
Report To:	Policy & Resources Committee	Date:	2nd February 2016
Report By:	Chief Financial Officer	Report No:	FIN/18/16/AP/LA
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	2016/18 Budget Update		

1.0 PURPOSE

- 1.1 The purpose of this report is to update the Committee on the current position of 2016/18 Budget following the announcement of the 2016/17 Grant Settlement from the Scottish Government.

2.0 SUMMARY

- 2.1 The 2016/18 Budget Strategy and subsequent budget consultation were based on a 1.4% (£2.4 million) reduction in Grant Funding between 2015/16 and 2016/17. The consultation on proposals to balance the budget on this basis closed on the 11th January 2016 and is the subject of a report elsewhere on the agenda.
- 2.2 The Scottish Government announced a £350 million year on year cash reduction for Local Authorities during a statement by the Deputy First Minister, on the 16th December 2015. Following confirmation by the Scottish Government on the 24th December 2015 of a correction to their circular, the Council is to receive a further reduction of £530,000. The resultant grant cut for Inverclyde is £6.603 million (3.9%). This significantly greater grant reduction has a major impact on the Council's ability to set a 2016/18 Revenue Budget.
- 2.3 At the time of writing this report there are a number of fundamental matters requiring to be clarified and discussions are ongoing at a senior level between the Scottish Government and CoSLA leadership in order to provide the clarity required by Councils. In light of these discussions, many Councils are considering delaying setting their 2016/17 Budgets until later in March 2016.
- 2.4 In order to reduce the 2016/18 Revenue Funding Gap as far as possible prior to final consideration of the Budget a number of other proposals are attached in Appendix 2 for Committee consideration/approval.
- 2.5 The Committee had previously agreed that the 2016/18 Budget would be approved on the 18th February at the standing Council meeting. In light of the current uncertainties and the significantly increased funding gap it is the recommendation of the Members' Budget Working Group that final approval of the 2016/18 Revenue Budget be deferred until later in March 2016 but that the Council Tax level for 2016/17 be confirmed on the 18th February in order to allow Council Tax bills to be issued in time for the first payment date of early April.
- 2.6 Officers have reviewed the phasing on capital projects for 2016/18 and Appendix 4 shows the results of this exercise and reflects the latest Capital Grant announcements.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee note with concern the significant reduction in funding from the Scottish Government for the Council in 2016/17 and the impact this has on the previously reported Budget Strategy and Public Consultation exercise.

- 3.2 It is recommended that the Committee agrees the proposals in Appendix 2 (Pages 1 & 2) and Appendix 3 regarding the 2016/18 Revenue Budget and agree that the 2016/18 Budget be finalised at a special Council Meeting in March.
- 3.3 It is recommended that the Committee note the latest position of the 2016/18 Capital Programme.
- 3.4 It is recommended that the Committee review the timescales and approach for approving the 2016/18 Revenue Budget.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 The Policy & Resources Committee has received regular reports during the development of the 2016/18 Budget and these reports were on the basis of a £2.4 million (1.4%) Government Grant reduction between 2015/16 and 2016/17.
- 4.2 The UK Government allocated £28.9 billion to the Scottish Government in 2016/17. This represented a small cash increase of £0.2 billion (+0.7%). In real terms (using the UK GDP deflator) this represented a reduction of 1.0%.
- 4.3 The Local Government settlement was announced by the Deputy First Minister on the 16th December and included a £350 million Grant reduction between 2015/16 and 2016/17 which was significantly higher than the level anticipated. This represented an average 3.6% cash cut or a 5.3% real terms cut.
- 4.4 The Inverclyde settlement was lower than the average largely due to the areas projected depopulation but also due to the redistribution of certain sums. Appendix 1 shows that on a like for like basis, the grant cut between 2015/16 and 2016/17 is £6.603 million (3.87%) which is a £4.203 million greater cut than previously projected. In real terms (using the GDP deflator), this is a 5.57% reduction.
- 4.5 It should be noted that the latest Grant reduction includes a further £530,000 reduction following confirmation by the Scottish Government on Christmas Eve that there was an error in the distribution of a specific budget line in addition to which a new sum of £50,000 was included in the settlement in relation to new Criminal Justice Authorities which further increases the like for like cut.
- 4.6 The Settlement also announced the rephasing of £150 million in Capital Grant from 2016/17 to 2017/20. The advice from officers at this point in time is not to change the current proposals for the 2016/18 Capital Programme on the basis that the Council will receive the rephased grant at some point in the next few years.

5.0 MATTERS REQUIRING CLARIFICATION

- 5.1 There are several significant matters which require clarification and which are the subject of discussions at a senior level between the Scottish Government and CoSLA Leadership. Whilst regular updates are being received from CoSLA, at the time of writing the report there are a number of questions which remain unanswered.
- 5.2 The most fundamental issue is in respect of the amount of reliance which Councils can place on the £250 million extra sum for Health & Social Care announced by the Deputy First Minister as part of the Settlement. Within the Settlement this has been allocated to the Health Budget but is to be earmarked for Integrated Joint Boards. What is unclear is the extent to which this money is simply to be passported to Councils for them to use to offset budget pressures within Social Care as opposed to it being ring fenced and used by Health and the IJB for new initiatives/projects which will not directly assist the Council in closing its budget gap.
- 5.3 Another issue which requires to be resolved is whether the £250 million funding is for the core IJB activities around Adult Social Care or whether it can be used for Children's Services which is an area where there are expenditure pressures within Inverclyde Council.
- 5.4 A further area requiring clarification is in respect of teacher numbers. During 2015/16 individual Councils had to maintain teacher numbers and ratios at 2014/15 levels otherwise they were to be penalised by the Government. As part of the Settlement it was confirmed that 10 Councils did not maintain teacher numbers/ratios in 2015/16 at 2014/15 levels however the penalty levied on those Councils was approximately 20% of that originally advised. In addition, the letter received from the Deputy First Minister along with the 2016/17 Settlement figures indicates that the new baseline is now 2015/16. As this is a national target it needs to be clarified how the penalty will be applied if an individual Council maintains teacher numbers and ratios but at a national level this is not achieved.

- 5.5 Clarity is also being sought in respect of the Apprenticeship Levy announced by George Osborne in the autumn statement in December. Current figures for 2017/18 reflect an approximate £515,000 cost for the Council on the basis that the levy represents 0.5% of all employee costs for Inverclyde Council net of a £15,000 “administration fee”. Clarity is being sought as to whether this is the correct approach and also what if anything the Council will receive back from the funding pot ultimately created.

6.0 TIMESCALES FOR SETTING THE BUDGET

- 6.1 In the Finance Circular on 16th December, the Scottish Government indicated the following timescales for finalising their 2016/17 budget:

15th January – deadline for comments from CoSLA

22nd January – deadline for Council Leaders to write to Mr Swinney if they are not taking up the offer

Late February – Budget Bill completes its stages and will be approved by Parliament

Early March – Government table the Local Government Finance (Scotland) Order 2016

- 6.2 Given that the first two deadlines have been extended, it is not clear what impact this will have on the later dates or the timing of the confirmation of any amendments to the current figures.
- 6.3 Given the significant uncertainty surrounding elements of the budget, many Councils are taking decisions to defer their original budget setting day with many now announcing dates in March. It is possible for the Council to differentiate between the day that it agrees Council Tax and the day which it approves the Revenue Budget for the forthcoming year. This is outlined in more detail as follows:
- a) Council Tax Setting Day – The Local Government Finance Act 1992 requires the Council to set its Council Tax for the following year no later than the 11th March. The Council is required to issue Council Tax bills no later than the middle of March in order to provide the appropriate statutory notice to Council Tax payers to enable the Council to collect the Council Tax from the beginning of April. In order to achieve this timescale the absolute latest the Council could agree its Council Tax Level for 2016/17 is the 2nd March 2016. This however leaves no room for any delays which may occur at the external printers caused by the fact that many other Councils are requesting their billing to be undertaken at the same point in time. Any delay may impact on Council Tax collection and generate concerns from the public.

Given the fact that the Government has announced that were the Council to increase its Council Tax it would have its 2016/17 Grant reduced by a further £1,008,000 then it could be that the Council confirms it would freeze Council Tax for 2016/17 on the originally envisaged date of the 18th February. This would allow billing to take place in a managed timeframe.

- b) Budget Setting – The Council requires to set a balanced budget for 2016/17 prior to the end of March. Preferably this should be not later than the first half of March to allow the agreed budgets to be finalised and disseminated to budget holders prior to the 1st April. The impact of a late budget setting date can be mitigated by the Council confirming as much as possible of the 2016/17 budget in advance which has been the process adopted by the Council to date.

The Budget Strategy and the stated aim of the Council has been to approve a 2016/18 Revenue Budget but this has become far more challenging given the significantly poorer Grant Settlement from the Scottish Government. The legal requirement is for the Council to set a 2016/17 Revenue Budget only, however proposals are also contained within this report to continue to close the 2017/18 Revenue Budget Gap.

7.0 BUDGET PROPOSALS

- 7.1 Officers have continued to report to the Members' Budget Working Group since the Grant Settlement announcement and the Members' Budget Working Group have recommended further savings/adjustments to both 2016/17 and 2017/18. These are contained in Appendix 2 (Page 1 & 2) and Appendix 3 and if approved by Committee, would balance the 2016/17 Revenue Budget and reduce the 2017/18 budget gap to £3.97 million.
- 7.2 Committee is asked to note that none of the above includes any of the savings options which were subject to Public Consultation. (Appendix 2 Page 3).
- 7.3 It is clearly going to be extremely challenging to minimise the 2017/18 budget gap without a significant use of revenue reserves. The Members' Budget Working Group will continue to work over coming weeks to develop proposals in this regard and at this point in time it is proposed that no decision is taken on the use of unallocated revenue reserves outwith the final budget setting decision.
- 7.4 It is also proposed that no new savings which will impact on service delivery are considered by the Council prior to the agreement of the 2016/17 budget in March 2016 as this would significantly compromise the Budget Consultation process in the eyes of both the public and Trade Unions.

8.0 2016/18 CAPITAL PROGRAMME

- 8.1 It has been agreed that the Council would roll forward the existing 2015/18 Capital Programme and would not add 2018/19 to the Capital Programme at this time. Appendix 4 shows the current position of the 2016/18 Programme.
- 8.2 In line with prior years and Audit recommendations, officers have fundamentally reviewed the phasing of spend in the forthcoming years. This review transferred some expected spend to 2017/18 and beyond.
- 8.3 The Scottish Government announced the Council's Grant figure before Christmas and was in line with expectations with the exception that some £1.4 million of capital grant has been rephased from 2016/17 to 2017/20. Officer advice is to treat this simply as a cashflow issue and not to reduce the size of the current capital programme.

9.0 CONCLUSION

- 9.1 The 2016/17 Revenue Budget settlement was considerably poorer than had been factored into the Budget Strategy and the Public Consultation exercise and as such this has had a significant impact on the Council's timescales and approach.
- 9.2 Several significant matters require clarification from the Scottish Government and discussions are ongoing with updates to be given to Members at the appropriate time.
- 9.3 The timetable for approving the 2016/18 Revenue Budget and setting the 2016/17 Council Tax requires to be reviewed in light of both the issues highlighted above.

10.0 IMPLICATIONS

- 10.1 The Council requires to issues its Council Tax bills no later than the middle of March and decisions in respect of the timing of the budget decision and Council Tax setting dates should factor this requirement into account.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

10.2 Legal

The Council is required to set a balanced budget for 2016/17 prior to the end of March 2016 and in terms of Section 93 of the Local Government Finance Act 1992, requires to set its Council Tax before the 11th March for the next Financial Year.

10.3 Human Resources

The Joint Budget Group between the Corporate Management Team and Trade Unions has continued to meet throughout the budget process and will continue to do so as proposals are developed. This report has been subject to consultation with the Trades Unions who have no objections to the content.

10.4 Equalities

Has an Equality Impact Assessment been carried out?

Yes See attached appendix

No This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

10.5 Repopulation

The continued projected reduction in the Council's population figures is undoubtedly having an impact on the Council's Grant settlement and once again this highlights the need for the Council to continue its efforts to reverse the decline in population within Inverclyde

11.0 LIST OF BACKGROUND PAPERS

11.1 Local Government Finance Circular no. 7/2015

Appendix 1

2016/17 Budget
Funding Gap

	<u>£m</u>	
2015/16 Total Revenue Grant (Circular 1/2015)	169.291	
2016/17 Total Revenue Grant (Revised Circular 7/2015)	<u>162.260</u>	Note 1
	7.031	
Free School Meals	(0.677)	
Probationers - Induction	(0.146)	
New Sums included : Kinship Care	0.183	
: GIRFEC	0.109	Note 2
: Looked After Children (CYPA)	0.053	
: Criminal Justice Authorities	<u>0.050</u>	
Like for Like Grant Cut	<u>6.603</u>	Note 3

Note 1 - This is £530k lower than the figure advised to Members on the 22/12/15 and arises from a Distribution error announced on 24/12/15.

Note 2 - The CMT will review whether all this extra funding is required once greater clarity on the expectations of the Scottish Government is received.

Note 3 - Budget Strategy was based on a £2.4 million (1.4%) Grant Cut.

AP/LA
21/1/16

2016/17 Budget Position - 21.1.2016

	<u>£000</u>	<u>£000</u>
Position reported to November Policy & Resources		(1940)
Extra Grant Reduction		4203
<u>New Pressures</u> : Residential Schools - Planned Reduction Unachievable	200	
: Common Good - Transfer to Core Budget	35	
: SEMP Acceleration - Option 1	260	495
	<u>260</u>	<u>495</u>
		Remaining Funding Gap
		<u>2758</u>
<u>Proposals</u> : 2016/17 Elderly Care Pressure - Fund from £250m (Note 1)	250	
: Fund Residential Schools pressure from £250mn (Note 1)	200	
: Reduce 2016/17 Non-pay inflation allowance	500	
: Increase Turnover target by 15%	195	
: Increase IRI budget due to improved cashflow	100	
: Improved Council Tax Base per latest figures	150	
: Fund Elderly Care Inflation/Fair Pay from £250m (Note 1)	400	
: Fund CJA Implementation from Reserves	50	
: New/Accelerated Savings (See Appendix 2 Page 2)	913	2758
	<u>913</u>	<u>2758</u>
		Funding Gap
		<u><u>0</u></u>

Notes

- 1/ Clarification awaited as to whether these items can be met by the £250 million Health & Social Care monies.
- 2/ Further savings could be made by advancing some of the "Consultation Savings" (**Appendix 2 Page 3**).

AP/LA
21/1/16

2016/17 Budget - Extra/Accelerated Savings

<u>New Savings</u>	<u>£000</u>		
Increase Planned Property Maintenance Reduction to 15%			90
Align Early Years Budget to 2015/16 Projected Out-turn			187
Reduce EYECO Posts to match projected take up			144
Fund 50% of Surplus Teachers from DRT/Supply Budget			60
			Note 1
<u>Accelerate Approved Savings</u>	<u>Was</u> <u>£000</u>	<u>Now</u> <u>£000</u>	
Renegotiate 4 major Social Care Commissioned Services	-	100	100
Renegotiate Physical Disabilities Commissioned Service	-	20	20
Environmental Services Management Restructure	36	84	48
Energy Savings - LED Lighting	-	50	50
Reduce Planning Overheads	-	8	8
Safer Communities Overtime	-	2	2
Procurement Savings	14	18	4
10% Planned Property Maintenance Budget Reduction	-	180	180
Accountancy Restructure	-	20	20
			<u>913</u>

Note 1 - Increases to £182k in 2017/18

AP/LA
21/1/16

Acceleration Proposals
Savings Proposals for Public Consultation

Type	Detail	Potential Phasing	Current Phasing	
		2016/17 £000	2016/17 £000	2017/18 £000
a) Income	Increase daily parking charge to £2.	30	-	70
b) Income	10% increase in cremation charges and 2% increase in burial charges (from 01.4.16)	54	-	54
c) Service Reduction	Review NDR Discretionary Relief Policy .	-	-	20
d) Service Reduction	Reduce contribution to Valuation Board by 5%.	16	-	25
e) Service Reduction	Reduction in Regeneration Revenue funding. (Note 1)	77	-	77
f) Income	Reduction in Free Swimming subsidy		-	
	Option1 - Stop Subsidy Completely	121		242
	Option 2 - Target subsidy and increase waivers	93		187
	Option 3 - Charge £1/swim	16		32
g) Service Reduction	Cease small repairs service.	26	-	52
h) Service Reduction	Reduce corporate advertising net spend.	23	-	23
i) Income	Implement £2.35/week charge for Community Alarms.	150	-	203
j) Service Reduction	School Transport - Option 1	-	-	140
	- Option 2	-	-	120
k) Service Reduction	Kirn Drive Closure from 01.7.16			
	Option 1 - Close CA Site and Depot	105	-	140
	Option 2 - Close Depot only	21	-	28
l) Income	Waivers (2 options)			
	Option 1 - £50k reduction	37		50
	Option 2 - £111k reduction	83		111
m) Income	Council Tax Increase	-	-	750

* Option 1 a part year impact which will increase to £200,000 over a full year whilst Option 2 will increase to £170,000.

AP/LA
21/1/16

2017/18 Funding Gap

On the basis that 2016/17 can be balanced without the use of reserves and without a surplus then the 2017/18 estimated funding gap is calculated to be as follows:

	<u>£million</u>
a) Reduction in GRG per Finance Strategy	3.100
b) Inflation Allowances per Finance Strategy	3.290
c) Corporate Pressures per Finance Strategy	1.400
	<u>7.790</u>

Closing the 2017/18 Gap

a) Loan Charge Savings - Agreed Sept 2015	2.200	
b) FYE of Efficiencies (Appendix 3, Page 2)	0.403	
c) Fund Elderly Care Demographic Pressure from new Health monies	0.300	
d) Reduce Pay Inflation to 1%	0.355	(Note 1)
e) Reduce Non-Pay Inflation allowance	0.300	(Note 2)
f) Advance SEMP Acceleration funding to 2016/17	0.260	
	<u>3.818</u>	

Balance to Find - £3.972 million

	<u>£000</u>	
<u>Note 1:</u> Allowance	2100	
1% Pay Award	(1060)	
Apprentice Levy	(515)	Net of £15k administration grant
Living Wage	(170)	
	<u>355</u>	

Note 2: Assumes new Health monies pick up the "Fair Wage" and Care Home/Home Care Uplifts.

Note 3: Funding Gap could be closed by a combination of further savings, reserves and a Council Tax increase.

AP/LA
21/1/16

2017/18 Budget - Balance of Approved Savings

<u>Balance of Approved Savings</u>	<u>Total £000</u>	<u>2016/17 £000</u>	<u>2017/18 £000</u>
Renegotiate 4 major Social Care Commissioned Services	222	100	122
Renegotiate Physical Disabilities Commissioned Service	48	20	28
Environmental Services Management Restructure	100	84	16
Energy Savings - LED Lighting	194	50	144
Procurement Savings	28	18	10
Reduce Planning Overheads	16	8	8
Shared Corporate Reception	17	0	17
Accountancy Restructure	40	20	20
<u>To be Approved</u>			
Early Years - Apply Ratios	150	1102	38
			<u>403</u>

AP/LA
21/1/16

General Fund Capital Programme - 2016/18

Available Resources

	<u>2016/17</u>	<u>2017/18</u>	<u>Future</u>	<u>Total</u>
	£000	£000	£000	£000
Government Capital Support (Note 1)	6,549	7,300	-	13,849
Less: Allocation to School Estate	(4,300)	(4,300)	-	(8,600)
Capital Receipts	199	385	-	584
Capital Grants	198	-	-	198
Prudential Funded Projects	21,072	15,574	3,879	40,525
Balance B/F From 15/16 (Exc School Estate)	(56)			(56)
Capital Funded from Current Revenue	(738)	6,033	-	5,295
School Estate Management Plan Funding (Note 2)	8,704	6,981	2,696	18,381
	<u>31,628</u>	<u>31,973</u>	<u>6,575</u>	<u>70,176</u>
<u>Total Expenditure</u>	<u>28,349</u>	<u>33,053</u>	<u>9,640</u>	<u>71,042</u>

(Shortfall)/Under Utilisation of Resources (866)

Notes

Note 1: Government Capital Support

The Scottish Government have indicated that a further £1.443million in grant originally due in 2016/17 has been rephased to 2017/20. This has not been factored in at present until there is greater certainty around the timing.

Note 2: Further Breakdown of SEMP Expenditure

	<u>2016/17</u>	<u>2017/18</u>	<u>Future</u>	<u>Total</u>
	£000	£000	£000	£000
St Patricks PS New Build	4,514	400	-	4,914
St John's PS - Refurbishment	152	100	-	252
Kilmacolm PS - Refurbishment	2,956	300	-	3,256
Balance of Lifecycle Fund	445	1,728	-	2,173
Future Projects	100	1,814	2,696	4,610
Early Years (C&YPB - 600 Hrs)	200	793	-	993
Early Years Establishments - refurbishment	264	1,067	-	1,331
Complete on Site	-	579	-	579
Other Projects < £250K	73	200	-	273
	<u>8,704</u>	<u>6,981</u>	<u>2,696</u>	<u>18,381</u>

General Fund Capital Programme - 2016/18

Approved Programme

	2016/17 £000	2017/18 £000	Future £000	Total £000
<u>Policy & Resources</u>				
Annual Allocation (ICT)	330	487	-	817
Modernisation Fund	60	93	-	153
<u>Policy & Resources Total</u>	390	580	-	970
<u>Environment & Regeneration</u>				
Completion of Existing Programme (Property Services)	598	249	-	847
Annual Allocation (Property Services)	797	2,500	-	3,297
Feasibility Studies/Pre-contract Work	25	150	75	250
Regeneration of Port Glasgow Town Centre	-	319	-	319
Broomhill Regeneration	278	500	-	778
Central Gourock Regeneration	150	-	-	150
Bakers Brae Re-alignment	-	1,000	-	1,000
Regeneration Capital Grant Fund Port Glasgow/Broomhill	150	350	-	500
King George VI Refurbishment	50	950	-	1,000
Leisure & Pitches Strategy	88	106	-	194
Asset Management Plan - Offices	2,746	1,321	-	4,067
Asset Management Plan - Depots	3,111	3,174	250	6,535
Capital Works on Former Tied Houses	10	210	360	580
Completion of Existing Programme (Roads)	116	180	-	296
Roads Grant Funded Projects (SPT/CWSS/Sustrans/Electric)	88	-	-	88
Flooding Works	746	1,726	-	2,472
Roads Asset Management Plan	4,833	5,683	2,157	12,673
Greenock Parking Strategy	133	150	-	283
Vehicle Replacement Programme	670	1,000	1,179	2,849
Play Areas	248	100	-	348
Annual Allocation (Zero Waste Fund)	20	140	-	160
Completion of Existing Programme (Environmental & Planning)	-	10	-	10
<u>Environment & Regeneration Total</u>	14,857	19,818	4,021	38,696
<u>Education & Communities</u>				
Scheme of Assistance/Aids & Adaptations	930	1,000	833	2,763
Contribution to Watt Complex Refurbishment	500	1,293	2,000	3,793
Primary School Pitch Upgrading/MUGA's	260	100	-	360
Inverkip Community Facility	1,231	100	-	1,331
Community Facilities Investment Woodhall	-	370	-	370
New Community Facility Broomhill	200	603	-	803
Birkmyre Park, Kilmacolm Pitch Improvements	75	175	-	250
Rankin Park Cycle Track	45	-	-	45
School Estate Management Plan	8,704	6,981	2,696	18,381
<u>Education & Communities Total</u>	11,945	10,622	5,529	28,096
<u>CHCP</u>				
Neil St Childrens Home Replacement	1,100	498	-	1,598
Crosshill Childrens Home Replacement	57	1,535	90	1,682
<u>CHCP Total</u>	1,157	2,033	90	3,280
<u>Total Expenditure</u>	28,349	33,053	9,640	71,042