

# Report

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Report to:	<b>Executive Committee</b>
Date of Meeting:	<b>15 August 2018</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Financial Strategy 2019/2020 to 2021/2022 and Longer Term Outlook to 2028/2029.</b>
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Provide a Financial Strategy for the Council over the medium term for years 2019/2020 to 2021/2022.
- ◆ Provide a longer term financial outlook for the full 10 year period to 2028/2029.

## 2. Recommendation(s)

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

- (1) That the Financial Strategy in Appendix 1 and its adoption for the future management of the Council's finances, be approved;
- (2) That the uncertainties around the grant and funding assumptions used within the Strategy, are noted (Section 4); and

## 3. Background

- 3.1. Best practice suggests that councils prepare a financial strategy to show the anticipated direction of travel. The purpose of a financial strategy is to provide clear direction on the structure and management of the Council's financial future and to detail the framework which underpins it. It should explain how this will facilitate the achievement of the corporate objectives by detailing the financial implications of supporting corporate priorities.
- 3.2. The proposed Financial Strategy for the medium term to 2021/2022 and the longer term outlook until 2028/2029 is included as Appendix 1 to this report.
- 3.3. The Executive Committee approved a report on the 2019/20 Budget on 27 June 2018. That report allowed the preparations and planning for the first year of this medium term strategy to progress.
- 3.4. This report will contextualise the areas which impact on the financial outlook over the medium to long term for the Council, and provide the key highlights from the Strategy. Specifically these are:
- Funding available including Government Grant (Section 4)
  - Expenditure Pressures (Section 5)
  - Summary of Financial Outlook, scenarios and strategy to address budget gap (Section 6)
  - Longer Term Outlook - 2022/2023 to 2028/2029 (Section 7)

- Borrowing and Debt Projections (Section 8)
- Reserves – Future Strategy (Section 9)
- Capital Strategy (Section 10) and
- Financial Summary and Next Steps (Section 11)

#### 4. Funding available including Government Grant

- 4.1. The core of a financial strategy is the level of funds that are available to spend. One of the most significant areas of uncertainty is the level of funding for Council services in the future. A number of factors make it difficult to predict the short term financial position, the most significant being that we do not have financial settlements for Government Grant beyond the current year. In terms of timescales, it is unlikely that we will receive any Government Grant information before December 2018.
- 4.2. Impacts on future funding include the impact of new tax raising powers for the Scottish Parliament and the implications of the vote to leave the European Union. These uncertainties contribute to the difficulty in being able to predict with any certainty the level of grant that the council may receive.
- 4.3. Despite the uncertainties, it is important to plan for the Council's financial outlook. The financial strategy requires to be a live document that can be updated as information becomes available. In an effort to plan further ahead, scenarios are a key feature of the Financial Strategy including scenarios of what Government Grant could look like for the Council across the 3 years of this strategy - 2019/20 to 2021/22 (Appendix 1 (Section 5)).
- 4.4. The scenarios are based on advice provided by economic advisors on what could be the range of movement in Government Grant. This is based on the level of financial settlements over recent years. The scenarios suggest a possibility of grant increases going forwards, however, a prudent assumption in relation to grant cuts allows us to prepare for a less favourable outcome. Despite these scenarios there is still no certainty around what the actual level of grant may be.
- 4.5. **Scottish Government Financial Strategy:** At the end of May 2018, the Scottish Government published a Fiscal Outlook report which included its 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).
- 4.6. 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.
- 4.7. Commentary on the Government Strategy by economists suggests that due to the Scottish Government's six expenditure commitments taking up a greater share of budget over time, there are potential scenarios which can be extracted to suggest how local government funding could be affected. This suggests that the impact for local government could vary from an upper range where additional grant could be provided to a lower range where we could see cash cuts in grant. As this is only another scenario at this stage, it is not proposed to change the Council's working estimates of grant movement for the years covered by this strategy.
- 4.8. The strategy does make assumptions that there will be a continuation of grant that was awarded as part of the 2018/19 grant settlement, and that funding pressures in

relation to teachers pensions will be funded. There is a risk that the Government will not continue the Stage 1 Budget Bill funding and fund the increases in respect of the Teachers pensions. If this happens Reserves could be used on a one-off basis to cover funding shortfalls, but a permanent solution would be required going forward.

## 5. Expenditure Assumptions

- 5.1. In arriving at the expenditure assumptions, a number of factors are taken into account including pay pressures, inflation, demographics, economic conditions and ongoing commitments of the capital programme. The details of the areas of pressure are included in the Strategy in Appendix 1 (Section 8).
- 5.2. As is the case with income assumptions, there are the same difficulties in estimating how costs will change in the medium to long term. Annual pay awards are not known at this stage, and levels of inflation and demographic movements can only be estimates at this point to allow financial planning. Information will be updated prior to setting budgets every year to ensure we have the most up to date information available when setting budgets.

## 6. Summary of Budget Gap

- 6.1. One of the outcomes of Financial Planning is that we can make an estimate of the budget gap going forwards. This allows planning for how the gap can be managed, including planning around savings. Table 1 below shows the estimated level of savings required for the 3 years of the Financial Strategy.

**Table 1 – Estimated Savings Requirement 2019/2020 to 2021/2022**

	2019/20 £m	2020/21 £m	2021/22 £m
Total Increase / (Reduction) in Income	0.443	(7.170)	(7.410)
Total Expenditure Assumptions	(18.726)	(25.840)	(20.602)
<b>Total Budget Gap</b>	<b>(18.283)</b>	<b>(33.010)</b>	<b>(28.012)</b>

- 6.2. **Risk Areas / Scenarios:** Whilst table 1 suggests a budget gap over the medium term, there are a number of uncertainties which will change this position as information becomes available.
- 6.3. Section 10 of Appendix 1 details the main risks to the Council's medium term Financial Strategy. It is accepted that the outcome will certainly be different to the scenarios shown in the Financial Strategy, however it does give an illustration of the overall financial variation that could be experienced as the result of changing income levels or expenditure assumptions. It is possible that the budget gap could decrease or increase depending on funding allocations and expenditure requirements.
- 6.4. **Strategy to Address the Budget Gap:** Over recent years, the Council has had to make efficiencies in order to support and manage the shifting environment it operates in – economic and demographic changes being the most significant. As we move forward, the financial strategy shows that there will still be a requirement to make savings to close the budget gap.
- 6.5. To address the budget gap, Section 11 of the Financial Strategy (Appendix 1) sets out the Council's financial planning principles which underpin the delivery of the strategy and support its long term financial sustainability:

- Commitment to efficiency and modernisation of service delivery, and prioritisation of resources to achieve the key strategic outcomes;
- Examine potential for income generation;
- Consider the use of Reserves to support the Council's budgets; and
- Maintain an acceptable level of Un-Committed General Fund Reserve as a hedge against future uncertainties.

6.6. These principles have been arrived at by reviewing the approach taken by other local authorities, taking cognisance of what has worked for the Council in the past, and by looking at the options that are available to councils regarding their budget planning process. With these in mind, Section 11 of the Strategy details a number of work streams which will be considered including the use of corporate solutions, reserves as well as potential savings opportunities across Resources.

## **7. Longer Term Outlook - 2022/2023 to 2028/2029**

7.1. In addition to looking at a medium term Financial Strategy to 2021/2022, it is considered best practice to consider the longer term outlook, and present a picture of what the Council could be facing over the next 10 years. This is shown in Section 12 of the Financial Strategy (Appendix 1).

7.2. It is important to remember that the difficulties in estimating the financial outlook for a medium term strategy become even more difficult when we are looking out to 10 years in the future. The level of funding that we will receive, and the pressures on the Council's budget, will inevitably change. However, for planning purposes, we can see that the Council is likely to continue to experience budget gaps into the future. We will continue to update our longer term assumptions as information becomes available.

7.3. Section 13 of the Financial Strategy (Appendix 1) details a number of risk areas which could impact on the level of savings required by the Council and presents scenarios of how the budget gap position could move in the longer term.

## **8. Borrowing and Debt Projections**

8.1. The amount of borrowing within the approved capital programme will increase the level of the Council's debt. Increases in the Council's total debt caused by borrowing to fund capital spend will also be offset by the repayment of maturing debt. The Financial Strategy details the level of external debt held by the Council at the end of 2017/2018 as £904 million.

8.2. To pay for the approved schools, roads and city deal programmes, and to fund maturing debt, there will be a requirement to borrow £336 million over the 4 year period to 2021/2022, and current estimations of levels of debt by the end of this Strategy period will be £1,123 million (Appendix 1 – Section 14.3). The requirement to fund revenue implications of this borrowing are affordable within the Financial Strategy detailed in Appendix 1.

## **9. Reserves – Future Strategy**

9.1. It is the responsibility of the Executive Director of Finance and Corporate Resources to advise the Council on the level of reserves it should hold and to ensure that there are clear protocols for their establishment and use.

9.2. Section 15 of the Financial Strategy details the Reserves Strategy. The balance on each Reserve at the end of financial year 2017/2018 is noted as well as an estimate of its year of use across the period of the medium term Strategy.

9.3. All reserves are held for specific purposes, and moving through the years of this Strategy the total balance of reserves currently held is considered an appropriate level in relation to the Council's financial position.

## **10. Capital Strategy**

10.1. Section 16 of the Financial Strategy (Appendix 1) notes that during 2018/2019, a Capital Strategy will be formed which will detail the main capital requirements of the Council moving forward.

10.2. This Capital Strategy will assist in forming the medium term General Services Capital Programme for the years 2020/2021 to 2022/2023 which will be presented to members early 2020.

10.3. Alongside the General Services Programme sits the Housing Capital Programme. This will also feature in the Capital Strategy and shows the longer term aspirations for the Council's Housing Stock, setting out the priorities for the physical care and improvement of the housing stock and related assets over the years, and which will initially focus on improving energy efficiency in addition to increasing the supply of new council housing.

## **11. Financial Strategy Summary and Next Steps**

11.1. The assumptions and expectations around income and expenditure which affect the Financial Strategy have been summarised in the preceding Sections of this report and are detailed in the Financial Strategy (Appendix 1).

11.2. Based on these assumptions, the strategy highlights a budget gap for the medium term. These savings requirements exclude any increase in Council Tax Band D levels.

11.3. Work continues on planning for 2019/20 in detail, including the identification of savings and proposals to be brought back to members later this year.

## **12. Employee Implications**

12.1. There are no direct employee implications from this paper.

## **13. Financial Implications**

13.1. As summarised in the report and included in detail in the Financial Strategy in Appendix 1.

## **14. Other Implications**

14.1. The paper clearly identifies a number of key risks affecting the finances of the Council and clearly states the assumptions made in relation to each risk. Reference has also been made to the implications of these assumptions not holding true.

## **15. Equality Impact Assessment and Consultation Arrangements**

15.1. 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.

15.2. 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)**

2 August 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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South Lanarkshire Council  
Financial Strategy 2019/2020 to 2028/2029

## Table of Contents

<b>Section</b>	<b>Page</b>
Section 1 – Background	1
Section 2 – Why do we Prepare a Financial Strategy?	2
Section 3 – Council’s Revenue Budget	2
<b>Medium Term Strategy</b>	
Section 4 – Government Grant	4
Section 5 – Grant Scenarios	5
Section 6 – Use of Reserves	9
Section 7 – Council Tax Income	9
Section 8 – Budget Strategy Expenditure Assumptions	10
Section 9 – Summary of Budget Gap 2019/2020 to 2021/2022	17
Section 10 – Risk Areas / Scenarios	17
Section 11 – Strategy to Address the Budget Gap	19
<b>Longer Term Strategy</b>	
Section 12 – Long Term Financial Strategy 2022/2023 to 2028/2029	20
Section 13 – Long Term Financial Strategy – Risk Areas / Scenarios	22
<b>Other Strategy Items</b>	
Section 14 – Borrowing and Debt Projections	23
Section 15 – Reserves – Future Strategy	24
Section 16 – Capital Strategy	25
<b>Summary</b>	
Section 17 – Financial Strategy – Summary and Conclusion	26



## **1. Background**

- 1.1. Best practice suggests that councils prepare a financial strategy to show the anticipated direction of travel.
- 1.2. The Council's Medium Term Financial Strategy for years 2016/2017 to 2018/2019 (along with a Longer Term Outlook) was presented to the Executive Committee on 24 June 2015. As the 2018/2019 budget has now been set, it is appropriate to prepare a proposed Strategy for 2019/2020 to 2021/2022, as well as prepare a refresh of the Longer Term Outlook to 2028/2029.
- 1.3. The approach taken to arrive at the Council's Budget Strategy is detailed in this document and is in line with CIPFA's Long Term Financial Strategy Checklist which gives a step by step guide to the areas to be covered in compiling a fully formed Financial Strategy.
- 1.4. Section 3 of the Strategy sets the scene for the Revenue Budget by detailing the current service expenditure and funding levels budgeted for 2018/2019.
- 1.5. One of the key components of the overall Financial Strategy is the level of Government Grant and Income that the Council will receive. The Scottish Government grant accounts for 80.8% of the Council's funding, while the collection of Council Tax, net of Council Tax Reduction Scheme, makes up 18.2%. For 2018/2019, the remaining 1% is funded from the in-year use of Council Reserves. The future levels of these income streams play a significant part in the formulation of future year budget strategies.
- 1.6. The Scottish Government has not provided any grant information beyond 2018/2019. Sections 4 and 5 of the report will therefore provide a detailed account of the information considered in establishing grant funding projections across the years of the Revenue Budget Strategy, while section 6 will look at Reserves adjustments as we move into 2019/2020. Section 7 will look at Council Tax income.
- 1.7. Section 8 provides details of the assumed expenditure pressures for 2019/2020 to 2021/2022.
- 1.8. A summary of the savings requirements, taking into account these assumptions is included in Section 9 and Section 10 details risk areas and scenarios affecting the budget.
- 1.9. Section 11 looks at the strategy to address the budget gap, while Section 12 goes on to look at the longer term outlook covering the period to 2028/2029 with related risks/scenarios covered in Section 13.
- 1.10. Section 14 of the report provides an update on the Council's Treasury and Borrowing requirements and Section 15 provides information on the level of Reserves held by the Council, and a strategy for those Reserves over the medium term.
- 1.11. The Council's Capital programme for years 2018/2019 and 2019/2020 was the subject of a separate report approved by the Executive Committee on 28 February 2018, and will therefore not be included in this report in detail. However, Section 16 gives a short summary of the Council's Capital Strategy moving forward, noting that a further paper will be produced on this in the coming months.
- 1.12. Finally, a full summary of the General Services Financial Strategy is provided at

## Section 17.

- 1.13. This is the Strategy for the Council's General Services and does not include the Housing Revenue Account (HRA). The HRA is a separate ring-fenced account managed by the Council, and funded from Council house rents, and which is subject to its own governance and Committee approval process.

### **2. Why do we prepare a Financial Strategy?**

- 2.1. The purpose of a financial strategy is to provide clear direction on the structure and management of the Council's financial future and to detail the framework which underpins it. It should explain how this will facilitate the achievement of the corporate objectives.
- 2.2. The Council has recently approved the Council Plan for the period 2017-2022. The actions and measures associated with achieving the Objectives of the Council Plan are linked to the budget planning process, our workforce planning and also to the arrangements for performance management and public performance reporting. Taken as a whole, these arrangements ensure that we resource the Council Plan, manage its delivery and report our progress transparently and effectively.
- 2.3. The Vision detailed in the Council Plan, *'Improve the quality of life for everyone in South Lanarkshire'*, is the driver behind the Council Plan and everything the Council does, through the services of the Council and in the work we do with communities and partners, such as through the South Lanarkshire Community Planning Partnership and the Health and Social Care Partnership. The strengthening of community planning and the development of the Local Outcome Improvement Plans and the Neighbourhood Plans, working with our partners, is an opportunity to improve local situations.
- 2.4. Through the financial strategy, the Council can ensure that it sets a budget that aligns to the ambitions of its Council Plan. The Financial Strategy is a corporate plan which involves communication with senior officers of all Resources of the Council, uses horizon scanning, and ensures financial implications are considered.
- 2.5. The local environment in which the Council operates is likely to change in future years due to new legislation and policy, economic uncertainty, societal changes and developing customer expectations. The Council's Financial Strategy takes known changes into account and provides a clear plan as to how these will be managed financially. Services feed into the financial planning process by highlighting changes to legislative requirements, changing demographics and policy changes which have a financial consequence.
- 2.6. The Financial Strategy is informed by the changing environment in which we operate, and the changing needs that we are serving. The Strategy helps us manage the resources of the Council in the most effective way to ensure that we continue to deliver the services that the residents of South Lanarkshire want, and that we do so while making the best use of resources.
- 2.7. The Council Plan clearly states how the Council will continue to serve local communities and residents over the next 5 years. At the very heart of this is our vision, which is to improve the quality of life of everyone in South Lanarkshire.

### **3. Council's Revenue Budget**

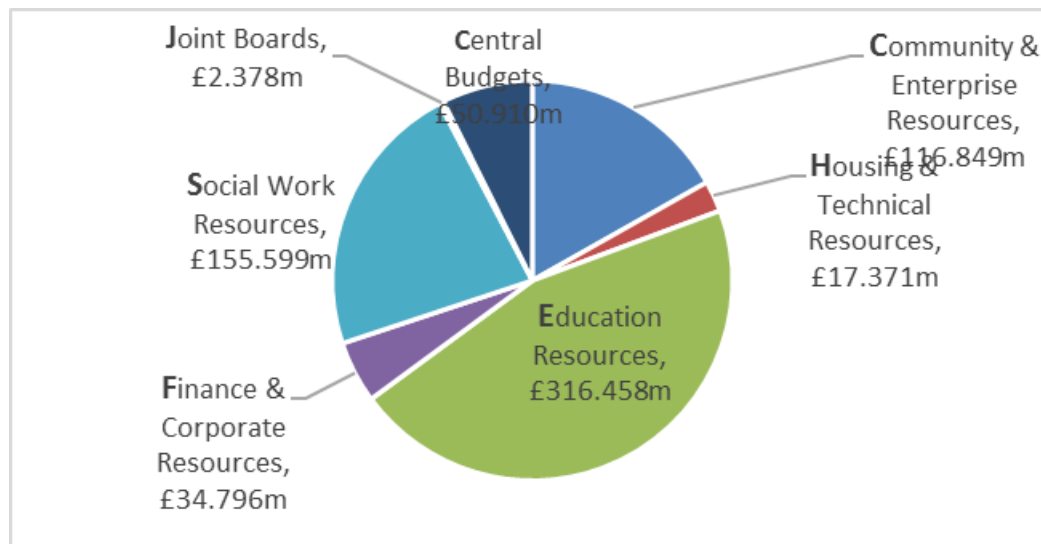
- 3.1. For the purposes of this medium term strategy, the 2018/2019 budget set is the

baseline for the exercise. The budget for 2018/2019 is £694.361m and the focus of this paper is on the movement from this balanced position.

3.2. The budget is split across the Council's 5 Resources, Payments to the Joint Boards, Loan Charges, Corporate Items (including rates, utilities, and apprenticeship levy) and the Trading Operations' Surplus. In order to give context to the level of expenditure across each of the budget areas, a pie chart has been compiled.

3.3. The pie chart shows the budget across the Council's Resources and central budgets (Loan Charges, Corporate Items and Trading Operations' surplus).

**Figure 1 – Council Expenditure 2018/2019**



3.4. The pie chart shows that the main element of the budget relates to Education Resources who provide learning services for pre-fives, primary and secondary age children and young people as well as community learning and development opportunities for all.

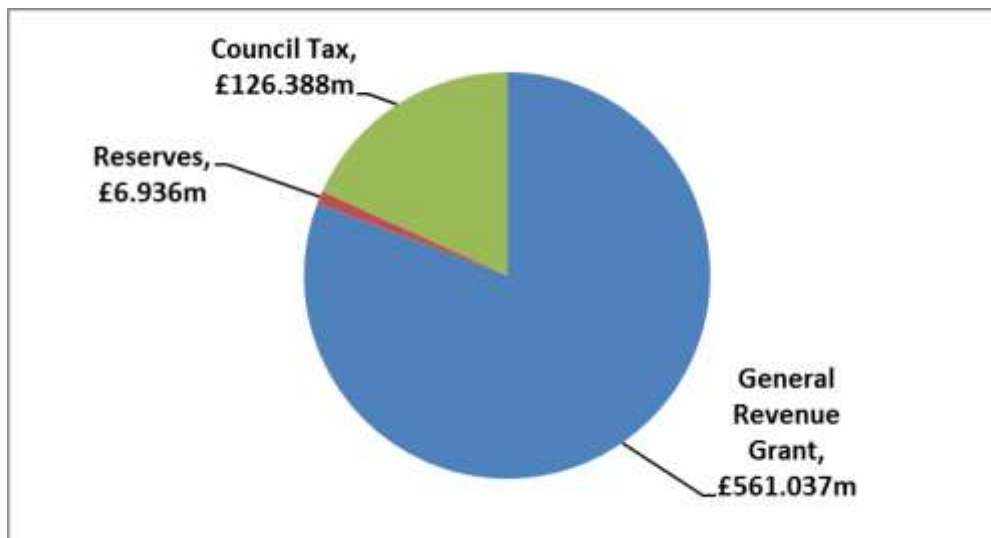
3.5. Next by size is Social Work Resources who, in partnership with the South Lanarkshire Health and Social Care Partnership, provide help and support to vulnerable adults and older people. In addition, they support the needs of vulnerable children and provide criminal justice services.

3.6. The third Resource by size, Community and Enterprise Resources, provides a wide range of front-line services. The services range from Waste Services, Roads Services, Planning and Economic Development to Grounds and Street Cleansing, Environmental and Fleet Services.

3.7. **Other Council Plans** : The Budget Strategy and the budget setting process itself are integral to the planning arrangements of the Council, taking into account the Council Plan's aims and objectives. Section 8.6 provides details of the priorities that have been considered which are included in the Budget Strategy moving forward. The Budget Strategy sits alongside other Council plans such as the Workforce Plan and the Asset Management Plan and the development of Local Outcome Improvement Plans. Financial Implications of these plans, and the Council's approved Capital and Treasury Management plans are considered within this strategy. Future updates to these plans will feed into future iterations of this Strategy.

- 3.8. In terms of Funding, the proportion of the budget that is funded by Government Grant and by Council Tax, to show the Income budget in context, is shown in Figure 2.

**Figure 2 – Council Funding 2018/2019**



#### **4. Government Grant**

- 4.1. One of the most significant areas of uncertainty is the level of funding for Council services in the future. A number of factors make it difficult to predict the short term financial position. These include the impact of new tax raising powers for the Scottish Parliament and the implications of the vote to leave the European Union.
- 4.2. The unknowns and variables around levels of grant the Council will receive make it difficult to form a Budget Strategy with any degree of certainty. The UK Budget and Scottish Budget announcements were made in November 2017, followed by the Council's 2018/2019 Grant figures in December 2017. The same administrative pattern/process is likely as we move towards 2019/2020, and we do not have any information at this moment as to whether the settlement will cover a single year or multiple years.
- 4.3. In an effort to plan further ahead, scenarios of what Government Grant could look like for the Council across the 3 years will be presented (Section 5).
- 4.4. **Predicting Grant Levels:** The Council receives regular economic briefings via monthly economic updates.
- 4.5. Local Government budgets are affected by both changes in the UK Government Budget and the subsequent Scottish Government Budget. The uncertainty around budget changes is heightened by the use of taxation powers and the medium to long term impacts of that, which are currently unknown. They are also affected by ring-fencing of budgets. The two largest spending departments in the Local Government budget are Education and Social Work.
- 4.6. If there are ring-fenced budget allocations to these areas specifically, which we have seen in recent years through Pupil Equity Funding and Social Care funding, then this may affect the allocation of the General Revenue Grant to councils making the potential prediction of grant allocations more difficult as well as changing the level of local decision making over these budgets.
- 4.7. Local Government funding relies on General Revenue Grant (GRG) and Non

Domestic Rates Income (NDRI). The analysis in the economist's advice provided, takes the view that these are set by Scottish Government within a range that could be considered acceptable to those agreeing budgets within the Scottish Government. That range may be for GRG alone, or including NDRI. Forecasts for NDRI are estimated to grow quickly (but this may just offset or allow larger GRG movement).

- 4.8. This means that in a favourable budget year for the whole Scottish Budget, higher priority areas may see more funding but in a less favourable year, the settlement may not be very much worse for local government. The economic briefings suggest that this may be because a harsh settlement may be seen as politically unacceptable. In recent years, Local Government have not fallen into the higher priority category.
- 4.9. In summary, due to the potential impact of both UK and Scottish Government decisions, it continues to be difficult to predict the short to medium term outlook for Local Government. Any variations in any aspect of these can have an impact on the Local Government Settlement. It is important to note that the assumptions made in this Strategy could materially change.

## 5. Grant Scenarios

- 5.1. Recent information received in December 2017 looked at possible scenarios for future settlements in two parts – General Revenue Grant and Non-Domestic Rates Income (NDRI). Together, these make up the Local Government Settlement received by the Council.
- 5.2. Table 1 shows the potential movement in General Revenue Grant as a percentage cash movements with the figures in brackets representing a reduction.

**Table 1 – General Revenue Grant – Predictions**

	2019/20	2020/21	2021/22
<b>Low</b>	(3.5%)	(3.5%)	(3.5%)
<b>Mid-range</b>	(1.0%)	(1.0%)	(1.0%)
<b>High</b>	0.0%	0.0%	0.0%

- 5.3. Each of these General Revenue Grant Scenarios is detailed below:
- **Low:** this is the worst case scenario and assumes that a rapid rise in NDRI is taken into account to offset the estimation of General Revenue Grant available – more NDRI income means less General Revenue Grant required. Smoothed across the 3 years, this would give a reduction in General Revenue Grant of 3.5% per annum.
  - **Mid:** this scenario makes the assumption that the Government may not be willing to let Grant fall by more than 1%.
  - **High:** Based on recent settlements and the reductions experienced, the best case scenario is a Flat Cash settlement. Given the Government's other priorities, economic advisers feel that a Flat Cash settlement is deemed the best case on the basis that it is unlikely that grant will increase in the foreseeable future.
- 5.4. Table 2 shows the potential movement in NDRI as a percentage cash movement with the figure in brackets representing a reduction.

**Table 2 – NDRI Predictions**

	2019/20	2020/21	2021/22
<b>Low</b>	0.0%	0.0%	0.0%
<b>Mid-range</b>	3.0%	8.3%	6.1%
<b>High</b>	8.8%	2.5%	6.1%

5.5. Across the 3 years of the Strategy, each of these NDRI Scenarios is detailed below:

- **Low:** this is the worst case scenario and assumes that the recent flat cash profile continues.
- **Mid:** this assumes that the Government use the NDRI collected to eradicate the NDRI Account out of its current deficit position by 2019/2020, and thereafter Local Government gets the benefit.
- **High:** this is the best case scenario and reflects the draft Scottish budget estimates for NDRI to 2021/2022.

5.6. **What could this mean for SLC?**

To arrive at what this could mean for the Council, these percentages have been converted into pounds lost or gained in the national settlement, with the Council's share estimated. The cash impact for GRG and NDRI is detailed in Tables 3 and 4.

**Table 3 – GRG - Cash Terms £ Movement (GRG 18/19 - £6,731m)**

	2019/20	2020/21	2021/22
<b>Low (Total / SLC / Percentage)</b>	(£235m) / <b>(£14m)</b> -3.5%	(£227m) / <b>(£13m)</b> -3.5%	(£219m)/ <b>(£13m)</b> -3.5%
<b>Mid-range</b>	(£67m) / <b>(£4m)</b> -1.0%	(£67m) / <b>(£4m)</b> -1.0%	(£66m) / <b>(£4m)</b> -1.0%
<b>High</b>	£0 0.0%	£0 0.0%	£0 0.0%

**Table 4 – NDRI - Cash Terms £ Movement (NDRI 18/19 - £2,636m)**

	2019/20	2020/21	2021/22
<b>Low</b>	£0 0.0%	£0 0.0%	£0 0.0%
<b>Mid-range</b>	£79m / <b>+£5m</b> +3%	£225m / <b>+£13m</b> +8.3%	£179m / <b>+£10m</b> +6.1%
<b>High</b>	£232m / <b>+£13m</b> +8.8%	£72m / <b>+£4m</b> +2.5%	£179m / <b>+£10m</b> +6.1%

5.7. In an effort to summarise the impact of both funding streams (GRG and NDRI), the economic adviser's paper proposed 2 scenarios:

### Scenario 1

This scenario assumes that the Low GRG is married with the High NDRI. Smoothing this across the 3 years means a cut of 1% overall per annum. For the Council, this could mean a **cut of £5.000 million each year.**

### Scenario 2

This scenario looks at the Mid-Range and High GRG, and that this could be combined with either Low, Mid-Range or High NDRI. The impact for the Council across the 3 years could be:

2019/2020 – this will range between a **cut in grant of £4 million** to an **increase in grant of £13 million.**

2020/2021 – this will range between a **cut in grant of £4 million** to an **increase in grant of £13 million.**

2021/2022 – this will range between a **cut in grant of £4 million** to an **increase in grant of £10 million.**

5.8. Based on these scenarios/estimations, we could see our grant move within a range of a £5.000 million cut (Scenario 1) to an increase of £13.000 million (Scenario 2) in each of the next 3 years. On the basis that the economic advisers deem an increase in the settlement is unlikely, the **Strategy will assume a reduction of £5.000 million per annum for 2019/2020 to 2021/2022.**

#### 5.9. Distribution of Grant

In addition to planning for reductions to the level of the local government grant covered above, there may also be changes as a result of how grant is distributed to councils using population numbers.

5.10. In the 2018/2019 settlement, the Council experienced a reduction of £2.500 million in grant as a result of how the funding is distributed, from the 2017/2018 position. Moving forward, it is anticipated that the Council will experience similar reductions in grant. The **Strategy assumes a reduction of £2.500 million in grant each year for 2019/2020 to 2021/2022.**

5.11. **Floor Assumption:** As part of the grant allocation process, the Scottish Government applies the Floor Mechanism which limits the range of annual changes in individual local authority allocations of grant. The Scottish Government sets the level of the Floor. If the Floor is set at the overall level of the national cut in grant, then the Council should receive funding from the Floor. This has been the case in recent years. It has been assumed that this would be around the same level as we currently receive.

5.12. **2018/19 Additional Grant – Stage 1 Budget Bill:** In 2018/2019, the Council received an additional **£9.493 million** of grant as part of the Stage 1 Budget Bill. The Cabinet Secretary stated that no Scottish Government budget baseline had been confirmed for next year and that decisions on 2019/2020 will be discussed as part of next year's spending review. For the purposes of the Strategy it has been assumed that this grant funding will continue.

5.13. **Teachers Pensions and Changes to Discount Rate on Pensions:** Section 8.4.5 to 8.4.7 of this Strategy details anticipated changes in respect of the teachers' pension scheme totalling £5.729 million. For the purpose of the Strategy it has been assumed that these will be funded by the Scottish Government and the additional grant of

**£5.729 million** has been added to the grant funding assumptions in **2019/2020**.

- 5.14. **Consequence of Council Tax Increases (Properties):** As noted during the 2018/2019 Revenue Budget Strategy process, increases in Council Tax due to increased property numbers does not give a permanent benefit to the Council as there will be a reduction in grant in future years – an estimated 80% Grant Reduction for every additional £1 of Council Tax.
- 5.15. The impact on grant of additional properties is incurred 2 years after the new properties arise. Table 5 details the year of properties being added, and the consequent reduction in Grant anticipated 2 years hence.

**Table 5 – Impact of Increased Council Tax Income (Properties) on Government Grant Assumptions**

	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>
Consequent Reduction in Government Grant (80% reduction after 2 years)	(1.200)	(0.800)	(0.960)
	relates to 2017/18 new properties	relates to 2018/19 new properties	relates to 2019/20 new properties

5.16. **Summary of Grant Assumptions and Proposed Budget Strategy**

Table 6 summarises the reduction in grant based on the assumed funding in respect of teachers pensions and the impact of previous Council Tax property increases.

**Table 6 – Grant Assumptions included in Strategy**

	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>
Assumed Reduction (Section 5.8)	(5.000)	(5.000)	(5.000)
Distribution – Population changes (Section 5.10)	(2.500)	(2.500)	(2.500)
Teachers Pensions and Changes to Discount Rate (Section 5.13)	5.729	-	-
Consequence of Council Tax Increase (Properties) (Section 5.14)	(1.200)	(0.800)	(0.960)
<b>Total Grant Reduction</b>	<b>(2.971)</b>	<b>(8.300)</b>	<b>(8.460)</b>

- 5.17. It is stressed that these are simply planning scenarios for the year 2019/2020 and beyond, and the actual reduction in Government Grant will not be known until the settlement is announced by the Scottish Government late 2018. There is a risk that the Government will not continue the Stage 1 Budget Bill funding and fund the increases in respect of the Teachers pensions. If this happens Reserves could be used on a one-off basis to cover funding shortfalls, but a permanent solution would be required going forward.
- 5.18. **Scottish Government Financial Strategy:** At the end of May 2018 the Scottish Government published a Fiscal Outlook report which included a 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).
- 5.19. The priority areas affecting Local Government funding would be ELC and Attainment.



Additional costs are associated with both of these initiatives and therefore this does not suggest that the additional funding would be of benefit to the Council's budget gap.

- 5.20. Comments have been received from economists on the Government's medium term financial strategy, which provides scenarios on the potential financial outlook for their budget. This commentary explains that due to the Government's preferred commitments making up the greatest share of the overall budget, the "upper" and "central" scenarios suggests an increase or static position in funding (in cash terms). The "lower scenario" could see cash cuts of over 2% per year. If the lower scenario comes to light, the 2% cash cuts would be equivalent to £11 million per year grant cut for the Council.
- 5.21. The Government's Strategy does however note that even under the "most optimistic scenario", if no reprioritisation or reform were agreed and no additional revenues generated, then savings of 5% could be required. It is unclear whether all spending areas are covered by this statement, or only a few.
- 5.22. While the commentary gives new information on the Scottish Government's financial strategy for the medium term, this is at a high level only and gives no further detail on how this would actually impact on the Council's Financial Strategy. As this is only another scenario at this stage, it is not proposed to change the Council's working estimates of grant movement. When further information becomes available, the strategy will be updated. The impact on the Council's longer term financial strategy will also require to be considered.

## 6. Use of Reserves

- 6.1. The Strategy for 2018/2019 includes 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 2018/19 was reduced by £2.364 million. The funding package for 2019/2020 includes the use of £5.300 million of this funding, therefore, there is a benefit to the Strategy of **£2.364 million in 2019/2020**.
- 6.2. Table 7 summarises the total reserves movement on the Strategy.

**Table 7 – Reserves Adjustments**

	2019/20 £m	2020/21 £m	2021/22 £m
Reserves – Debt Flexibility Adjustment (Section 6.1)	2.364	-	-
<b>Total Reserves Benefit</b>	<b>2.364</b>	-	-

## 7. Council Tax Income

- 7.1. As part of the 2018/2019 Revenue Budget Strategy, the Council Tax budget was increased by £8.300 million in respect of additional properties, an estimate of arrears collection and estimated additional income for the 3% increase to Council Tax Band D approved by Council on 28 February 2018.
- 7.2. Moving into 2019/2020 to 2021/2022, the South Lanarkshire Housing Land Audit (2017) details new houses for the 3 years 2019/2020 to 2021/2022, based on housing developments where there are 4 units or more that are under construction, have planning consent, are included in the adopted Local Plans and in some cases, where land with potential for housing development is agreed with developers, land owners,

or Homes for Scotland.

- 7.3. While there is a risk attached to using these figures on the basis that the actual outcome can be dependent on factors such as the financial market, House Builder estimates have proven to be approximately 80% accurate, therefore 80% has been assumed in the Strategy calculations.
- 7.4. Based on these property numbers, an estimate of additional Council Tax Income can be made. In addition, Council Tax Reduction Scheme Payments may increase due to the additional property numbers. We cannot assume that the Government will fund any increases in Council Tax Reduction Scheme expenditure, therefore to be prudent the Strategy also assumes additional Council Tax Reduction from the new properties.
- 7.5. Table 8 shows the new potential Council Tax Income generated each year, based on Band D properties and net of Council Tax Reduction Scheme. This additional income has been assumed in the Revenue Budget Strategy.

**Table 8 – Council Tax Income – Increased Property Numbers**

	2019/20 £m	2020/21 £m	2021/22 £m
Council Tax Income – In Year	1.200	1.300	1.200
Council Tax Reduction Scheme (CTRS)	(0.150)	(0.170)	(0.150)
<b>Council Tax Income net of CTRS</b>	<b>1.050</b>	<b>1.130</b>	<b>1.050</b>

- 7.6. The impact of the new houses assumed in 2020/2021 and 2021/2022 on the Government Grant will be seen in the next 3 year strategy (2022/2023 and 2023/2024).
- 7.7. A collection yield of 97.125% is proposed as we move into years 2019/2020, 2020/2021 and 2021/2022. This reflects the current budgeted Council Tax Income levels.
- 7.8. **Total Movement in Income**  
Table 9 provides a summary of the total movement in Income included in the Strategy for each of the 3 years.

**Table 9 – Total Increase / (Reduction) in Income**

	2019/20 £m	2020/21 £m	2021/22 £m
Government Grant – Reduction (Table 6)	(2.971)	(8.300)	(8.460)
Reserves Benefit (Table 7)	2.364	-	-
Council Tax – Property Numbers (Table 8)	1.050	1.130	1.050
<b>Total Increase / (Reduction) in Income</b>	<b>0.443</b>	<b>(7.170)</b>	<b>(7.410)</b>

## 8. Budget Strategy Expenditure Assumptions

- 8.1. In arriving at the assumptions, a number of factors are taken into account including demographics, economic conditions and ongoing commitments of the capital programme. Overarching all of these is the Council Plan, and Community Planning and Local Outcomes Improvement Plan where the focus of the Community Planning Partnership, and the Council as a partner, is on improving outcomes and tackling inequalities in outcomes in the community. This is evident in the detailed expenditure assumptions below.

8.2. **Re-Instatement of 2018/2019 Temporary Solutions:** The budget for a number of budget strategy solutions approved for the 2018/2019 Revenue Budget must be re-instated in 2019/2020. These are detailed below.

8.2.1. **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 **£0.877 million** and **£0.025 million** to the budget strategy in **2019/2020 and 2020/2021 respectively**. These are detailed in Table 10.

**Table 10 – Reinstatement of One-Off Savings (from 2018/2019)**

<b>2018/2019 One-off Savings</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>
Carbon Reduction Commitment (COR01)	(0.500)	-	-
Staffing Secondment (CER17)	(0.035)	(0.025)	-
Contribution to Community Planning (FCR05)	(0.022)	-	-
Homelessness Temporary Accommodation (HTR03)	(0.300)	-	-
Community Safety (HTR07)	(0.020)	-	-
<b>Total 2018/2019 One-off Savings</b>	<b>(0.877)</b>	<b>(0.025)</b>	<b>-</b>

8.2.2. **Use of Capital Receipts:** Similar to the use of Reserves, the use of Capital Receipts (£4.000 million per annum) has also been used to support the Council's Revenue Budget over the 3 years from 2017/2018 to 2019/2020. As this is no longer available in 2020/2021, this will **add £4.000 million** to the savings requirement in **2020/2021**.

8.2.3. **Earmarked Reserves Debt Flexibility:** At the end of 2016/2017, £18.300 million was transferred to the Earmarked General Fund instead of being used to repay debt. The use of these monies (£6.100 million per annum) has been used to support the Council's Revenue Budget over the period 2018/2019 to 2020/2021. As this is not available beyond 2020/2021, this will **add £6.100 million** to the savings requirement in **2021/2022**.

8.2.4. **Re-instatement of Permanent funding for Investment and Priorities:** The 2018/2019 budget contains a 2 year funding package in respect of Teachers plus Classroom Support and Employability (Early Years and Social Care) 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 £3.800 million to cover the full year cost going forward.

8.2.5. 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.

8.2.6. 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 2018/2019, therefore there is an estimated requirement of **£0.175 million into 2019/2020** (and £0.100 million into 2020/2021).

8.2.7. 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 2018/2019, therefore there is an estimated requirement of **£0.225 million into 2019/2020** (and £0.150 million into 2020/2021).

8.2.8. 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.

8.3. Table 11 summarises the impact of the reinstatement of temporary solutions, savings and also the Investment and Priorities which were funded from the one-off grant funding in 2018/2019.

**Table 11 – Reinstatement of Temporary Solutions and Investment and Priorities Funding (from 2018/2019)**

Expenditure Assumptions	Year of Reinstatement		
	2019/20	2020/21	2021/22
	£m	£m	£m
2018/2019 One-off Savings (Table 10)	(0.877)	(0.025)	-
Capital Receipts (section 8.2.2)	-	(4.000)	-
Earmarked Reserves Debt Flexibility (section 8.2.3)	-	-	(6.100)
Investment and Priorities (section 8.2.4 – 8.2.8.)	6.600	(4.050)	-
<b>Total Reinstatement Benefit / (Costs)</b>	<b>5.723</b>	<b>(8.075)</b>	<b>(6.100)</b>

#### 8.4. Pay Increases and Superannuation

8.4.1. **Pay Award (incl. Apprenticeship Levy):** The current pay deal ended on 31 March 2018. The 2018/2019 Strategy currently provides for an estimated pay award. 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.

8.4.2. The following amounts have been included in the Strategy as an estimate of the potential costs of pay award: **2019/2020 £8.265 million, 2020/2021 £8.457 million and 2021/2022 £8.627 million.** This includes the impact of the estimated pay award on the cost of the Apprenticeship Levy (0.5% of total paybill).

8.4.3. **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.** For years **2020/2021 and 2021/2022**, an amount of **£0.500 million** has been included in the Strategy to cover increases in the living wage for the lowest spinal column points.

8.4.4. **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. There is no information for 2021/2022 at present, therefore no increase has been assumed at this point.

8.4.5. **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.

- 8.4.6. **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.**
- 8.4.7. COSLA continues to pursue the Scottish Government on these additional costs of both the contribution rate and discount rate on Teachers' Pensions. **The Grant assumptions section of this Strategy** (see section 5.13) **assumes that both the Teachers' Pension Scheme Contributions and the Discount Rate will be funded by the Government, and includes an increase in grant of £5.729 million.** There is a risk that the Government will not fund these items. If this occurs, the shortfall could be managed from Reserves on a one-off basis but a permanent solution would require to be found moving forward.
- 8.4.8. **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.**
- 8.4.9. **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.
- 8.4.10. 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**.
- 8.4.11. **Pay Negotiations (2018/2019):** In relation to employees' Pay Award for 2018/2019, discussions are ongoing for all bargaining groups. A 1% increase would mean an additional budget requirement of circa £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 Scottish Government in relation to pay, as there has in previous years. Due to the level of uncertainty around this, no 2019/2020 impact has been included in the 2019/2020 Strategy.

8.4.12. The total impact of the **Pay Items** on the Strategy is **2019/2020 £15.594 million, 2020/2021 £8.957 million and 2021/2022 £9.127 million.**

#### 8.5. Price Increases

8.5.1. **Schools PPP:** The Strategy includes the requirement to fund inflationary increases for the Secondary School PPP. The Retail Price Index rates (as per Office of Budget Responsibility at March 2017) of 3.3%, 3.1% and 3.1% have been applied to the 2018/2019 PPP contract payment. The Strategy now includes **2019/2020 £1.142 million, 2020/2021 £1.108 million and 2021/2022 £1.142 million.**

8.5.2. **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. **Amounts of £0.252 million, £1.352 million and £0.367 million have been included for 2019/2020, 2020/2021 and 2021/2022.** In terms of Vehicle Fuel costs, price increases have been experienced at the start of 2018/2019. If this price is maintained, then an **estimated £0.400 million would be required in 2020/2021.** This has been added to the Strategy for 2020/2021 and will be refined/monitored as information becomes clearer moving forward.

8.5.3. **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 requirements for **2019/2020 £0.310 million, 2020/2021 £0.413 million and 2021/2022 £0.548 million.**

8.5.4. **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 to 2021/2022** for Social Care price increases for Care Home contracts. This excludes additional costs for living wage funded by the Government.

8.5.5. The total impact of the **Price Increases** on the Strategy is **2019/2020 £2.404 million, 2020/2021 £3.973 million and 2021/2022 £2.757 million.**

#### 8.6. Funding for Priorities

8.6.1. **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 and beyond, Social Care is facing continuing demands. Along with the Integration Joint Board, Social Work Resources are looking at transformational change initiatives to manage the increasing demand including making efficiencies, scheduling techniques and care models supporting independent living and re-ablement. Based on this work, no increase has been made to the Strategy for increased demand in years 2019/2020 to 2021/2022.

8.6.2. **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 contract inflation **each year for 2019/2020, 2020/2021 and 2021/2022**. This is based on the budget strategy for Waste Services which also utilises funding held in Reserves in its early years.

- 8.6.3. Currently the Waste Contract has a shortfall in funding of £1.000 million per annum which is being managed from the use of the Strategic Waste Fund Reserve. Based on the current projections, the reserves being used to fund the Waste contract will run out in 2021/2022, leaving a deficit of £0.500 million in that year. A sum of **£0.500 million** has been added to the Strategy in **2021/2022** to manage this shortfall. As the waste contracts are embedded, the longer term budget requirement for waste will be established and reflected in future strategies.
- 8.6.4. The Strategy also includes provision for the revenue consequences for the additional costs of new Waste routes: **2019/2020 £0.150 million, 2020/2021 £0.150 million and 2021/2022 £0.150 million**.
- 8.6.5. **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, 2020/2021 £1.000 million and 2021/2022 £1.000 million**. This will be monitored over years and any necessary variations on demand reflected in future strategies.
- 8.6.6. **Community Participation:** The Council's Executive Committee has recently approved a new approach to improve levels of community participation and meet the requirements of the Community Empowerment (Scotland) Act 2015. As part of this, a team was created and the staffing structure was approved at a cost of £0.330 million per annum. For 2018/2019 and 2019/2020, the costs will be met from an underspend in the 2017/2018 outturn, however, thereafter there will be a requirement to add **£0.330 million to the 2020/2021 Strategy**.
- 8.6.7. The total impact of the **Funding for Priorities** on the Strategy is **2019/2020 £3.860 million, 2020/2021 £1.780 million and 2021/2022 £1.950 million**.
- 8.7. **Related Parties and Joint Boards**
- 8.7.1. Assumptions for cost increases for South Lanarkshire Leisure and Culture Trust and the Lanarkshire Valuation Joint Board are included in the Strategy (**2019/2020 £0.523 million, 2020/2021 £0.492 million and 2021/2022 £0.478 million**). It is expected that savings identified by the Trust will form part of the Council's overall savings package.
- 8.7.2. Strathclyde Passenger Transport have notified us that at the moment, as part of their long term strategy, their assumptions remain that there will be no changes to 2018/2019 assumptions. The Strategy currently therefore assumes no change in the requisition payment going forward and will be updated as more information becomes available.
- 8.7.3. The total impact of the **Related Parties and Joint Boards** on the Strategy is **2019/2020 £0.523 million, 2020/2021 £0.492 million and 2021/2022 £0.478 million**.

## 8.8. Revenue Consequences of Capital

- 8.8.1. 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 and 2020/2021 £0.036 million**). These additional costs are primarily for rates and energy costs.
- 8.8.2. **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: **2019/2020 £1.529 million, 2020/2021 £0.827 million, 2021/2022 £0.190 million.**
- 8.8.3. The total impact of the **Revenue Consequences of Capital** on the Strategy is **2019/2020 £1.718 million, 2020/2021 £0.863 million and 2021/2022 £0.190 million.**

## 8.9. Other Budget Adjustments

- 8.9.1. **Re-instatement of 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.
- 8.9.2. **Insurance Fund:** Following the 2017 actuarial review of the Insurance Fund, it was identified that as a result of the current level of claims and premiums due, the Insurance Fund could potentially be in a deficit position of £1.700 million by the end of 2019/2020. Further deficits of £1.700 million in both 2020/2021 and 2021/2022 were also forecast. As part of the 2017/2018 probable outturn, a transfer to the Insurance Fund of £1.700 million was approved by the Executive Committee. A sum of **£1.700 million has been added to the Strategy in 2020/2021** to manage the annual anticipated deficit on a permanent basis.
- 8.9.3. **Welfare Reform: Housing Benefit Administration Subsidy:** The Department of Works and Pensions have made a commitment to fully fund any extra administrative costs. However, there is still a plan to apply an efficiency saving to the Housing Benefits Administration Subsidy. The figures for 2018/2019 have not yet been agreed and COSLA are arguing that no further efficiencies should be applied as local authorities have exhausted their capacity to make any further savings and are subsidising the service they provide on behalf of DWP. Further information will be brought back when it is available.
- 8.9.4. The total impact of the **Other Adjustments** on the Strategy is **2019/2020 £0.350 million and 2020/2021 £1.700 million.**
- 8.10. Table 12 summarises the budget strategy impact as a result of the expenditure assumptions in section 8.



**Table 12 – Expenditure Assumptions 2019/2020 to 2021/2022**

<b>Expenditure Assumptions – Additional costs</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>
Pay Items (Section 8.4)	(15.594)	(8.957)	(9.127)
Price Increases (Section 8.5)	(2.404)	(3.973)	(2.757)
Funding for Priorities (Section 8.6)	(3.860)	(1.780)	(1.950)
Related Parties and Joint Boards (Section 8.7)	(0.523)	(0.492)	(0.478)
Revenue Consequences of Capital (Section 8.8)	(1.718)	(0.863)	(0.190)
Other Adjustments (Section 8.9)	(0.350)	(1.700)	-
<b>Total Expenditure Assumptions</b>	<b>(24.449)</b>	<b>(17.765)</b>	<b>(14.502)</b>

9. **Summary of Budget Gap 2019/2020 to 2021/2022:** Taking account of the funding available, the current base budget and the commitments identified in Section 8, Table 13 details the level of savings required across the years of this Strategy.

**Table 13 – Budget Gap 2019/2020 to 2021/2022**

<b>Revenue Budget Strategy</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>
Total Net Increase / (Reduction) in Income (Table 9)	0.443	(7.170)	(7.410)
Total Net Re-instatement Benefits / (Costs) (Table 11)	5.723	(8.075)	(6.100)
Less : Total Expenditure Assumptions (Table 12)	(24.449)	(17.765)	(14.502)
<b>Budget Gap</b>	<b>(18.283)</b>	<b>(33.010)</b>	<b>(28.012)</b>

## 10. Risk Areas / Scenarios

- 10.1. The savings requirements summarised in Table 13 are based on the Council's best estimates and information available in terms of forward planning. However, it is acknowledged that if the context in which the Council operates changes, then there could be an impact on the level of savings required. The outcome will certainly be different to the scenarios shown here, however, it does give an illustration of the overall financial variation that could be experienced as the result of changing income levels or expenditure assumptions. Each of these is taken in turn.
- 10.2. **Scottish Government Grant:** Looking at the main Income assumption, Section 5 of this report provides details of the Government Grant scenarios which have been considered. It is noted that the scenarios show that our grant could move within a range of a £5.000 million cut to an increase of £13 million in each of the next 3 years. While the worst case scenario has been assumed, being a £5.000 million cut in grant, the requirement for savings could be completely eradicated in 2019/2020, and substantially reduced in 2020/2020 and 2021/2022, if the best case scenario (an increase of £13.000 million) were to be experienced.
- 10.3. **Scottish Government Financial Strategy:** As noted in Section 5.18, the Scottish Government Financial Strategy has recently been released. Financial commentary provides scenarios on their financial outlook with the "lower scenario" presented which suggesting there could be cash cuts of over 2% per year. If this were translated to local government, then a 2% reduction would be equivalent to £11.000 million per year grant cut for the Council. As the current grant reduction assumed is a £5.000 million cut, then this would mean an additional £6.000 million grant cut.
- 10.4. **Pay Awards:** On the Expenditure side, the main items included in the budget strategy are pay, pensions and price increases. Section 8.4.2 details the pay award assumed with an increase to the strategy of £8.265 million, £8.457 million and £8.627 million

across the 3 years from 2019/2020 to 2021/2022. An increase of 1% on this assumed pay award would mean an increase of over £4.000 million in the savings requirement per year.

- 10.5. **Pensions:** In relation to Pensions, the main element of the Strategy is the funding requirement for a change to the Teachers' Pension Scheme Contribution Rate and the Assumed Discount Rate. This amounts to £5.729 million and has been assumed as being funded by the Scottish Government. While COSLA continue to pursue this on councils' behalf, there is a risk that the Government will not fund these items. If they are not funded, it is acknowledged that this could be managed from Reserves on a one-off basis in 2019/2020, but a permanent solution would be required in 2020/2021. This would increase the savings requirement in that year.
- 10.6. **Price Increases:** The remaining expenditure item of any significance and which could be influenced by external factors is Price Increases. Section 8.5 details the Price Increases assumed as £2.404 million, £3.973 million and £2.757 million across the 3 years of the Strategy. An increase of 1% on this assumed price increase would mean an increase of £0.700 million in the savings requirement.
- 10.7. **2018/19 Additional Grant – Stage 1 Budget Bill:** As noted in Section 5.12, the Council received an additional £9.493 million of grant as part of the Stage 1 Budget Bill for 2018/2019. There is no certainty regarding the continuation of this money and any decision on this will be discussed as part of next year's spending review. For the purposes of the Strategy it has been assumed that this grant funding will continue. However, if it does not, then there will be an impact of £9.493 million on the 2019/2020 savings requirement.
- 10.8. **Social Care Demand:** As noted in 8.6.1, 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. Beyond that, an assumption has been made that any increase in demand in 2019/2020 to 2021/2022 could be offset by efficiencies and changes to working practices, made by Social Work Resources and the Integration Joint Board. However, if there are no changes to service delivery to mitigate the impact of demand increases, then the annual increase in costs of service delivery due to demographic changes would be £5.200 million. For 2019/20, there would be a part year impact of £2.6 million, reflecting the timing of new service users receiving social care.
- 10.9. **Summary:** Table 14 summarises the potential impact of the risks detailed in Sections 10.1. to 10.8. It shows that on a worst case basis, the savings requirement could increase to £46.927 million in 2019/2020, £49.263 million in 2020/2021 and £44.504 million.

**Table 14 – Savings Requirement – Worst Case Scenario 2019/2020 to 2021/2022**

	2019/20 £m	2020/21 £m	2021/22 £m
<b>Savings Requirement</b>	<b>(18.283)</b>	<b>(33.010)</b>	<b>(28.012)</b>
Scottish Government Financial Strategy (Section 10.3)	(6.000)	(6.000)	(6.000)
Pay Awards (Section 10.4)	(4.126)	(4.332)	(4.544)
Teachers Pensions Rates (Section 10.5)	(5.729)	-	-
Price Increases (Section 10.6)	(0.696)	(0.721)	(0.748)
Additional Grant (Stage 1 Budget Bill) (Section 10.7)	(9.493)	-	-
Social Care Demand (Section 10.8)	(2.600)	(5.200)	(5.200)
<b>Savings Requirement – Worst Case Scenario</b>	<b>(46.927)</b>	<b>(49.263)</b>	<b>(44.504)</b>

## 11. Strategy to Address the Budget Gap

- 11.1. Over recent years, the Council has had to make efficiencies in order to support and manage the shifting environment it operates in – economic and demographic changes being the most significant. As we move forward, the financial strategy shows that there will still be a requirement to make savings to close the budget gap.
- 11.2. To address the budget gap, a number of work streams will be considered including Channel Shift to further increase the use of self-service in line with the Council's Digital Strategy, Service Reviews where a focused root and branch analysis will be carried out to ensure Services are efficient and delivering value for money and service redesign where changing demands might mean a restructure of the service and its functions.
- 11.3. The Council also holds reserves specifically to assist with budget strategies going forward. As reserves are not a long term sustainable solution to budget gaps, a cautious approach to using reserves is advisable.
- 11.4. The list below sets out the Council's financial planning principles which underpin the delivery of the strategy and support its long term financial sustainability:
  - Commitment to efficiency and modernisation of service delivery and prioritisation of resources to achieve the key strategic outcomes;
  - Examine potential for income generation;
  - Consider the use of Reserves to support the Council's budgets; and
  - Maintain an acceptable level of Uncommitted General Fund Reserve as a hedge against future uncertainties.
- 11.5. These principles have been arrived at by reviewing the approach taken by other local authorities, taking cognisance of what has worked for the Council in the past, and by looking at the options that are available to councils regarding their budget planning process. Based on these principles, the following will be considered:
- 11.6. **Corporate Solutions:** Work will commence to identify whether there are any corporate funding solutions available, including Council Tax and the use of Reserves, which could be proposed to meet the savings requirement. These will be brought back in a future report.
- 11.7. **Savings:** The Executive Committee paper (27 June) agreed the budget strategy for 2019/20 and agreed a proposal to prepare and present a package of savings to members by Autumn 2018.
- 11.8. In recent years, there has been a drive to generate efficiencies to meet the savings requirements, however as time goes on, it becomes more difficult to deliver the level of savings required from efficiencies alone. In forming savings proposals, all avenues will be considered and options reviewed to ensure the most effective and efficient way of service delivery is being pursued, as noted in Section 11.2., while continuing to deliver our priorities. This approach to savings generation supports the Council's commitment to best value and value for money.
- 11.9. The Council demonstrates its commitment to Best Value through an ongoing programme of service reviews and the publication of a wide range of performance management information including the Annual Performance Report and its

contribution to the Local Government Benchmarking Framework.

## **12. Long Term Strategy – 2022/2023 to 2028/2029**

- 12.1. In addition to looking at a medium term Financial Strategy to 2021/2022, it is considered best practice to consider the longer term outlook, and present a picture of what the Council could be facing over the next 10 years.
- 12.2. Looking beyond 2022 and into the longer term, it becomes more difficult to predict the financial outlook. However, it is important for the Council to continue to adopt a long term outlook, not just in planning the delivery of strategic outcomes, but also from a financial perspective to ensure that medium to long term risks to the Council's financial sustainability are identified at the earliest opportunity, even though there may be uncertainty over timing, scale and impact.
- 12.3. The Council Plan Connect states that the Council's population is expected to rise by 1.5% over the 2016 to 2026 period, and by a further 0.1% per annum over the 2026 to 2037 period. This shows a continuation of the ageing of the population, with significantly greater increases in the over 65s. While these increases are lower than Scotland as a whole, they are high level projections and locally within South Lanarkshire, we can expect significant increases associated with the Community Growth Areas. This will likely impact on the number of school-age children and have a consequence for education and children's services as well as other Council services such as Waste Collection/Disposal.
- 12.4. In terms of forecasting, Section 4 discussed the uncertainties around the levels of grant income. In December 2017, the Council were provided with a one year grant settlement for 2018/2019 only.
- 12.5. This uncertainty makes planning for future years difficult, and any estimation of funding over this time period will require to be updated regularly. Longer term planning can only give a general indication of the financial position going forward.
- 12.6. **Income** In longer term planning, there is even more uncertainty regarding the level of income the Council could receive, both grant and to a lesser extent, Council Tax.
- 12.7. **Scottish Government Grant:** Projecting to the longer term gives even more uncertainty around the level of grant we could expect from the Scottish Government. We have seen reductions in grant in recent years and any further grant reductions would put further pressure on the revenue budget and increase the savings requirement. On the basis that there are only further potential scenarios available, it is proposed that the original assumption (Scenario 1) used in the Council's 3 Year Strategy (Section 5.8) be used moving forward: a reduction of £5.000 million in grant per annum. This equates to approximately a 1% reduction in grant.
- 12.8. Any 1% movement in the level of Grant reduction, means that additional savings of £5.000 million must be found to bridge the gap.
- 12.9. **Council Tax (including Property Numbers):** As a result of the Community Growth Areas and general house building, there is the potential for additional Council Tax Income. Assuming growth of 1,000 houses per annum at the current Band D level would mean an estimated increase of £1.100 million per annum.
- 12.10. Section 5.15 details that the increases in Council Tax Property Numbers does not

give the Council a permanent benefit – there is an 80% Reduction in Grant for every £1 of additional Council Tax, 2 years hence.

- 12.11. In relation to the actual level of Council Tax Bands, an increase to the Council Tax Band D of 3% per annum would generate around £4.000 million in Income. This has not been assumed in the Long Term Strategy.
- 12.12. **Pay and Prices:** In future years there will continue to be pressure on the Council's budget as pay awards, and contract inflation will require to be met over the longer term. If it continues at the current rate, this would mean a further pressure of £12.900 million in 2021/2022 rising to £14.070 million by 2028/2029. Estimates for utility and rates increases could add further pressures but there is currently no information of what these increases could be.
- 12.13. **Growth in Pupil Numbers:** As noted in Section 8.6.5, pupil numbers are expected to increase over the longer term. For each of the years of the Financial Strategy, an estimate of £1.000 million has been included. The actual need will be refined as we progress through the years.
- 12.14. **Waste Strategy / Waste Routes:** Section 8.6.4 also notes that the Community Growth Areas and new housing developments in general will bring a requirement for additional waste collection routes. These bring with them a financial consequence which is estimated at £0.150 million per annum. In addition, an estimate has been made in respect of contract inflation and the longer term Waste Strategy. This is currently estimated as £0.300 million per annum and again, will be confirmed as we progress through the years of the contracts.
- 12.15. **Social Care Demand:** As noted in Section 8.6.1, the demand for Social Care is anticipated to continue. For the Council's medium term Strategy, it is expected that this increase in demand will be mitigated by ongoing transformational change work between the Integration Joint Board and Social Work Resources. However, in terms of the Council's longer term Strategy, the level of benefit derived from transformational change has still to be realised. As such, an amount of £5.200 million has been added to the Strategy in each year.
- 12.16. Table 15 summarises the Long Term Strategy Assumptions. It shows that the Council will continue to face a budget gap in excess of £24 million per annum over the longer term in the Council's base budget. Any further reduction in grant would increase this budget gap, whereas an increase in the Band D rate of 3% per annum would reduce the budget gap.

**Table 15 – Longer Term Strategy – Budget Gap**

	2022/ 23 £m	2023/ 24 £m	2024/ 25 £m	2025/ 26 £m	2026/ 27 £m	2027/ 28 £m	2028/ 29 £m
Grant Reductions (12.7)	(5.000)	(5.000)	(5.000)	(5.000)	(5.000)	(5.000)	(5.000)
Council Tax – Numbers (12.9)	1.100	1.100	1.100	1.100	1.100	1.100	1.100
Council Tax – Grant (12.10)	(1.040)	(0.960)	(0.910)	(0.910)	(0.910)	(0.910)	(0.910)
Pay Award / Prices (12.12)	(12.900)	(13.080)	(13.270)	(13.470)	(13.660)	(13.860)	(14.070)
Pupil Growth (12.13)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)
Waste (12.14)	(0.450)	(0.450)	(0.450)	(0.450)	(0.450)	(0.450)	(0.450)
Social Care Demand (12.15)	(5.200)	(5.200)	(5.200)	(5.200)	(5.200)	(5.200)	(5.200)
<b>Total Budget Gap</b>	<b>(24.490)</b>	<b>(24.590)</b>	<b>(24.730)</b>	<b>(24.930)</b>	<b>(25.120)</b>	<b>(25.320)</b>	<b>(25.530)</b>

12.17. **How to Address the Budget Gap:** In order to address the budget gap, the Council's default position would be to identify savings to cover the budget shortfall. The approach to this would be to follow the Council's financial planning principles and continue to modernise where possible, maximise income generation and minimise the use of reserves to support the Council's budget. As we move through the medium term, the longer term position will continue to be considered and adjusted to reflect emerging information.

**13. Long Term Strategy – 2022/2023 to 2028/2029 – Risk Areas / Scenarios**

13.1. The longer term budget gap noted in Table 15 is based on best information in terms of forward planning. However, it is acknowledged that if the context the Council operates in changes over the medium term, then there will likely be an impact on the longer term outlook. An illustration of how the longer term position could be affected by changes to some of the key strategy assumptions is detailed below:

13.2. **Government Grant:** As the Council is only notified of the current year Grant allocation, and the Scottish Government have only published their own medium term budget strategy recently covering 5 years, there is little information available to inform the Council's longer term projections for one of its key components, Government Grant. That said, as noted in Section 5.20, further scenarios have been received from economists on the Scottish Government's medium term financial strategy. Their "lower scenario" suggests cash cuts of 2% which would equate to a reduction of approx. £11.000 million for the Council. As a cut of £5.000 million has already been included in the Long Term Strategy (Section 12.7), then this would mean a further reduction of £6.000 million if the position was to continue over the longer term. It should be remembered that there are other scenarios where a reduction in government grant may not be seen.

13.3. **Pay Awards:** There is again no certainty on the medium term pay award requirements, and as such, the longer term becomes even more difficult to predict. For every 1% pay award, there is a budget requirement in excess of £4.000 million. This would be an addition to the savings requirement each year.

13.4. **Social Care:** The long term strategy (Section 12.15) assumes that the increase in Social Care demand is anticipated to continue and that the benefit of earlier work on transformational change by the Integration Joint Board and Social Work Resources would not continue. Therefore, an amount of £5.200 million has been added to the Strategy in each year. However, in terms of a scenario, it could be assumed that the work does generate further benefit, and that the increased demand is mitigated by efficiencies and re-ablement. As such, it could be assumed that these monies would not be required by the Strategy.

13.5. Table 16 shows a potential scenario including further costs, as well as the impact of the mitigation of Social Care Costs.

**Table 16 – Long Term Strategy – Scenarios**

	2022/ 23 £m	2023/ 24 £m	2024/ 25 £m	2025/ 26 £m	2026/ 27 £m	2027/ 28 £m	2028/ 29 £m
<b>Total Budget Gap</b> (Table 15)	<b>(24.490)</b>	<b>(24.590)</b>	<b>(24.730)</b>	<b>(24.930)</b>	<b>(25.120)</b>	<b>(25.320)</b>	<b>(25.530)</b>
Further 1% Grant Reduction	(6.000)	(6.000)	(6.000)	(6.000)	(6.000)	(6.000)	(6.000)
Higher Pay Awards	(4.000)	(4.000)	(4.000)	(4.000)	(4.000)	(4.000)	(4.000)
<b>Savings Requirement – Scenario</b>	<b>(34.490)</b>	<b>(34.590)</b>	<b>(34.730)</b>	<b>(34.930)</b>	<b>(35.120)</b>	<b>(35.320)</b>	<b>(35.530)</b>
Social Care Demand – Mitigation	5.200	5.200	5.200	5.200	5.200	5.200	5.200
<b>Savings Requirement – Improved Scenario</b>	<b>(29.290)</b>	<b>(29.390)</b>	<b>(29.530)</b>	<b>(29.730)</b>	<b>(29.920)</b>	<b>(30.120)</b>	<b>(30.330)</b>

13.6. Table 16 shows that in the Worst Case Scenario, the budget gap sits at approximately £35 million in any given year. Taking account of the benefit of mitigation for Social Care demand, this could improve to a position of requiring approximately £30 million of savings per annum.

#### 14. Borrowing and Debt Projections

14.1. The amount of borrowing approved within the approved capital programme will increase the level of the Council's debt. Increases in the Council's total debt caused by borrowing to fund capital spend will also be offset by the repayment of maturing debt.

14.2. At the end of 2017/2018, the level of external debt held by the Council was £904 million. This includes debt associated with the HRA, but excludes the liability held in the balance sheet for PPP. To pay for the approved schools, roads and City Deal programmes, and to fund maturing debt, there will be a requirement to borrow £336 million over the 4 year period to 2021/2022, and current estimations of levels of debt by the end of this Strategy period will be £1,123 million as illustrated in Table 17.

14.3. The table also shows the amount of debt that falls due to be repaid in each of the years. The amounts falling due to be repaid represent old debt which reaches maturity in these years.

**Table 17: Debt Projections**

Debt projections	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Opening External Debt position	904	1,096	1,114	1,128
New Debt	214	48	44	30
Debt Repaid	(22)	(30)	(30)	(35)
<b>Estimated Closing Debt</b>	<b>1,096</b>	<b>1,114</b>	<b>1,128</b>	<b>1,123</b>

14.4. As part of our Treasury Management function, projections in relation to interest and borrowing rates are monitored, and have been considered when producing this Financial Strategy. It is expected that borrowing rates may slowly increase over the coming year, however, this has been factored into estimates. Any unexpected movement in rates may require reconsideration of the assumptions within this Strategy.

14.5. Based on the projections of the cost of borrowing, additional revenue budget is required in relation to interest on City Deal borrowing for the 3 year period of this strategy. This is covered in the Strategy at section 8.8.2. The borrowing for City Deal is temporary until grant for City Deal is received. All other predicted costs can be managed within the revenue budget currently available for loan charges.

## **15. Reserves – Future Strategy**

15.1. It is the responsibility of the Executive Director of Finance and Corporate Resources to advise the Council on the level of reserves it should hold and to ensure that there are clear protocols for their establishment and use.

15.2. The Local Authority Accounting Panel (LAAP) provide guidance to the Council's Section 95 Officer (the Executive Director of Finance and Corporate Resources), on the establishment and maintenance of local authority reserves and balances. The LAAP Bulletin does not prescribe a minimum level of reserves which should be held by a council.

15.3. It is for the Council to consider an appropriate level of reserves taking cognisance of strategic, operational and financial risks facing the authority at a local level. It does however say that Reserves should not be held without a clear purpose. Audit Scotland have noted that the level of reserves that a council holds is a local decision, but should be clearly informed by an annually reviewed reserves policy.

15.4. In terms of the principle applied to the Council's Reserves, the Council has one 'uncommitted reserve' (the Uncommitted General Fund) as well as a number of committed reserves.

15.5. The level of Uncommitted General Fund (£13.043m) currently reflects a suitable cushion to contribute towards unanticipated pressures that the Council may face in year. Against an expenditure budget of £694.361m for 2018/2019 this represents a 1.9% reserve. To reflect pressures, and the indicative level of savings required in this Strategy period, it is suggested that it is appropriate to consider allocating any surplus funds to augment the Uncommitted General Fund levels marginally.

15.6. Decisions on contributions to Uncommitted General Fund will be made in line with the allocation of any in year underspends achieved through prudent budgeting. It is proposed that a marginal increase of £0.500 million per annum is made to the Uncommitted General Fund, when possible, with a view to increasing the reserve to approximately £13.500 million over time. As part of the year end for 2017/2018 a further £0.500 million has been added to this reserve from the year end underspend, taking the balance to £13.043 million at the 31 March 2018. A balance of £13.500 million would represent 1.9% of the revenue expenditure budget for 2018/2019.

15.7. As noted above, the Uncommitted General Fund is held for a specific purpose as a hedge against uncertainty.

15.8. All reserves are held for specific purposes, and moving through the years of this Strategy the total balance of reserves currently held is considered an appropriate level in relation to the Council's financial position.

15.9. Taking each specific major reserve in turn, the Strategy with regard to reserves is as follows:



- 15.10. **Uncommitted General Fund:** As at 31 March 2018, the Council's uncommitted General Fund is £13.043 million. As detailed at Section 15.6, if possible, marginal increases of £0.500m will be made to the Uncommitted General Fund in future years however, this is dependent on the financial outturn for each year.
- 15.11. **Earmarked General Fund:** As at 31 March 2018, the balance on this fund is £57.997 million. Of this amount, £36.958 million has been earmarked for use in the Council's medium term budget strategy. The remaining £21.039 million is earmarked for specific purposes including Early Years Expansion, Children and Young People Act, multi-year employment contracts, teachers, Health and Social Care, and future severance costs.
- 15.12. The Council has also established a number of reserve funds for various purposes. Details relating to the most significant of these are as follows:
- 15.13. **Repairs and Renewals Fund:** This fund has been established mainly through contributions from the revenue budget, to be used to deal with any repairs such as the ongoing upkeep and maintenance of the Crematorium. At 31 March 2018 the balance on this fund is £7.232 million. Contained within the overall heading of Repairs and Renewals is the Winter Maintenance Fund (£3.500 million at March 2018). All these funds were set aside and earmarked for specific purposes.
- 15.14. **Insurance Fund:** The Insurance Fund is held as a provision against unpaid claims. Council Resources contribute to the fund which meets the cost of fire damage, public liability, vehicle fleet and various other claims. The Council holds insurance cover to meet the costs of any large claims, the premium for which is charged to the fund. Actuarial reviews of the fund are undertaken every four years, with an interim valuation completed every 2 years in the intervening period.
- 15.15. At the 31 March 2018 the balance on this fund is £4.516m. The latest valuation up to 31 March 2017 showed that the fund is fully financed for the next 2 years but projections show that the fund, depending on the profiling of claims, will be in a negative position by 2019/2020, and there will be a requirement to top the fund up in this year and in future years. Section 8.9.2 details the proposed addition to the Fund as part of the 3 year Strategy. The position will continue to be monitored, and requirements for further top up may be considered from any future years surpluses.
- 15.16. **Capital Fund:** Statute allows councils to establish a Capital Fund. At 31 March 2018 the balance on this fund is £18.229 million. The money held within this fund may be used to fund expenditure of a capital nature or to repay loan fund principal which allows flexibility in the revenue budget for pressures such as to pay for severance costs. Contained within the overall heading of the capital fund are specific funds: IT Development Fund; monies for Private Housing Maintenance/Adoptions; Education Capital Replacement Fund ; Public Sector Energy Fund and the Clyde Gateway fund . Capital receipts earmarked to fund the capital programme are held in this Fund.
- 15.17. There is also the Housing Revenue Account Reserve which is ring fenced for the activities associated with the Council House stock. Appendix A to the Strategy shows the detail across Reserves at the end of financial year 2017/2018, as well as the known anticipated movement across the coming years. As capital plans, and revenue budgets are set, further consideration of reserves will be made.

## 16. Capital Strategy

- 16.1. The Council currently has an approved General Services' Capital Programme for

financial years 2018/2019 and 2019/2020. Alongside this, the Council's commitment to the Glasgow City Region City Deal gives a programme until 2025/2026.

- 16.2. During 2018/2019, a Capital Strategy will be formed which will detail the main capital requirements of the Council moving forward. This will focus on the requirements of the formal Capital Budget Strategy which will be complete in Autumn 2018.
- 16.3. This Capital Strategy will assist in forming the medium term Capital Programme for the years 2020/2021 to 2022/2023 which will be presented to members early 2020.
- 16.4. On the funding side, an assumption will be made regarding the level of General Capital Grant the Council could receive as well as detailing the potential income that could be generated from capital receipts.
- 16.5. Alongside the General Services Programme sits the Housing Capital Programme. This will form part of the Capital Strategy and will show the longer term aspirations for the Council's Housing Stock, setting out the priorities for the physical care and improvement of the housing stock and related assets over the years, and which will initially focus on improving energy efficiency in addition to increasing the supply of new council housing.

## **17. Financial Strategy Summary and Conclusion**

- 17.1. The assumptions and expectations around income and expenditure which affect the Financial Strategy have been detailed in the preceding Sections of this report. The Section below provides a summary and conclusion of this Financial Strategy.
- 17.2. **Grant:** There is uncertainty around how much grant the Council will receive over the life of this Strategy. Economic information has helped estimate the level of cuts the Scottish Budget, and thus councils might face. However this is just one part of a process which will take place over the coming months, and Budget Announcements, and Spending Reviews will all impact on the level of grant we receive.
- 17.3. **Cost Pressures and Savings:** The Council's need to spend will increase over the life of this strategy mainly from pay awards and pension changes, price inflation and funding for the Council's priorities. Inflation may vary from current levels due to economic uncertainty, and therefore we will require to consider the impacts of this in this and future strategies.
- 17.4. Over the longer term, the level of grant we will receive is unknown. Alongside this, pressure on expenditure from pay awards, inflation and continued funding for Council priorities mean that savings will continue to be required, unless we return to sufficient increases in grant.
- 17.5. **Borrowing:** Despite the need to borrow for the continuing capital programme for general services, schools, roads, City Deal and HRA, the level of debt will remain at around £1,123 million. The costs of debt is considered as part of the Strategy, and the detail of our borrowing activity is reported to members regularly.
- 17.6. **Reserves:** The Council's Uncommitted General Fund balance remains at what is considered an appropriate suitable level, however, where possible, we will try to make marginal increases. Other earmarked reserves are identified for specific purposes.

**Projected Movement in Council's Useable Reserves (inc. Housing Revenue Account)**

Reserves / Funds	Balance as at 31 March 2018 £m	Expected Movements in 2018/2019		Balance as at 31 March 2019 £m	Expected Movements in 2019/2020		Balance as at 31 March 2020 £m
		Use £m	Restore £m		Use £m	Restore £m	
Earmarked General Fund	57.997	(14.936)	-	43.061	(11.151)	-	31.910
Repairs and Maintenance	7.232	(3.321)	-	3.911	(2.516)	-	1.395
Capital Funds	18.229	(4.755)	4.511	17.985	(4.585)	2.890	16.290
Insurance Fund	4.516	(1.700)	-	2.816	(1.700)	-	1.116
Housing Revenue Account	11.624	(5.946)	-	5.678	(1.363)	-	4.315
Uncommitted General Fund	13.043	-	-	13.043	-	-	13.043
<b>TOTAL</b>	<b>112.641</b>	<b>(30.658)</b>	<b>4.511</b>	<b>86.494</b>	<b>(21.315)</b>	<b>2.890</b>	<b>68.069</b>

Reserves / Funds	Balance as at 31 March 2020 (from above) £m	Expected Movements in 2020/2021		Balance as at 31 March 2021 £m	Expected Movements in 2021/2022		Balance as at 31 March 2022 £m
		Use £m	Restore £m		Use £m	Restore £m	
Earmarked General Fund	31.910	(9.149)	-	22.761	(1.118)	-	21.643
Repairs and Maintenance	1.395	(0.234)	-	1.161	-	-	1.161
Capital Funds	16.290	(1.895)	3.272	17.667	(1.032)	0.421	17.056
Insurance Fund	1.116	(1.116)	1.700	1.700	(1.700)	1.700	1.700
Housing Revenue Account	4.315	-	0.196	4.511	-	0.160	4.671
Uncommitted General Fund	13.043	-	-	13.043	-	-	13.043
<b>TOTAL</b>	<b>68.069</b>	<b>(12.394)</b>	<b>5.168</b>	<b>60.843</b>	<b>(3.850)</b>	<b>2.281</b>	<b>59.274</b>