Subject: Revenue Estimates 2017/18 and Capital Estimates 2017/18

1. Purpose

1.1 The purpose of this report is to advise Members of the issues to be considered in setting revenue budgets for 2017/18 and setting capital budgets for 2017/18.

2. Recommendation

2.1 It is recommended that the Council:

2.1.1 notes the funding proposal as outlined by the Cabinet Secretary for Finance and the Constitution’s letters of 15 December 2016 and 2 February 2017 (attached as Appendices 1 and 2);

2.1.2 notes that the funding levels included within Finance Circular 9/2016 remain provisional until the Finance Order is approved in late February/early March 2017;

2.1.3 presents and approves budget proposals for revenue and capital for 2017/18 taking account of the conditions of the settlement that need to be met and incorporating:

(i) planned net revenue expenditure on services for 2017/18;
(ii) the level of reserves and fund balances held and contributions to/from these;
(iii) the appropriate Band D Council tax levy for 2017/18;
(iv) the level of bad debt provision for non-collection of Council tax;
(v) the proposed capital programme for 2017/18 and beyond and associated debt charge implications;
(vi) consideration of the financial projections for 2018/19.

2.1.4 presents and approves proposals for Common Good budgets for 2017/18.
3. Background

3.1 All Scottish Councils are required to set their Council tax levels for 2017/18 by 11 March 2017.

3.2 The grant settlement for 2017/18 was announced by the Scottish Government on 15 December 2016 in Finance Circular 9/2016. At a national level the December 2016 settlement represented a reduction of £350m or 3.6% in core revenue funding for councils. The full funding package set out in the finance circular incorporated an additional specific grant of £120m for the Attainment Scotland Fund for schools to support closing the attainment gap, to be distributed to schools based on pupils registered for free school meals. It has been confirmed that South Ayrshire will be allocated £2.423m from this sum to be committed to additional spending.

3.3 The funding package also includes specific ring fenced grants, £4.404m for Gaelic initiatives and £86.450m for Criminal Justice Social Work, with the Council due to receive £0.010m and £1.553m respectively for each specific grant.

3.4 The additional £250m support for health and social care (South Ayrshire Partnership share: £5.830m) provided through the integration fund in 2016/17 is being baselined from 2017/18. Integrated Joint Boards will receive an additional £107m allocated from the Health Budget (South Ayrshire Partnership share: £2.470m). This additional funding is provided to meet the full year cost of the joint aspiration to deliver the living wage for social care workers, fund sleep overs, removal of social care charges for those in receipt of war pensions and pre-implementation work in respect of the new carers legislation. To reflect this additional support Councils are able to adjust their allocations to Integration authorities in 2017/18 by up to their share of £80m (SAC share £1.850m) below the level of budget agreed with their Integration Authorities for 2016/17.

3.5 In a departure from what had previously been indicated by the Scottish Government, the additional £111m income estimated from Council Tax banding reforms will be available to be spent in the Council area it which it is collected. It is estimated that £2.781m will be received by the Council from these reforms in 2017/18.

3.6 The settlement package requires that Councils maintain the overall pupil/teacher ratio at 2016/17 levels (13.7) and secure places for all probationers who require one under the teacher induction scheme.

3.7 The Scottish Government also signalled the end of the Council tax freeze and the allocation of additional grant to compensate Councils for implementing the freeze. For the first time in 9 years, since 2007/08, Councils are now free to increase Council tax rates, capped at a maximum 3% for 2017/18.

3.8 In February 2017 the Scottish Government announced that additional funding of £160m was to be added to the 2017/18 Local Government settlement (Appendix 2).

3.9 When this new funding is added to the funding provided in Finance Circular 9/2016, South Ayrshire Council’s Aggregate External Finance (AEF) funding for 2017/18 is as follows:
<table>
<thead>
<tr>
<th></th>
<th>General Revenue Grant £m</th>
<th>Specific Grant £m</th>
<th>Total AEF Revenue £m</th>
<th>Capital £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017/18</td>
<td>191.672</td>
<td>3.986</td>
<td>195.658</td>
<td>12.231</td>
</tr>
</tbody>
</table>

3.10 As detailed in the letter from the Cabinet Secretary for Finance and the Constitution to Council Leaders of 15 December 2016 (Appendix 1), under the settlement the Scottish Government will look to all authorities to work in partnership with the Government in pursuit of joint priorities, including the delivery of the Government’s programme as set out in A Plan for Scotland: The Scottish Government’s Programme for Scotland 2016-17. The Cabinet Secretary for Finance and the Constitution also sets out in his letter the Government’s expectations in relation to the following key priorities:

(i) public service reform;
(ii) health and social care;
(iii) education; and
(iv) local taxation

3.11 In return for the grant funding contained in the settlement announced in December 2016 and the subsequent additional funding provided in February 2017, and the pursuit of the joint priorities, individual local authorities are required to deliver the specific commitments set out in detail in Appendix 1. For those authorities not agreeing to this, a revised and less favourable offer will be made.

4. Proposals

4.1 It is proposed that Members give consideration to the information contained in this report and present and approve budget proposals for revenue and capital for 2017/18 taking into account the revisions to previous assumptions as set out in para 3 above and the considerations contained in this para 4.

4.2 Revenue Budget 2017/18

4.2.1 The General Revenue Grant (GRG) funding for 2017/18 of £191.672m is £4.753m less than was available on a comparable basis for 2016/17;

4.2.2 Specific grant of £2.423m for improving educational attainment is due to be received in 2017/18 and requires to be allocated to schools across the council area as specified by the Scottish Government;

4.2.3 Specific grant of £0.010m for Gaelic initiatives is due to be received in 2017/18;

4.2.4 Specific grant of £1.553m for Criminal Justice Social Work is due to be received in 2017/18 and requires to be allocated to the Health and Social Care Partnership;

4.2.5 The South Ayrshire Health and Social Care Partnership is due to receive £8.300m funding direct from the Scottish Government, an increase of £2.470m from 2016/17;
4.2.6 In presenting revised budget proposals for revenue and capital, Members should reflect that the base net expenditure of £257.453m for 2017/18 requires to be further adjusted to recognise the following:

- that £65.764m of the base net expenditure figure relates to the Health and Social Care Partnership delegated budget under the control of the Integrated Joint Board;
- any requests from Executive Directors/ Directors to fund additional service pressures, including pay awards, identified for 2017/18;
- any previously agreed savings or efficiency proposals that require to be implemented in 2017/18;
- any requests from Executive Directors/ Directors to revise or remove previously approved savings or efficiency proposals;
- any new borrowing and interest and expenses thereon linked to proposed revisions to the capital programme;
- any changes proposed in the level of contributions to funds; and
- the proposed use of any projected balances at 31 March 2017 (see para 4.3 (1) below).

4.3 **Other Budget Issues**

4.3.1 **Projected Revenue and Fund Balances** - the projected uncommitted accumulated revenue and fund balances as at 31 March 2017 is estimated to be £8.199m, based on the information contained in revenue monitoring reports for the period to 31 December 2016.

4.3.2 **Council Tax Bad Debt Provision** - the Council requires to take a view on the level of non-collection of Council tax in the coming financial year. The level of provision currently being targeted in 2017/18 is 2.75 per cent.

4.3.3 **Council Tax Increases** – as confirmed in the grant settlement for 2017/18 announced by the Scottish Government on 15 December 2016, Councils are now free to increase Council tax rates, capped at a maximum 3% for 2017/18. Each 1% increase would raise approximately £0.579m, resulting in a maximum amount of £1.737m available for use in 2017/18.

4.3.4 **Teacher Numbers** – South Ayrshire currently has a pupil teacher ratio at a value of 13.4. Failure to achieve a national ratio of 13.7 could result in sanctions for authorities.

4.4 **General Services Capital Programme Considerations**

4.4.1 South Ayrshire’s total Capital Grant allocation for 2017/18 is £12.231m, split between £12.077m General Capital Grant and £0.154m Specific Capital Grant for Cycling, Walking and Safer Streets.
4.4.2 In line with recommended practice, consideration should be given to extending the current 5 year capital programme to one of 6 years from 2017/18 and to, potentially, an 8 to 10 year programme in future years. This would allow a greater flexibility in the planning of significant capital investment, which tends to have long lead in times, and would ensure adequate preparation and planning in terms of the operational activity.

4.4.3 The approved capital programme requires to be adjusted to recognise the following:

- re-profiling of previously approved projects based on revised project timelines;
- requests to increase/reduce spend on previously approved projects;
- requests to fund new projects identified through the approved Capital Asset planning process for the period of the programme;
- anticipated levels of capital receipts in the same period; and
- the associated revenue costs of any borrowing.

4.5 **Common Good Budget Considerations**

4.5.1 Revenue and capital budgets for the Ayr, Prestwick, Troon, Maybole and Girvan Common Good funds require to be set for 2017/18.

4.5.2 Girvan Common Good Fund continues to have insufficient resources to meet ongoing expenditure. The Council previously agreed to fund this expenditure.

4.6 **Budgets 2018/19 Onwards**

As financial settlement figures have only been provided for 2017/18, it is difficult to project the budget gaps for future years. The Financial Strategy approved by Council in December 2016 provided a number of possible scenarios depending on future settlement therefore it would be prudent for Elected Members to continue the process of taking budget decisions having regard to indicative figures for future years.

5. **Legal and Procurement Implications**

5.1 The Council is required to set the 2017/18 Council tax level by 11 March 2017.

5.2 There are no procurement implications arising from this report.

6. **Financial Implications**

6.1 As outlined above

7. **Human Resources Implications**

7.1 None directly from this report although the budget proposals brought forward by Members may include staffing changes.
8. Risk

8.1 Risk Implications of Adopting the Recommendations

8.1.1 There are no risks associated with adopting the recommendations.

8.2 Risk Implications of Rejecting the Recommendations

8.2.1 If the terms and conditions of the settlement, as outlined in the Cabinet Secretary for Finance and constitution’s letter to CoSLA of 15 December 2016, are not adhered to, then there is a risk that a less favourable offer will be made.

9. Equalities

9.1 The proposals in this report have been assessed through the Equalities Impact Assessment Scoping process, and there are no significant positive or negative equality impacts of agreeing the recommendations, therefore an Equalities Impact Assessment is not required. A copy of the Equalities Scoping Assessment is attached as Appendix 3.

10. Sustainable Development Implications

10.1 Considering Strategic Environmental Assessment (SEA) - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11. Options Appraisal

11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12. Link to Council Plan

12.1 The matters referred to in this report contribute to the Council strategic objective of ‘Improve the way that we work as a Council’ and within that to the outcome ‘Budgets designed to support our strategic objectives and deliver our strategic outcomes’.

13. Results of Consultation

13.1 Given the delay in receiving the 2017/18 financial settlement and the subsequent changes introduced by the Scottish Government in early February 2017, there has been no opportunity for public consultation.

13.2 Consultation has taken place with Councillor Robin Reid, Portfolio Holder for Resources and Performance, and the contents of this report reflect any feedback provided.

13.3 High level discussions on the financial situation have taken place with the trade unions, and further discussions will take place through the JCC process following approval of the 2017/18 revenue budget.
14. **Next Steps for Decision Tracking Purposes**

14.1 If the recommendations above are approved by Members, the Head of Finance and ICT will ensure that all necessary steps are taken to ensure full implementation of the decision within the following timescales, with the completion status reported to the Leadership Panel in the ‘Council and Leadership Panel Decision Log’ at each of its meetings until such time as the decision is fully implemented:

<table>
<thead>
<tr>
<th>Implementation</th>
<th>Due date</th>
<th>Managed by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget papers published on Re-Wired</td>
<td>3 March 2017</td>
<td>Head of Finance and ICT</td>
</tr>
<tr>
<td>Approved budgets will be incorporated in 2017/18 financial planning and management process</td>
<td>1 April 2017</td>
<td>Head of Finance and ICT</td>
</tr>
</tbody>
</table>

**Background Papers**

- Scottish Government Finance Circular 9/2016 (awaiting 2017 Finance Order)

**Person to Contact**

- Tim Baulk, Head of Finance and ICT
  - County Buildings, Wellington Square, Ayr, KA7 1DR
  - Phone 01292 612620
  - E-mail tim.baulk@south-ayrshire.gov.uk

**Date:** 22 February 2017