options point towards a wide range of potential grant movement for the Council ranging between a reduction of £5 million, to an increase of £13 million. To be prudent a level of grant cut of **£5 million** is assumed within the planning assumptions for 2019/2020.
- 4.5. There are other factors which will affect the level of grant the Council receives. This includes population moves across the country which changes grant allocation formulas (estimated that our grant will reduce by **£2.5 million** in 2019/2020), and the level of Council Tax we collect. As we have increased our Council Tax through additional properties, our grant will reduce in future years (we estimate **£1.2 million** in 2019/2020).
- 4.6. Finally, it is assumed that pressures around Teachers Pensions will be funded by the Government (detailed in Table 2 and in Appendix 1, sections 3.5 and 3.6). The additional costs are estimated at £5.7 million, so we are assuming our grant will increase by this level. It is also assumed that the additional grant received in 2018/2019, following the Budget Bill Stage 1 discussions (£9.5 million), will be made permanent.
- 4.7. Should the Government remove this funding from the Council's grant or not meet the additional costs of teacher pensions then a budget gap will result. The Council may have to look to reserves to manage this shortfall on a one-off basis, while permanent solutions are sought.

Table 1 – Summary of Grant Movement

	2019/20 £m
Assumed Reduction in Grant (section 4.4)	(5.0)
Distribution – Population Changes (section 4.5)	(2.5)
Consequence of Council Tax Increase (section 4.5)	(1.2)
Teachers Pensions and Changes to Discount Rate (section 4.6)	5.7
Total Estimated Grant Reduction	(3.0)

- 4.8. **Scottish Government Financial Strategy:** As detailed in section 3 at the end of May the Scottish Government published a Fiscal Outlook report which included their

medium term financial strategy. This document does not give details of planned local government settlements – instead it sets out broad financial plans for the Government 5 years ahead to 2022/2023 including the spending priority areas (which include Health, Police, Early Learning and Childcare (ELC), Attainment, Higher Education and Social Security).

- 4.9. In a similar way to the Council's financial strategies, the Scottish Government has Scenarios around the level of funds it will have available, and what that may mean going forwards. The impact on the Council's longer term financial strategy is being considered.
- 4.10. Commentary on the Strategy by economists suggest that due to the six commitments taking up a greater share of budget over time, there are potential scenarios which can be extracted to suggest how local government funding is affected. As this is only another scenario at this stage, it is not proposed to change the Council's working estimates of grant movement for 2019/2020 as covered at section 4.1 to 4.7.

5. Other Budget Movements

- 5.1. There are a number of areas in addition to Grant that affect the budget for 2019/2020. These include Council Tax Income from additional properties, use of reserves, and additional expenditure items.
- 5.2. **Council Tax Properties:** It is estimated that a further **£1.0 million** of income can be generated in 2019/2020 from additional properties. This is net of any requirement for Council Tax Reduction Subsidy.
- 5.3. **Reserves Balance:** The Strategy for 2018/2019 included the use of the debt flexibility funding transferred to Reserves at the end of 2016/2017. In 2018/2019, as a result of the benefit of additional grant funding, the amount requiring to be used in 2018/2019 was reduced by £2.4 million. The funding package for 2019/2020 includes the use of £5.3 million of this funding, therefore, there is a benefit to the Strategy of **£2.4 million**.
- 5.4. **Additional Expenditure Requirements:** There are a number of financial pressures that will require additional funding in 2019/2020. This will increase the level of savings required. Table 2 shows a summary with each element of financial pressure. The details are included at Appendix 1.

Table 2 – Summary of Budget Pressures

	2019/2020 £m
Reinstate budget for 2018/2019 one off savings (Appendix 1 - Section 1)	(0.9)
Reinstate budget for New Initiatives where 2 year funding was provided (2019/2020 only) and Breakfast/Lunch Clubs (Appendix 1 - Section 2)	6.6
Pay Issues: Pay Award / Living Wage / Teachers Pensions / Auto Enrolment (Appendix 1 - Section 3.1 to 3.10)	(15.6)
Price Increases: School PPP / Utilities / Non Domestic rates / Social Care Contracts (Appendix 1 - Section 4.1 to 4.5)	(2.4)
Funding for Priorities: Social Care Demand 2018/19 / Waste / Education Growth (Appendix 1 - Section 5.1 to 5.5)	(3.9)
Joint Boards: SLLC and LVJB (Appendix 1 - Section 6)	(0.5)
Revenue Consequences of Capital : Schools and City Deal (Appendix 1 - Section 7.1 to 7.3)	(1.7)
Other Adjustments: Third Sector Orgs – budget previously removed (Appendix 1 - Section 8)	(0.3)
Total Expenditure Budget Pressures	(18.7)

6. Savings Requirement

- 6.1. Taking into account the Grant Estimations (as detailed at section 4) and the Other Budget Movements (section 5), the estimated level of savings required for 2019/2020 is **£18.3 million**. This is illustrated in Table 3.

Table 3 – Estimated Savings Requirement

	2019/2020 £m
Total Estimated Grant Reduction (Table 1)	(3.0)
Council Tax Income from Additional Properties (section 5.2)	1.0
Reserves Balances (section 5.3)	2.4
Total Expenditure Budget Pressures (Table 2)	(18.7)
Savings Requirement	(18.3)

- 6.2. As referred to in section 4.7, the assumptions within this strategy are that the additional grant received as part of the Budget Bill Stage 1 discussions (£9.5 million) will be made permanent in 2019/2020. We are also assuming that funding will be provided for the additional costs of teacher pensions (£5.7 million). Should the assumptions not materialise, then the level of savings required will increase by £15.2 million to a level of £33.5 million. The Council may have to look to reserves to manage this shortfall on a one off basis, while permanent solutions are sought.

- 6.3. **Corporate Solutions:** To reduce the level of savings required, the level of Council Tax could be increased by up to 3%. A 3% increase in council tax would result in additional income of around **£3.8 million**.
- 6.4. If this was taken into account, the level of savings could be reduced to **£14.5 million** (assuming the Budget Bill grant is made permanent and Teachers Pension costs are funded).

7. Summary and Next Steps

- 7.1. The level of savings required for 2019/2020 is estimated at **£18.3 million**.
- 7.2. This excludes any increase to Council Tax charges for 2019/2020. If this was taken into account, the level of saving required to be found from services is **£14.5 million**.
- 7.3. As part of the Financial Strategy being presented, approval is being sought for Officers to bring options for savings to Members by Autumn 2018. These savings options will include proposals for savings on the Housing Revenue Account as well as the Council's Revenue Budget.

8. Employee Implications

- 8.1. There are no direct employee implications from this paper.

9. Financial Implications

- 9.1. As summarised in Section 7 with the detail included in Appendix 1.

10. Other Implications

- 10.1. The financial strategy is a way of managing a number of key risks which directly impact on the money available to deliver Council objectives. As detailed in the report there is no certainty on the level of funding that will be received over the life of this Strategy. This Strategy is based on economic information and advice we have, however it is accepted that these are assumptions. Due to the steps that will be taken over the coming months by UK and Scottish Governments (including a Budget announcement and Spending Reviews) our assumptions may have to change, and a revision of the Strategy will be required.
- 10.2. The main risk areas, where the council has made assumptions which have a significant impact on the budget estimates going forwards are on the level of grant which we will receive (as detailed at sections 4.6 and 4.10), and the level of pay award agreed for 2018/19.

11. Equality Impact Assessment and Consultation Arrangements

- 11.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and therefore no impact assessment is required.
- 11.2. There is also no requirement to undertake any consultation in terms of the information contained in this report.

Paul Manning
Executive Director (Finance and Corporate Resources)

5 June 2018

Link(s) to Council Values/Ambitions/Objectives

- ◆ Accountable, Effective, Efficient and Transparent

Previous References

- ◆ None

List of Background Papers

- ◆ None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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1. **2018/2019 Approved Savings:** There were a number of **approved savings** for 2018/2019 which were on a one-off basis. These require to be re-instated. This will add **£0.877m** to the budget strategy in **2019/2020**. These are detailed below.

	2019/20 £m
2018/19 One-off Savings	
Carbon Reduction Commitment (COR01)	0.500
Staffing Secondment (CER17)	0.035
Contribution to Community Planning (FCR05)	0.022
Homelessness Temporary Accommodation (HTR03)	0.300
Community Safety (HTR07)	0.020
Total 2018/19 One-off Savings	0.877

2. **Re-instatement of Permanent New Initiatives:** The 2018/2019 budget contains a 2 year funding package in respect of the Teachers plus Classroom Support and Employability (Early Years and Social Care) initiatives totalling £7.000 million. There is therefore no budget requirement in 2019/2020. This allows **£7.000 million to be removed from the Strategy in 2019/2020**. However, in 2020/2021, there is a budget requirement of £3.8 million to cover the full year cost of these initiatives going forward.

For both Breakfast Clubs and Holiday Lunch Clubs, a pilot is in operation in 2018/2019 with further information in respect of detailed rollout proposals and budget requirements to be brought back to Committee after the pilot is concluded. However, in order to ensure budget is available to support the pilots moving forward, it is proposed that some monies be earmarked in the 2019/2020 strategy.

For Breakfast Clubs, if these were rolled out to every primary school, then they could cost in the region of £0.500 million per annum. There is already £0.225 million in the core budget into 2019/2020 and an anticipated underspend of £0.100 million in 2018/19, therefore there is an estimated requirement of **£0.175 million into 2019/2020** (and £0.100 million into 2020/2021).

In relation to Holiday Lunch Clubs, if these were rolled out to 1 in every ward, with some additional clubs in the Neighbourhood Planning Areas, then they could cost in the region of £0.600 million in total per annum. There is already £0.225 million in the core budget into 2019/2020 and an anticipated underspend of £0.150 million in 2018/19, therefore there is an estimated requirement of **£0.225 million into 2019/2020** (and £0.150 million into 2020/2021).

These estimates will be updated after the pilots are concluded and better information is available in terms of potential transport requirements and the level of demand.

3. **Pay Increases and Superannuation**

- 3.1 **Pay Award (incl. Apprenticeship Levy):** The current pay deal ends on 31 March 2018. The 2018/2019 Strategy currently provides for an estimated pay award, while discussions on the 2018/19 pay award are ongoing for all bargaining groups. A 1% increase on the estimates for 2018/19 would mean an addition to the 2019/2020 Strategy of £4.126 million. Teachers pay negotiations are active, with other groups

awaiting the result before taking further action. As the Scottish Government are part of the tripartite negotiating arrangements for teachers, there may be some form of contribution from the government in relation to pay, as there has been in previous years. Due to the level of uncertainty, there has been no addition to the 2019/2020 Strategy.

- 3.2 The removal of the public sector pay cap and ongoing discussions at a national negotiating level indicate that the actual pay award agreed may be higher than in previous years. The amount included in the Strategy as an estimate of the potential costs of pay award for 2019/2020 is **£8.265 million**. This includes the impact of the estimated pay award on the cost of the Apprenticeship Levy (0.5% of total paybill).
- 3.3 **Pay Model Structure and Living Wage:** The Council recently approved a revision to the Council's pay model (Executive Committee, 28 February 2018). This covered changes to be implemented in financial years 2018/2019 and 2019/2020. The cost of the revised pay model structure in 2019/2020 is **£0.350 million**. In addition, **£0.250 million** has been added to the Strategy to continue to ensure that the living wage is paid to the lowest Spinal column point. **Total addition 2019/2020: £0.600 million**
- 3.4 **Local Government Pension Scheme:** An actuarial review was carried out on Strathclyde Pension Fund in 2017. The outcome of the review (issued 13 December 2017) shows that the employer contribution rate will remain at 19.3% for 2018/2019 to 2020/2021 as the Fund is currently 105% funded. Therefore, there is no requirement to add anything to the Strategy for these years.
- 3.5 **Teachers' Pension Scheme:** COSLA have indicated that based on material provided by the Government Actuary Department to the Scottish Teachers Pension Advisory Board, it is likely that there will be an increase in the contribution rate paid by employers for Teachers' Pension Schemes, however, the level of increase has not been confirmed. The Pensions Authority has advised that any changes to employer contributions, if applicable, would occur in 2019/2020. The Strategy assumes an increase similar to that experienced in 2015/2016 and an amount of **£3.125 million has been included in the 2019/2020 Strategy**. This will be updated as more information becomes available.
- 3.6 **Teachers' Pension Assumption re Discount Rate:** Following the UK Budget in 2016, the Council's actuarial advisers, Hymans Robertson, produced a briefing for councils notifying them of the increase to pension costs as a result of the change to the discount rate applied to unfunded pension schemes. This would apply as of 1 April 2019. The actuary has confirmed that this would have no impact on the Local Government Pension Scheme which is a funded scheme and sets its own discount rates. However, there will be an impact on the Teachers' pension scheme, as this is an unfunded scheme, with an estimated cost of 0.2% of total teacher paybill. **An amount of £2.604 million has therefore been included in the 2019/2020 Strategy.**
- 3.7 **Superannuation on Overtime:** In 2016/2017, an amount of £0.500 million was added to the Strategy to manage the anticipated costs of pension contributions on some overtime payments for part time employees following changes to the Local Government Pension Scheme. Following completion of the 2017/2018 final outturn position, it can be confirmed that this funding is not required moving forward, therefore, the budget has been removed from the Strategy in **2019/2020**, resulting in a **benefit to the Strategy of £0.500 million**.

3.8 **Auto Enrolment:** The Council is obliged to undertake its 3 year Auto Enrolment exercise at 1 April 2019, which entails automatically enrolling all eligible employees into the pension scheme, unless they opt out. Based on the current number of eligible employees, the full year cost would be £3.000 million should they all enrol. Based on the experience of other councils who have gone through a similar exercise a 50% uptake has been assumed which would cost the Council £1.500 million.

3.9 The 2018/2019 budget strategy was able to benefit from monies set aside for auto enrolment (£1.500 million). This money was originally earmarked for use in 2017/2018 but following guidance received in late 2017, these monies will not be required until 2019/2020. It was therefore used on a one-off basis in 2018/2019, but requires to be added back into the budget in 2019/2020. This will add **£1.500 million** to the budget Strategy in **2019/2020**.

3.10 The total impact of the Pay Items on the Strategy in 2019/2020 is **£15.594 million**,

4. **Price Increases**

4.1 **Schools PPP:** The Strategy includes the requirement to fund inflationary increases for the Secondary School PPP. The Retail Price Index rate (as per Office of Budget Responsibility at March 2017) of 3.3% has been applied to the 2018/2019 PPP contract payment. The Strategy now includes **£1.142 million** for 2019/2020.

4.2 **Utilities:** Based on information from the Department of Business, Energy and Industrial Strategy and the National Grid for Future Energy Scenarios, amounts have been included for anticipated price increases in utility costs. Information will continue to be monitored to ensure identification of further increases. **£0.252 million** has been included for 2019/2020.

4.3 **Non Domestic Rates:** Estimates for the Council's increased NDR costs, as a result of potential increases in rates poundage, have been made based on 2018/2019 information. Trends in increases over the last few years have been applied to arrive at the estimated budget requirement for **2019/2020 of £0.310 million**.

4.4 **Social Care:** As in previous years, the Strategy assumes increases in prices reflecting the ongoing commitments for Social Care contracts held by the Council. The Council will experience inflationary increases of 1.66% in 2018/2019 and similar increases have been assumed going forward. The Strategy includes **£0.700 million per annum for 2019/2020** for Social Care price increases for Care Home contracts. This excludes additional costs for living wage funded by the Government.

4.5 The total impact of the Price Increases on the Strategy is **2019/2020 £2.404 million**

5. **Funding for Priorities**

5.1 **Social Care Demand:** An amount of **£2.600 million** has been added to the Strategy in **2019/2020** to meet the cost of the full year effect of the 2018/2019 budget pressures. Moving into 2019/2020, Social Care is facing continuing demands. Social Work Resources are currently looking at initiatives to manage these increases and are discussing these with the Integrated Joint Board.

5.2 **Waste Management:** The Council has let a number of new contracts for waste in 2017/2018. Moving forward, an amount of **£0.300 million** has been included in the Strategy for **2019/2020**. This is based on the budget strategy for Waste Services which also utilises funding held in Reserves in its early years.

- 5.3 The Strategy also includes provision for the revenue consequences for the additional costs of new Waste routes: **2019/2020 £0.150 million.**
- 5.4 **Education Growth:** Population growth across the Council areas has meant an increase in pupil population and therefore capacity issues in Schools, both Primary and Secondary. While the Capital Programme is working to manage the capital investment in schools to allow them to manage the increased number of children, there is also a requirement for additional Teaching staff. Based on the anticipated growth in pupils, a projected requirement for additional Teachers budget has been added to the Council's Revenue Budget Strategy: **2019/2020 £0.810 million.** This will be monitored over years and any necessary variations on demand reflected in future strategies.
- 5.5 The total impact of the Funding for Priorities on the Strategy for **2019/2020 is £3.860 million.**
6. **Related Parties and Joint Boards:** Assumptions for cost increases for South Lanarkshire Leisure and Culture Ltd and the Lanarkshire Valuation Joint Board are included in the Strategy for **2019/2020 £0.523 million.** It is expected that savings identified by the Trust will form part of the Council's overall savings package.
7. **Revenue Consequences of Capital**
- 7.1 The assumptions in this Strategy continue to include provision for the revenue consequences of the opening of new primary schools and capital bids (**2019/2020 £0.189 million**). These additional costs are primarily for rates and energy costs.
- 7.2 **City Deal – Interest on Borrowing:** Due to the timing of the grant in respect of City Deal, the Council will require to borrow on a temporary basis to fund the projects. The Scottish Government have changed the accounting regulations to allow the Council to delay principal repayments until the grant is received. However, the Council will still have to account for the interest payments temporarily on the borrowing on an annual basis. Amounts have been included in the Strategy for these items for **2019/2020 - £1.529 million.**
- 7.3 The total impact of the Revenue Consequences of Capital on the Strategy for **2019/2020 is £1.718 million.**
8. **Other Budget Adjustments – Payment to Third Sector Organisations:** As part of the 2016/2017 savings, a reduction in the payment to VASLAN and other third sector organisations was approved. An amount of **£0.350 million has been added to the Strategy in 2019/2020** that allows us to consider re-instatement of the payments to Third Sector Organisations including VASLAN.