

## THE BUDGET AND COUNCIL TAX 2016/17

### 1. Reason for Report

This report provides information to assist Members in determining the Council's Budget and Council Tax level for the upcoming financial year 2016/17 and also asks Members to confirm the Capital Investment Strategy agreed at the November 2015 meeting of the Policy & Resources Committee.

### 2. Recommendations

Members are asked to:

2.1 review the terms of the 2016/17 Local Government Finance Settlement, as reflected at **Appendix 1**, and consider whether to accept the Deputy First Minister's offer and the associated requirements, taking into account the financial penalties that would be incurred if the full Settlement terms are not accepted;

2.2 consider the information reflected in this report as part of determining the revenue budget and associated council tax level for financial year 2016/17; and

2.3 confirm the Capital Programme for the 3 year period 2016/17 – 2018/19, as agreed at the November meeting of the Policy & Resources Committee, updated to reflect annual inflation and the impact of the recently announced Local Government Finance Settlement.

### 3. Budget Setting Requirement

3.1 The key requirements on councils in terms of setting the budget and council tax, as reflected in the Local Government (Scotland) Act 1973 and the Local Government Finance Act 1992, can be summarised as follows:-

- *A local authority shall set its council tax before 11<sup>th</sup> March in the financial year preceding that for which it is set (but is not invalid merely because it is set on or after that date).*
- *The level of council tax will be such as will provide sufficient money to meet such part of total estimated expenses to be incurred by that authority during the financial year in respect of the amount that falls to be met out of their council tax.*

3.2 The above basically indicates that, in setting the council tax, councils are required to do this based on an overall balanced budget for the relevant financial year.

3.3 In terms of timing, while the statutory deadline for setting the council tax is before 11<sup>th</sup> March, the practical deadline is the end of February as a later date would create difficulties in terms of the timing of the printing and issuing of council tax notices.

3.4 The current budget process and associated timescales have been very challenging given the extent of funding reductions facing the Council and the restricted period available to Members to address these reductions. Section 5 of this report refers to potential flexibilities available to Members to support budget setting given these challenging circumstances.

#### 4. Clarification of the Local Government Finance Settlement and Associated Requirements

4.1 The Policy & Resources Committee, at its meeting of 14 January 2016, received details of the 2016/17 Local Government Finance Settlement as announced by the Deputy First Minister on 16 December 2015 (and revised on 24 December 2015).

4.2 In addition to setting out the funding details reflected in that announcement, the report also indicated that these funding levels were dependent on councils delivering the following commitments:-

- Deliver a council tax freeze for the ninth consecutive year;
- Deliver shared priorities in relation to Health & Social Care
- maintain teacher numbers at 2015 levels nationally and secure places for all probationers who require one under the teacher induction scheme.

4.3 At that stage, certain details around these commitments remained to be clarified, as did the extent of the financial penalties to be applied to any Council not agreeing to deliver these commitments.

4.4 Following further discussions, the Deputy First Minister wrote to Council Leaders (see **Appendix 1**) on 27 January 2016 providing the following clarifications:-

- The requirements in relation to teacher numbers have been clarified as being a national requirement to maintain the pupil:teacher ratio at 13.7. If the target is met at a national level, penalties will not be applied in relation to this requirement. However, if the national target is not met then penalties are likely to be applied against those councils whose pupil:teacher ratio rises above their own current level (current D&G pupil:teacher ratio 12.7).
- The approach to the application of the £250 Million Social Care Funding reflected within the NHS Settlement requires to be used as follows:-
  - £125 Million for additionality, including the impact of growth in demand as a consequence of demographic change and to allow progress on charging thresholds for all non-residential services to address poverty.
  - The remaining £125 Million 'to help meet the range of cost pressures local authorities need to address in order to deliver effective health & social care services, including to offset the reduction in council budgets and the joint aspiration to make progress towards the living wage'. Part of the requirement will be that all social care workers are paid £8.25 per hour from 1 October 2016.

4.5 The sanctions to be applied to Councils that do not agree to sign up to the terms of the settlement (including the council tax freeze) have also been clarified. **The terms of the settlement offer must be viewed as a package and any Council that does not agree to deliver all of the measures (council tax freeze, teacher numbers and health & social care requirements) will not receive their share of a total of £408 Million identified within the Settlement in relation to these 3 issues.** However, if a council signs up to the deal but then fails to deliver against any of the specific commitments then the sanction would be restricted to the part of the £408 Million earmarked in relation to that commitment. In terms of the amounts earmarked in relation to specific commitments, and the associated potential penalties, the amounts are as follows:-

- £1.863 Million to support the Council Tax Freeze (national total £70 Million) which equates to approx 3% on our council tax.
- A total of approximately £2.7 Million (national total £88 Million) in relation to teacher numbers.
- £7.6 Million included within the NHS Dumfries & Galloway Settlement to support Social Care Services (national total £250 Million).

4.6 Council Leaders are required to write to the Deputy First Minister by no later than 9 February 2016 indicating that they intend to take up the offer and the associated terms.

**The above terms are viewed as being part of an overall package and, if the Council did not agree to accept the full terms of the settlement, the combined penalty would be approximately £12.2 Million (equivalent to approx 20% on our council tax).**

## 5. Updated Budget Position

5.1 In a report presented to the January 2016 meeting of the Policy & Resources Committee, the Council's 2016/17 savings requirement was identified as £21.193 Million. It was also indicated that £8.162 Million of previously agreed savings reduced the outstanding savings requirement to £13.031 Million.

5.2 Further review in relation to the application of Health & Social Care funding has allowed the Council's projected 2016/17 spend to be reduced by £1.674 as the funding of the uprating of the Adult Social Care Services budget can be met from the £7.6 Million included in the NHS Settlement to be transferred to Health & Social Care Partnerships.

5.3 The updated 2016/17 savings requirement can therefore be summarised as follows:-

	<b>£000s</b>
Savings Requirement (as previously reported)	21,193
Adjustment in relation to Adult Social Care Uprating	(1,674)
Savings Already Agreed	<u>(8,162)</u>
<b>Remaining Savings to be Identified</b>	<b>11,357</b>

*Appendix 2 to this report provides an overview of the Updated Budget Position.*

5.4 All Members and political groups have been provided with a number of savings options to help meet this savings requirement. As reflected in the briefing notes accompanying these savings options, political groups have been asked to identify further savings opportunities (including through the identification of reductions in lower priority activities) as part of preparing their 2016/17 budget proposals.

## 6. Flexibility Available When Balancing the Budget (and Associated Risks)

6.1 It is recognised that Members face an exceptional challenge in attempting to set the 2016/17 budget and council tax due to:-

- The need to identify savings well in excess of levels required in previous years due to the significant reduction in funding being made available through the Local Government Finance Settlement;
- The late notification of this funding reduction which was received as late as 16 December 2015 (and materially revised on 24 December 2015), largely due to the late release of the UK Government's Spending Review, which has restricted

Members' opportunity to identify sufficient savings to address the funding reduction; and

- The need for further clarification of the terms of the grant settlement, and the financial penalties associated with not agreeing to those terms, has further reduced the time available to Members to formulate their budget proposals.

6.2 Given these circumstances, it is recognised that Members may require additional flexibility (particularly in relation to timescales) in order to finalise their 2016/17 budget and council tax setting proposals.

### **General Fund Balances**

6.3 The Council's agreed policy in relation to General Fund Balances is that Unallocated Balances should be maintained at a minimum of 2% of Annual Planned Expenditure.

6.4 In addition, the Budget Principles, agreed by Full Council in December 2015, include the following:-

*Annual revenue budgets will be balanced and will not place any reliance on non-recurring income (including the use of General Fund Balances or capital receipts) as part of balancing spending and income.*

6.5 The above policy and supporting principle were agreed for good reasons, including:-

- any reduction in the level of General Fund Balances, even on a temporary basis, would reduce the Council's ability to respond to unexpected spending in relation to specific issues (eg, legal claims or an increase in service requirements) and emergencies;
- The extent to which Service budgets have been reduced in recent years, and will be subject to further reductions, has reduced the flexibility to deal with arising pressures within Service budgets thus increasing the need for adequate balances; and
- the use of non-recurring funding to balance the budget is not sustainable as the funding is not available on an annual basis. This creates pressure on subsequent years as the need to replace the funding gap associated with the use of non-recurring funding increases the level of savings over and above the annual savings requirement. Given the funding reductions facing the Council in subsequent years, this would present a very significant risk for the Council.

6.6 The above sets out the importance of seeking to balance the budget without the use of non-recurring funding given the associated implications. Any application of non-recurring funding as part of balancing the budget, even on a temporary basis, should only be considered based on a full understanding of the associated risks and a realistic plan for the reinstatement of any amount used.

6.7 Other measures to assist Members in balancing the 2016/17 budget, include the following:-

### **Potential Delay in Full Council Agreeing the Budget and Council tax**

6.8 As reflected at para 6.1 above, the late release of the settlement figures and the subsequent delay in the clarification of associated requirements has significantly restricted the time available to Members to finalise their budget proposals. Consideration might

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therefore be given to delaying budget and council tax setting to later in February (as, while the statutory deadline is before 11 March, the the practical deadline is the end of February as a later date would create difficulties in terms of the timing of the printing and issuing of council tax notices).

6.9 If this option were favoured by Members, Monday 29 February 2016 has been identified within the Council Diary as being available for a further meeting of Full Council. However, it is important that Members consider whether a 2 week delay would genuinely provide a greater opportunity to finalise their budget proposals.

### **Agreement of a Balanced Budget and Council Tax but with Further Work Required to Finalise the Details of that Budget**

6.10 A further option might be to agree the 2016/17 council tax as part of a balanced budget but indicate that further work would be undertaken to revise and finalise the details of that budget. This could be considered if Members do not feel in a position to fully finalise savings plans at this stage.

6.11 As indicated at Section 3 of this report, the Council Tax requires to be determined as part of a balanced budget rather than separately from the associated budget requirements. One option, that would avoid undermining the agreed policy in relation to the maintenance of General Fund Balances, would be to retain specific elements of the budget at this stage and only confirm these budgets, and allow the associated spending to be incurred, once all required savings have been confirmed and agreed. The amounts to be retained would require to be:-

- Amounts that do not require to be spent/committed at the outset of the financial year; and
- Amounts that could be retained without any contractual or legal commitments if compensating savings were not subsequently identified.

OR

- Amounts associated with savings options that Members/political groups do not wish to agree but would be progressed unless alternative savings were subsequently agreed.

6.12 Members would have options in terms of the level and details of budgets to be retained at this stage under this approach. Should Members/political groups wish to use this flexibility, assistance will be provided on identifying potential areas of budget that might be retained at this stage.

## **7. Capital Investment Strategy**

7.1 The Policy & Resources Committee, at its meeting of 17 November 2015, agreed a revised Capital Investment Strategy taking into account the revised scope and costings in relation to the Dumfries Learning Town Programme. **Appendix 3** to this report updates the agreed funding allocations for priority projects based on the relevant price indices as previously agreed.

7.2 **Appendix 3** also reflects the following adjustments in relation to the details of the Local Government Finance Settlement:-

- The level of General Capital Grant available in 2016/17 has been increased by £185k from previous assumptions; and
- The level of General Capital Grant to be received in 2016/17 has been reduced by £4.022 Million reflecting the Dumfries & Galloway share of £150 Million that is being removed/reprofiled from local government capital funding in 2016/17 with the same amount to be returned to councils in subsequent financial years.

7.3 It is not considered appropriate/necessary to adjust the previously agreed Capital Investment Strategy to reflect the above factors, particularly given the extent to which the current strategy requires increased investment over the upcoming period.

### **Flood Protection Funding**

7.4 As reported to the January 2016 meeting of the Policy & Resources Committee, the 2016/17 Capital Settlement includes a total of £44.6 Million to support Flood Protection Works. This amount has not yet been allocated to Council but 80% will be allocated to support specific schemes with the remaining 20% to be allocated across all councils to support other elements of Flood Risk Management Plans.

7.5 Dumfries & Galloway has 3 specific schemes (Dumfries/Whitesands, Langholm and Newton Stewart) within the national planned programme of works issued by the Scottish Environmental Protection Agency in December 2015. The planned programme of works will be taken forward over a number of years and the timing of individual schemes will be subject to a number of issues including the timing of the availability of Scottish Government Funding.

## **8. Arrangements for the Publication of Agreed Budget Proposals**

8.1 The budget process agreed by Full Council in February 2015 requires that all budget proposals should be consulted with the Section 95 Officer (Head of Finance & Procurement) by no later than 2 days before publication and 5 days before the Full Council budget setting meeting. All budget proposals should therefore adhere to the following timetable:-

- All Group budget proposals to be provided to the Head of Finance & Procurement by no later than **5pm on Friday 5 February 2016** to allow for review of the proposals, discussion of any issues with the relevant Group and advice to be provided to Full Council as appropriate.
- Finalised proposals should then be made available for publication by no later **4pm on Monday 8 February 2016**.
- All finalised budget proposals will then be issued to all Council Members by no later than **6pm on Monday 8 February 2016**.

8.2 While it is acknowledged that published budget proposals may be subject to limited adjustment through political engagement, any new budget proposals should follow the above timetable in line with the Council's agreed budget process.

8.3 Should Members consider that a further meeting in late February is required to finalise the 2016/17 budget, the above timetable will be updated on the same basis (ie. proposals to be consulted with the Section 95 Officer 2 days before publication and 5 days before the Full Council meeting).

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## 9. Outlook Beyond 2016/17

9.1 Details of local government funding have been provided by the Scottish Government only for financial year 2016/17 at this stage. It is anticipated that a full 3 year Spending Review will be carried out in 2016, providing indications of funding for the subsequent years 2017/18 – 2019/20. Under these circumstances, and taking into account the significant challenge associated with identifying sufficient savings to balance next year's budget, the current budget process has largely concentrated on financial year 2016/17 only.

9.2 However, it is important to recognise that further, potentially significant funding reductions should be anticipated over the upcoming period. The extent of such reductions are difficult to estimate at this stage and will be influenced by a range of factors including Scottish Government priorities in relation to Health, Local Government and other portfolios and the extent to which new tax raising powers under the Scotland Bill are utilised.

9.3 Members are asked to take the likelihood of further funding reductions into account as part of the 2016/17 budget setting considerations, particularly through ensuring that the 2016/17 budget is balanced and does not generate additional pressures for subsequent financial years.

## 10. Governance Assurance

The Corporate Management Team have been consulted as part of the preparation of this report and are in agreement with its terms.

## 11. Impact Assessment

As this report does not propose a change in policy, the formal adoption of a plan, policy or strategy it is not necessary to complete an Impact Assessment.

### Author and Approved By

NAME	DESIGNATION
Paul Garrett	Head of Finance & Procurement

### Appendices - 3

Appendix 1 – Letter from Deputy First Minister to Cosla President and Council Leaders dated 27 January 2016

Appendix 2 – Budget Overview 2016/17

Appendix 3 – Capital Investment Strategy agreed by the Policy & Resources Committee in November 2015 and updated to reflect Annual Inflation.

**Background Papers**

Minute - Policy and Resources Committee – 16 January 2016

<http://egenda.dumgal.gov.uk/aksdumgal/users/public/admin/kab12.pl?cmte=PRC&meet=44&arc=71>

Minute – Policy and Resources Committee – 17 November 2015

<http://egenda.dumgal.gov.uk/aksdumgal/users/public/admin/kab12.pl?cmte=PRC&meet=42&arc=71>

Minute – Full Council – 17 December 2015

<http://egenda.dumgal.gov.uk/aksdumgal/users/public/admin/kab12.pl?cmte=COU&meet=142&arc=71>

Minute – Full Council – 5 February 2015

<http://egenda.dumgal.gov.uk/aksdumgal/users/public/admin/kab12.pl?cmte=COU&meet=138&arc=71>



Deputy First Minister and Cabinet Secretary for Finance, Constitution and  
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Copy to: The Leaders of all Scottish local authorities

27 January 2016

Dear David

I write now to confirm the final details of the Local Government Finance settlement for 2016-17, following the conclusion of our partnership discussions to consider the package of measures contained in my initial letter of 16 December 2015.

This funding package is focussed on delivery of our joint priorities to deliver sustainable economic growth, protect front-line services and support the most vulnerable in our society.

I have considered the representations made to me by COSLA and this is reflected in the detail of the settlement and the package of measures included in this letter. My aim throughout our extensive discussions has been to reach an agreement with councils around the implementation of these commitments. I invite local authorities to agree the terms of the settlement.

The measures set out in the settlement offer must be viewed as a package to protect shared priorities and intensify a journey of reform. In order to access all of the funding involved, of £408 million, local authorities must agree to deliver all of the measures set out below and will not be able to select elements of the package.

#### Integration Fund

The offer being made is that £250 million will be provided from the Health budget to integration authorities in 2016-17 for social care:

That of the £250 million, £125 million is provided to support additional spend on expanding social care to support the objectives of integration, including through making progress on charging thresholds for all non-residential services to address poverty. This additionality reflects the need to expand capacity to accommodate growth in demand for services as a consequence of demographic change.

## Appendix 1

That of the £250 million, £125 million is provided to help meet a range of existing costs faced by local authorities in the delivery of effective and high quality health and social care services in the context of reducing budgets. This includes our joint aspiration to deliver the Living Wage for all social care workers as a key step in improving the quality of social care. The allocation of this resource will enable councils to ensure that all social care workers including in the independent and third sectors are paid £8.25 an hour. This assumes that private and third sector providers will meet their share of the costs. The Government would prefer implementation on the 1 April but we accept COSLA's point that preparatory work will be required to ensure effective implementation. We therefore agree to an implementation date of 1 October. In 2016-17, Councils can allocate up to £125 million of their 2015-16 costs of providing social care services to Integrated Joint Boards including the uprating of staff to the Living Wage. This will ensure an overall benefit to the provision of health and social care of £250 million. To ensure transparency for the flow of funding support for local authorities and delivery of the Living Wage commitment the arrangements will be signed off at a local level by the appropriate Integration Authority Section 95 Officer.

### Teacher Numbers

The Scottish Government has been consistent that the protection of teacher numbers is a central part of our priority to raise attainment. Following our discussions and the further representations COSLA has made, the Scottish Government have agreed that the measure for the implementation of that target, against a forecast that pupil numbers will increase over the coming academic year, will be the maintenance at a national level of the pupil teacher ratio.

The objective will be to maintain the pupil teacher ratio nationally at a value of 13.7 (the same level as in 2015) in local authority schools as shown in the Teacher and Pupil Census published in December 2016 and the teacher and probationer commitments in 2016-17. In order to support delivery, the Scottish Government will continue to monitor these commitments throughout the year.

### Council Tax Freeze

The Scottish Government was elected on a commitment to freeze the council tax for the entirety of this Parliamentary session and is committed to delivering this policy. Many local authorities have a commitment to freeze the Council Tax over a similar timescale. Against the questions of the wider revenue-raising challenges raised in the Budget the Scottish Government believes that it is important to provide protection for household incomes in what has been a very financially challenging period for many households.

The Scottish Government has now received the report from the Commission on Local Tax Reform and the Government believes now is not the time to dispense with the protection the freeze offers. Looking ahead we will be bringing forward plans for reform of the present Council Tax, reflecting the principles of the report, and we are committed to working in partnership with local government on the implementation of that.

For 2016-17 individual local authorities will again require to agree to work with the Scottish Government to deliver a council tax freeze for the ninth consecutive year.

## Appendix 1

Any council that does not sign up to the complete package will not receive their share of the Integration Funding (£250 million), support for teachers (£88 million) and the council tax freeze support (£70 million). Should that be the case, steps will be taken to recover the latter two elements that have been distributed from the individual council's allocations in the local government finance settlement in-year.

If in the event, however, a council that does sign up then does not deliver any of the remaining specific commitments on council tax freeze, social care spend, including delivery of the £8.25 per hour Living Wage or national teacher targets then the Scottish Government reserves its position to take action to remove access to or recover that element of the additional funding support earmarked to deliver each of the remaining specific measures. In the case of pupil teacher ratio not being maintained nationally then the Scottish Government reserves its position to recover monies allocated to individual authorities whose pupil teacher ratio rises. This action will be proportionate and apply only to that element of the funding for a specific measure that a local authority subsequently does not deliver as set out in the paragraph above.

I will require those Council Leaders who intend to take up the offer and agree the full package of measures to write to me to set out their position, including on the council tax. Given that I am setting out changes to the proposals we previously discussed, I want to give local authorities every opportunity to consider these issues in full. Leaders should therefore provide their response to me by no later than Tuesday 9 February 2016.

I fully understand the pressures on budgets, which is being felt across the whole of the public sector, but I firmly believe that the funding proposals I have set out for local government protects our shared priorities and delivers practical financial support to intensify the pace of reform. I hope you and your fellow Council Leaders can agree that in the circumstances the proposals deliver a strong but challenging financial settlement. The key to addressing this challenge is reform and local government is a key partner in our programme to reform and improve public services.

**JOHN SWINNEY**

## Budget Overview 2016/17

Appendix 2

	2016/17 £000	
<b>Upated Budget (as per Full Council 17 December 2015)</b>	<b>352,469</b>	
<b>Statutory Changes</b>		
Free School Meals	1,538	
Kinship Care	252	
Other adjustments	-79	1,711
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<b>Adjusted Upated Budget</b>	<b>354,180</b>	
<b>Additions to/Reductions In Expenditure</b>		
Policy Development Funding		2,470
<b>Net Expenditure Budget (Before Savings)</b>	<b>356,650</b>	
<b>Less Government Grant</b>	<b>-281,833</b>	
<b>Less Council Tax Income</b>		
Council Tax Base (Band D £1,049)	-62,622	
Council Tax Reduction Scheme	8,998	-53,624
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<b>Budget Deficit/Savings Requirement</b>	<b>21,193</b>	
<b>Less Already Agreed (P&amp;R Nov 2015)</b>	<b>-8,162</b>	
<b>Less Adjustment in relation to Adult Social Care Upating</b>	<b>-1,674</b>	
<b>Remaining Savings to be Identified</b>	<b>11,357</b>	

