



BUDGET AND COUNCIL TAX SETTING 2018/19

Joint Report by Chief Executive and Director of Finance and Corporate Resources

PURPOSE OF REPORT To seek approval of the Comhairle's budget for 2018/19, to set the Council Tax for 2018/19 and to recommend a forward Budget Strategy.

COMPETENCE

- 1.1 The Comhairle is under a legal duty to set a balanced budget. In doing so the Comhairle must observe proper accounting practices and make arrangements which secure best value. A local authority must maintain an appropriate balance between the quality of the performance of its functions; the cost to the authority of that performance; and the cost to persons of any service provided by it for them on a wholly or partly rechargeable basis. In maintaining that balance a local authority shall have regard to efficiency, effectiveness, economy and the need to meet equal opportunity requirements.

SUMMARY

- 2.1 The Comhairle established a Budget Board in June 2017, comprising Councillors from all Wards and Parties, to oversee the implementation of the Comhairle's Budget Strategy, with a clear remit and expectation of engagement with communities.
- 2.2 Having managed a reduction of funding of 18% between 2010 and 2017, the second highest reduction in Scotland, the Comhairle had anticipated that savings of up to £12m could be required over the next two year period 2018-20 or up to £20m by 2022/23.
- 2.3 The Settlement announced on 14 December 2017 was a broadly flat cash settlement for Local Government as a whole but, as it included some £153m of ring fenced funding, it represented a cut overall. The consequences for the Comhairle were a further grant reduction of £0.8m but after allowing for the ring fenced funding, this amounted to a net reduction of £1.7m. After a number of errors in the Settlement methodology were identified, revised figures were issued on 23 January 2018 that saw the Comhairle's share of funding increase by £0.4m.
- 2.4 As with the 2017/18 Scottish Budget the need for the Government to secure a majority in Parliament means that there is a possibility of additional funding being allocated to Local Authorities at any of the three stages before the budget is agreed on 21 February 2018. No provision for any additional funding has been included in the figures in this Report and it is recommended that, in the event of any additional funding for the Comhairle, this be added to the balances earmarked to support the budget.
- 2.5 Based on the revised Settlement and presuming that pay awards are settled at the levels proposed by the Scottish Government then the Comhairle's deficit for 2018/19 will be £6.3m. This will be offset by Loan Charge savings of £1.2m and 1% efficiency savings, set out in Appendix A, of £0.7m to give a residual, recurring deficit of £4.4m.
- 2.6 The Comhairle presently has £3.8m of balances earmarked for future budget deficits, though it should be noted that, depending on financial performance for the last quarter of the year, this may change
- 2.7 Whilst the Comhairle could use all its balances in 2018/19 to minimise the savings needed, this would create a significant challenge for 2019/20 even before any indication of what the Settlement might be beyond 2018/19 and this approach is not therefore recommended. Instead it is recommended that the Comhairle undertake a programme of service redesign, as detailed in Appendix B, with the aim of seeking a 25% reduction in service costs over the term of the Comhairle that will enable it to achieve a balanced budget in a measured way. The priority order for service redesign has been recommended through the Budget Board with all Members having the opportunity to contribute to the ranking. Nineteen Members contributed to the ranking process.
- 2.8 To ensure that arrangements are in place to manage effectively the redesign programme it is proposed that the Chief Executive submit a Report recommending appropriate governance arrangements to the February 2018 meeting of the Policy and Resources Committee.
- 2.9 Uncertainty about future year local government Settlements remains a key challenge for the Comhairle and the long term projections set out in Appendix C show that the successful implementation of the redesign programme, together with the 1% savings programme, provides an effective strategy for the Comhairle to manage its projected deficits.
- 2.10 Details of Scottish Government's offer to Local Authorities were set out in letters to Council Leaders on 14 December 2017 (Appendix D). The one year proposal for 2018/19 includes a requirement that

Councils limit Council Tax increases to 3%, maintain the overall pupil: teacher ratio at 13.7:1 and secure places for all probationers who require one under the teacher induction scheme.

- 2.11 Councils were originally required to accept the offer by 19 January, later extended to 26 January, and recently to 2 February 2018. As the consequences of not accepting the package are “a revised, and inevitably less favourable, offer” the Leader has written to the Cabinet Secretary indicating that, whilst it will be recommended that the Comhairle accept its terms, this cannot be confirmed until the Comhairle approves its budget.
- 2.12 The recommended budget for delegation to Cùram is Slàinte nan Eilean Siar is on the basis of a flat cash provision with the Integration Joint Board (IJB) expected to manage within the same level of resources as 2018/19. Compared with the Comhairle’s overall budget this represents a favourable position as the IJB is excluded from finding a share of the residual deficit. Furthermore, it is recommended that the Comhairle earmark the additional, unhypothecated, funding of £429k in the Settlement to be allocated to the IJB as it is evidenced that it is required for the purpose for which it was distributed (as detailed in paragraph 6.3).
- 2.13 The Comhairle’s business plans and budgets have been prepared in accordance with the Comhairle’s, Corporate Strategy and are included on the Agenda at Budget Items (b) and (c) respectively. These should be considered together as they set out the objectives of the Comhairle and the resources to deliver them in 2018/19. The draft budgets include the proposed 1% efficiency savings shown in Appendix A.
- 2.14 Where relevant, recommended fees and charges for 2017/18 are detailed at Budget Item (d). Unless indicated otherwise, or set by statute, other fees and charges will rise by 2% and the draft budget includes provision for this increase. The Comhairle is responsible for setting the fees for services that fall within the remit of Cùram is Slàinte nan Eilean Siar and it is therefore proposed that this be deferred to 28 February 2018 so that the Board can recommend the appropriate levels to the Comhairle as part of its own budget process.
- 2.15 It is recommended that, in the light of the current financial risks, as shown in Appendix E including the realisation of the redesign savings, that the level of uncommitted balances be retained at £3.5m.

RECOMMENDATIONS

3.1 It is recommended that the Comhairle:

- (a) **agree to accept the 2018/19 Settlement offer from the Scottish Government as set out in the Scottish Government letter at Appendix D;**
- (b) **agree the Budget Strategy for 2018/19 as set out in Sections 4, 5 and 6 of the Report;**
- (c) **approve the business plans for 2018/19 at Budget Item (b) of the Agenda;**
- (d) **approve the draft budgets for 2018/19 at Budget Item (c) of the Agenda;**
- (e) **approve the fees and charges for 2018/19 at Budget Item (d) of the Agenda;**
- (f) **agree the delegated budget for Cùram is Slàinte nan Eilean Siar as detailed in Section 6 of the Report;**
- (g) **agree to earmark £429k for Cùram is Slàinte nan Eilean Siar to be used if required for the purposes specified in Section 6 of the Report;**
- (h) **request that Cùram is Slàinte nan Eilean Siar recommend to the Comhairle the 2018/19 fees and charges for the services within its remit in time for the Comhairle to set these at its February 2018 series of meetings;**
- (i) **agree to increase Council Tax by 3% for 2018/19 to £1,086.36 for Band D properties;**
- (j) **agree to maintain the level of uncommitted balances at £3.5m, to continue the policy of setting aside underspends on winter maintenance for future severe winters and to review earmarked balances once the outturn for 2017/18 is known;**
- (k) **note the long term financial plan set out in Appendix C;**
- (l) **agree the redesign programme set out in Appendix B, and request that the Chief Executive report to the February 2018 meeting of the Policy and Resources Committee recommending appropriate Governance arrangements for the programme;**
- (m) **agree that any additional funding agreed in the Scottish Budget be set aside to support the overall Comhairle budget; and**

- (n) continue to engage with the Scottish Government to seek an early indication of the budget expectations for 2019/20 onwards and to seek to secure the best settlement for the Comhairle in future years.**

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Appendices: A 1% Savings Proposals 2018/19
B Redesign Programme
C Long Term Financial Plan 2018-29
D Letter from Scottish Government (14 December 2017)
E Significant Financial Risks February 2018

Background Papers: Budget and Council Tax Setting 2017/18 (Policy and Resources Committee February 2017)
Budget Strategy (Policy and Resources Committee June 2017)
Budget Strategy (Policy and Resources Committee October 2017)
Budget Strategy Update (Policy and Resources Committee December 2017)
Scottish Government Finance Circular No 5/2017
Revised Local Government Settlement Figures – 23 January 2018

BUDGET ASSUMPTIONS

- 4.1 The 2018/19 budget provides for general inflation of 2%. There is no pay settlement agreed for 2018/19 but the budget includes an assumption, in line with that proposed by the Scottish Government, of minimum pay at the Scottish Living Wage, a 3% pay award for those earning up to £30k, and a 2% pay award, capped at £1,600, for those earning over £30k for all staff groups.
- 4.2 The budget for 2017/18 assumes that all fees and charges in the control of the Comhairle will generate 2% more revenue than in the previous year. Where fees and charges are not raised in line with inflation, Heads of Service must recommend how this may be best achieved in the services for which they are responsible.
- 4.3 A major part of the Comhairle's expenditure is servicing debt used to finance capital projects. It is not expected that the Comhairle will undertake any long-term borrowing in 2017/18 and it is assumed that short-term borrowing will be at a rate of 1%.
- 4.4 The table below gives an indication of the sensitivity of key budget assumptions to a 1% change.

Category of Cost	Assumption %	Increase %	Increased cost £000's
Council Tax Collection Default	1.90	1.00	115
Inflation on running costs	1.00	1.00	404
Pay Inflation teaching staff	1.00	1.00	181
Pay Inflation (non-teaching staff)	1.00	1.00	444
Non-domestic Rates Default	1.00	1.00	77

OVERALL BUDGET

- 5.1 The draft budget for 2018/19 includes:
- additional funding of £11k for the Benbecula-Stornoway air service as agreed in February 2017;
 - allocating the £45k, included in the settlement for the Scottish Welfare Fund, to Finance and Corporate Resources;
 - allocating the £90k, included the settlement for early learning and childcare, less a £22k reduction for school meals to Education and Children's Services;
 - earmarking centrally the £429k included in the settlement for Health and Social Care for use as detailed in section 6 below;
 - allocating the £152k, included in the settlement for temporary accommodation, for that purpose;
 - allocating £50k, as the Comhairle's share of support for *Our Islands: Our Future* and promotion of a Single Island Authority to the Chief Executive's Department as agreed on 21 June 2017;
 - reducing the budget for building standards by the £12k being clawed back, through the settlement for central costs;
 - earmarking the £11k, included in the settlement for British Sign Language, for that purpose;
 - providing an extra £103k WISP schools comprising £60k for rates and £43k to match the contractual increase in the FES contract;
 - additional funding of £170k to address pressures within the mainland placements budget; and
 - above general inflation funding of £164k for bus contracts to match the contractual increase.
- 5.2 Taken together the budget proposals set out in this Report would lead to a deficit of £4,402k in 2018/19. This includes savings of £1.2m in Loan Charges and the first year of the 1% departmental savings (£684k).

Service Redesign

- 5.3 In the context of year on year funding reductions since 2010, amounting to an 18% decrease, it is no longer considered appropriate to continue to seek percentage savings from all services. Instead a more structured approach has been recommended by the Budget Board.
- 5.4 It is therefore proposed that the Comhairle undertake a redesign programme aimed at reducing costs, whilst maintaining policy and service outcomes. This will require the Comhairle, together with its stakeholders, to consider different models for service delivery, including income generation.

- 5.5 To develop a programme all Members had the opportunity to contribute to the prioritisation of service themes and Appendix B sets out a proposed programme based on the views submitted and taking account of known limitations.
- 5.6 Delivering the redesign programme on time will require a structured approach which will include engagement and consultation with partners, employees and communities, and it is recommended that the Chief Executive report to the February meeting of the Policy and Resources Committee setting out appropriate governance arrangements.

Planned use of Balances

- 5.7 The concurrent third quarter Revenue Monitoring Report shows how the Comhairle has £3.8m of balances set aside against the deficit of £4.4m.
- 5.8 The target savings from redesign of £2m for 2018/19 would reduce the deficit to £2.4m and consequently leave balances of £1.4m for future budgets.
- 5.9 The long term plan in Appendix C shows how delivery of the plan would affect the Comhairle's budget position, accepting that future settlements and inflation, especially in relation to pay, remain significant unknowns.
- 5.10 The proposal to retain £3.5m of uncommitted reserves includes recognition of the risk associated with the redesign programme.

HEALTH AND SOCIAL CARE

- 6.1 In relation to the Integration Joint Board it is recommended that the Comhairle agree to a delegated budget made up from the recurring total budget from 2017/18 of £19,395k; adjusted for:
- a) additional £7k insurance budget;
 - b) reduction of £15 for sensory impairment as per the Settlement; and
 - c) reduction of £26k for mileage as part of the corporate savings.
- 6.2 These recommendations would establish a delegated budget of £19,361k.
- 6.3 In addition, it is recommended the Comhairle earmark the additional £429k for Health and Social Care to be used if required as follows:
- Sleepovers - £65k;
 - Carers Act - £117k;
 - Free Personal Care - £13k; and
 - Pressures/Living Wage - £234k.

FORWARD STRATEGY

- 7.1 The Local Government Settlement for 2018/19 is disappointingly another one year Settlement but represents a better allocation of funding for the Comhairle than had been expected.
- 7.2 Appendix C sets out the Financial Plan over the next ten years and whilst the level of Government funding is not within the Comhairle's control, it is reasonably anticipated that the Comhairle will be faced with a requirement for savings in the near and foreseeable future.
- 7.3 Effective forward planning and management means that the Comhairle is once again well placed to address this challenge and the planned programme of service redesign provides a structured way to use balances to ensure a balanced budget over the period of implementation.

1% SAVINGS PROPOSALS 2018/19

Department	Proposed Savings (£k)
Chief Executive	35
Development	48
Education & Children's Services	411
Finance & Corporate Resources	52
Technical Services	138
Total	684

Efficiency proposals 2018/19 Chief Executive's Department

1% savings (£k)

35

Proposal(s)	Impact	Risks	EQIA	Savings (£k)
Community Planning	Provided Community Planning Partners contribute towards the cost of managing the CPP there will be no impact.	Partners are unable to agree to contribute.	No	20
Training and Development	Reduction in level of training available.	Reduction in capacity.	No	15

Total efficiencies proposed	35
Savings still to find / (savings in excess of target)	0

Proposal(s)	Impact	Risks	EQIA	Savings (£k)
Economic Development: Reduce Arts Development Budget Allocation	Less direct funding to core funded organisations; less funding to support arts development projects.	No significant risks to the Comhairle, with any risk being reputational. Risk to partner art bodies around provision of a comprehensive arts programme / risk to their ability to lever in funding from bodies such as Creative Scotland.	No	15
Economic Development: Reduce Abattoirs Budget	Reduction in funding to Lochmaddy and Barra Abattoirs and support to the crofting sector.	No significant risks to the Comhairle. Potential external risks around environmental issues such as a potential increase in "home kill".	No	5
Economic Development: Reduce Industrial Promotion Budget	Reduction in funding to support sectoral development activities	No significant risks to the Comhairle. Risk around the level of strategic support the Comhairle can provide to economic development proposals.	No	5
Economic Development: Reduce Tourism Budget	Less ability to support key sectoral projects and undertake area marketing and promotion.	No significant risks to the Comhairle. Risk around the reduction of area marketing support resulting in reduced number of visitors.	No	10
Building Standards: reduction in accommodation costs and achievement of fee increase.	No impact - alternative accommodation sourced.	No Risk.	No	3
Housing Service: reduction in administration costs, including reduction in travel budgets, car user allowance, maintenance, course fees and subscriptions.	Less opportunity for staff travel and attendance at events.	No significant risks to the Comhairle. A level of risk from nonparticipation, non-attendance at events.	No	3

Proposal(s)	Impact	Risks	EQIA	Savings (£k)
Consumer & Environmental Services: reduction in administration costs and travel budgets.	Less opportunity for staff travel and attendance at events.	No significant risks to the Comhairle. A level of risk from nonparticipation, non-attendance at events.	No	3
Planning Service: reduction in administration costs and travel budgets.	Less opportunity for staff travel and attendance at events.	No significant risks to the Comhairle. A level of risk from nonparticipation, non-attendance at events.	No	2
Energy Unit: reduction in business support budget.	Reduced opportunity to support community renewables projects	No significant risks to the Comhairle. Risk around the level of support the Comhairle can provide to development proposals.	No	2

Total efficiencies proposed	48
Savings still to find / (savings in excess of target)	0

Proposal(s)	Impact	Risks	EQIA	Savings (£k)
Secondary: Reduce above formula staffing	Harmonisation of timetable will release over formula secondary staffing for use in e-Sgoil / supply.	Low risk - Successful harmonisation of timetable required to release over formula secondary staffing.	No	250
Reduce Core operational budget in line with 2017-18 spend.	Minor impact - review of supplies and services budgets underspent during moratorium on spend in 2016 and 2017 to identify efficiencies.	No significant risks.	No	120
Staffing review and VER exercise.	Minor impact - potential loss of expertise within Department.	No significant risks.	No	41
Total efficiencies proposed				411
Savings still to find / (savings in excess of target)				0

Proposal(s)	Impact	Risks	EQIA	Savings (£k)
Remove the 10% discount on Second Homes.	Additional staff time for set up, monitoring and recovery.	Staff absences, increased bad debts.	No	52
Total efficiencies proposed				52
Savings still to find / (savings in excess of target)				0

Proposal(s)	Impact	Risks	EQIA	Savings (£k)
Department-wide Efficiencies: Reduced budgets for travel, subsistence, subscriptions, professional fees, printing and photocopying, stationary, IT hardware, software and licenses.	Reduced networking opportunities at regional and national levels; reduction in level of on-site supervision; reliance on non-supported IT applications.	Failure to comply with works' specification and required workmanship standards; reduction in productivity.	No	15
Directorate Efficiencies: Increased charging of revenue costs to capital budgets; reduction in travel and subsistence budgets; non-filling of vacant post.	Increased capital cost to relevant projects; reduced networking opportunities and less presence and visibility at regional and national level.	Project budget affordability; reduced resilience within department; loss of a "voice at the table".	No	45
Asset and infrastructure Efficiencies: Building cleaning contract; operational depot recharges; reduced staff pension costs.	Reduction in cleanliness and tidiness of offices; increased costs to relevant trading operations and other departments.	Financial stability of relevant trading operations.	No	19
Municipal Services Efficiencies: Operational efficiencies in street cleansing, refuse collection and recycling disposal, waste disposal, biowaste process; reduction in fleet management charges.	Reduced resilience of operational teams.	Reduced performance in Street Cleanliness Index and recycling.	No	59

Total efficiencies proposed	138
Savings still to find / (savings in excess of target)	0

Proposed Redesign Programme in Priority Order

Theme (Note 2)	Comprising	Budget £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Children's Services (Note 3)	<ul style="list-style-type: none"> • Children's Services; and • Mainland placements. 	3,098			775	
Properties	<ul style="list-style-type: none"> • Council buildings; • Repairs and maintenance; and • Property services. 	2,331	291	291		
Waste & Cleansing Services	<ul style="list-style-type: none"> • Waste collection, recycling & disposal; • Street cleansing; and • Burial grounds. 	4,558	570	570		
Community Services	<ul style="list-style-type: none"> • Community education; • Community learning; • Vocational and adult learning; • Youth services; • Public conveniences; • Sports development; and • Sports facilities. 	2,837	355	355		
Transportation (Note 4)	<ul style="list-style-type: none"> • Public and integrated bus services; • Community transport; • Inter-island air services; • Stornoway bus station; and • School transport. 	6,633		1,658		
Housing	<ul style="list-style-type: none"> • Housing Strategy; and • Homelessness. 	410	51	51		
Economic Development	<ul style="list-style-type: none"> • Archaeology; • Arts, culture and heritage; • Abattoirs; • Biodiversity and countryside access; • Libraries; • Museums; • Business Gateway; • Economic Development; • Regeneration; • Strategy Unit; and • Tourism Developments. 	2,446	306	306		
Schools & Related Services	<ul style="list-style-type: none"> • All school related services; • School catering; • Learning support; and • Gaelic and multi-media. 	9,878	430		2,040	
Early Years Education	<ul style="list-style-type: none"> • All early education services. 	2,347				587
Community Support	<ul style="list-style-type: none"> • Community Council support; • Charitable rates relief; • Revenue match Fund; • Gaelic Grants; and • Ward priority fund. 	822				206
Roads & Related Infrastructure	<ul style="list-style-type: none"> • Highway maintenance; and • Winter maintenance. 	3,313				828
Apprentices	<ul style="list-style-type: none"> • Corporate apprentices; and • Technical Services apprentices. 	324				81
Totals		38,997	2,003	3,231	2,814	1,702

Notes

1. The target savings for each area is 25% of the budget. Savings for 2018/19 are based on mid year implementation.
2. The Themes exclude: The Integration Joint Board; teachers; statutory corporate services / costs and Loan Charges.
3. In the context of the current service demands it is not considered realistic to assume savings can be made before 2020/21.
4. The main Lewis and Harris bus contracts run to 31 March 2019 and any redesign will need to work around this timescale.

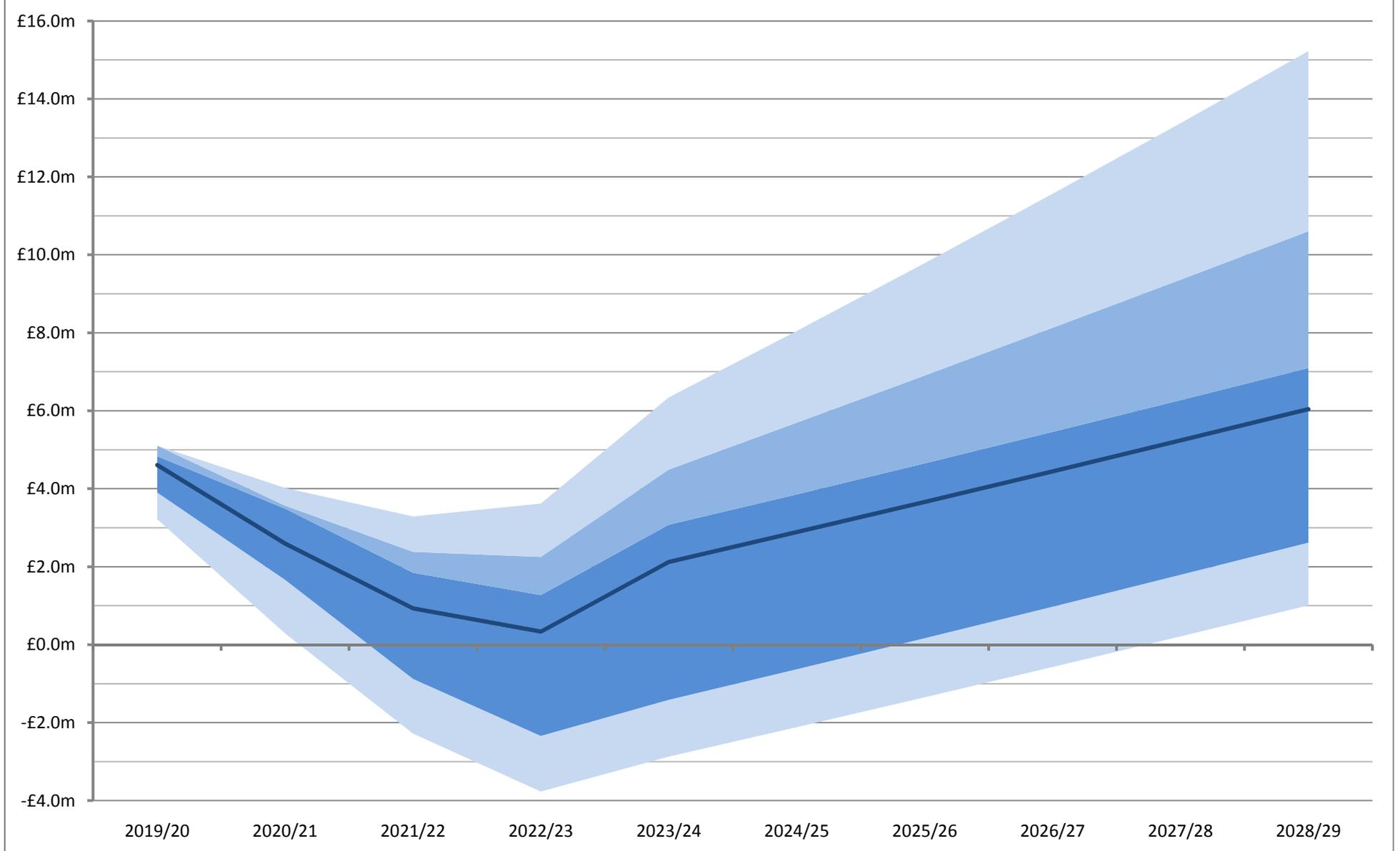
Comhairle Financial Projections 2019-29

	2018/19 Base	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£	£	£	£	£	£	£	£	£	£	£
Employees	47,269,079	47,072,481	45,763,153	44,668,201	44,193,137	45,077,000	45,978,540	46,898,110	47,836,073	48,792,794	49,768,650
Premises	7,833,616	7,749,503	7,533,950	7,353,689	7,275,479	7,420,989	7,569,409	7,720,797	7,875,213	8,032,717	8,193,371
Transportation	4,153,115	4,108,521	3,994,242	3,898,674	3,857,210	3,934,354	4,013,041	4,093,302	4,175,168	4,258,672	4,343,845
Supplies	7,842,723	7,758,513	7,542,708	7,362,238	7,283,937	7,429,616	7,578,209	7,729,773	7,884,368	8,042,056	8,202,897
Agency	16,719,794	16,540,267	16,080,197	15,695,454	15,528,527	15,839,097	16,155,879	16,478,997	16,808,577	17,144,748	17,487,643
Transfer Payments	5,069,250	5,170,635	5,274,048	5,379,529	5,487,119	5,596,862	5,708,799	5,822,975	5,939,434	6,058,223	6,179,387
Loan Charges	15,390,436	15,390,436	15,390,436	15,390,436	15,390,436	15,390,436	15,390,436	15,390,436	15,390,436	15,390,436	15,390,436
Central Budgets	1,918,930	1,918,930	1,918,930	1,918,930	1,918,930	1,918,930	1,918,930	1,918,930	1,918,930	1,918,930	1,918,930
Income	-18,244,567	-18,609,458	-18,981,648	-19,361,280	-19,748,506	-20,143,476	-20,546,346	-20,957,273	-21,376,418	-21,803,946	-22,240,025
Projected Budget	87,952,376	87,099,828	84,516,017	82,305,870	81,186,270	82,463,808	83,766,897	85,096,047	86,451,781	87,834,629	89,245,135
Cúram is Sláinte	19,360,586	19,360,586	19,360,586	19,360,586	19,360,586	19,360,586	19,360,586	19,360,586	19,360,586	19,360,586	19,360,586
Revenue Support Grant	-85,081,000	-83,804,785	-82,966,737	-82,137,070	-81,315,699	-80,502,542	-80,502,542	-80,502,542	-80,502,542	-80,502,542	-80,502,542
Non-Domestic Rates	-7,702,000	-7,586,470	-7,510,605	-7,435,499	-7,361,144	-7,287,533	-7,433,283	-7,581,949	-7,733,588	-7,888,260	-8,046,025
Council Tax	-10,128,080	-10,462,307	-10,807,563	-11,164,212	-11,532,631	-11,913,208	-12,306,344	-12,712,453	-13,131,964	-13,565,319	-14,012,975
Balances			0	0	0	0					
Funding	-102,911,080	-101,853,562	-101,284,905	-100,736,781	-100,209,475	-99,703,283	-100,242,170	-100,796,945	-101,368,095	-101,956,121	-102,561,542
Cummulative Deficit	4,401,882	4,606,852	2,591,698	929,674	337,381	2,121,111	2,885,313	3,659,689	4,444,272	5,239,094	6,044,179
Balances b/f	3,842,713	1,443,581	67,729	290,032							
Balances used	-4,401,882	-4,606,852	-2,591,698	-929,674							
Redesign Programme	2,002,750	3,231,000	2,814,000	1,701,500							
Balances c/f	1,443,581	67,729	290,032	1,061,857							

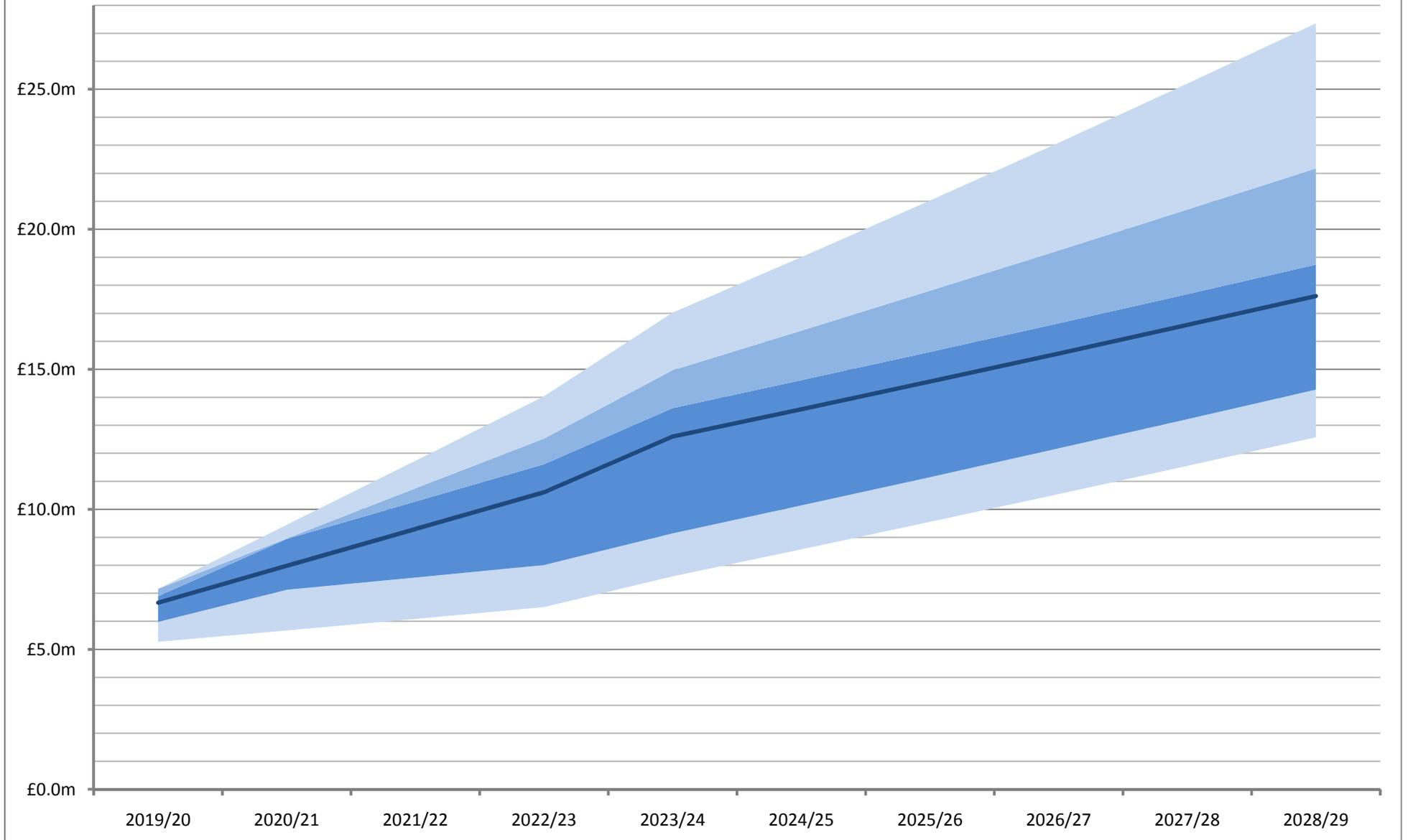
Key Assumptions

1. Reduction in grant of 1.5% in 2019/20 then 1% to 2023/24 and grant flat thereafter.
2. General inflation remains at 2%.
3. Council Tax rise of 3% per year plus buoyancy.
4. Pay inflation of 3% in 2019/20 falling to 2% thereafter.
5. 1% efficiencies from 2019-22.

Comhairle Budget Projections 2019-29 (Including Redesign Savings)



Comhairle Budget Projections 2019-29 (Excluding Redesign Savings)



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Copy to: The Leaders of all Scottish local authorities

14 December 2017

Dear Alison,

Today I set out the Scottish Government's draft spending and tax plans for 2018-19. Further to my announcement I write now to confirm the details of the local government finance settlement for 2018-19.

Details of the indicative allocations to individual local authorities for 2018-19 are also being published today as set out in Local Government Finance Circular No. 5/2017.

This settlement is set against the context of the continuing austerity imposed on Scotland by the UK Government, which means that by 2019-20 the Scottish Government's fiscal block grant allocation will be £2.6 billion (8.0%) lower in real terms than it was in 2010-11.

I have considered carefully the representations and evidence COSLA have presented on behalf of local government and have welcomed the constructive approach with which you have approached our negotiations.

I have noted the issues COSLA have said are important for local government and have tried where possible to address these in this settlement. I recognise the continuing financial pressures local government, along with the rest of the public sector, is facing in a very challenging fiscal environment. However, I believe that the outcome, presented in the measures set out in this letter, is the best that could be achieved in the circumstances and continues to provide a fair settlement for local government to enable them to meet our shared ambitions for the people and communities we serve.

Turning now to the detail of the package of measures, the total revenue funding to be provided through the settlement for 2018-19 will be £9630.8 million, which includes distributable non-domestic rates incomes of £2,636 million.

The core Capital funding is set at £726.4 million but with the inclusion of the expansion of Early Years provision as set out below this increases the Capital funding within the settlement to £876.4 million.

The total funding which the Scottish Government will provide to local government in 2018-19 through the settlement is therefore £10,507.1 million. This includes;

- Baseline from 2018-19 of the £130 million additional revenue investment I announced earlier this year at Stage 1 of the Budget Bill for 2017-18;
- £52.2 million revenue and £150 million capital to deliver on our joint agreed ambitious programme for the expansion of Early Years provision;
- £11 million of revenue to support the initial expansion of Early Years set out in the 2014 Act provisions;
- £24 million for the full year cost of our contribution to the Teachers' pay offer; and
- £66 million to support additional investment in social care in recognition of a range of pressures local authorities are facing.

I have also had to look very seriously at the capital allocation to Local Government, in particular the calculation of the share commitment which guarantees that Local Government will receive a fixed percentage of the overall Scottish capital budget each year until 2019-20, based on the position as at the 2015 Spending Review. However, I believe that the context has changed since this commitment was originally made, including the introduction of additional funding streams outwith the settlement which local authorities will directly benefit from.

For 2018-19 the calculation of the capital share allocation takes into account, at least in part, the additional funding streams outwith the settlement, except in the case of Early Years which is additional to the share allocation. The value of the capital funding I have made available to local government exceeds the percentage commitment made and equates to 31 per cent. Taking into account the Early Years grant, the percentage increases to 36 per cent.

The commitment to repay £150 million of re-profiled capital from an earlier settlement remains and this will be repaid in full in 2019-20.

For 2018-19 local authorities will continue to have the flexibility to increase Council Tax by up to a maximum of 3%. This local discretion will preserve the financial accountability of local government, whilst also potentially generating around £77 million to support services.

The revenue allocation delivers a flat cash settlement for local government for 2018-19 compared to 2017-18, including the additional resources to meet our commitments on the expansion of Early Years, teachers pay and support for social care. Taken together with the additional spending power that comes with the flexibility to increase Council Tax (worth around £77 million next year) the total funding (revenue and capital) delivers an increase in the overall resources to support local government services of 1.6%.

In my response on 12 September to the Barclay Review of non-domestic rates I made clear that there were certain recommendations that I wished to engage further on before coming to a conclusion, including the removal of charity relief for council arm's-length external organisations (ALEOs). In these discussions I heard a strong and consistent message from local government and other stakeholders about the importance of this benefit, to sports, leisure and culture facilities in particular, and of keeping the costs of these services affordable especially in disadvantaged and vulnerable communities.

As a result I confirmed on 28 November that charity relief will continue to be applicable to qualifying properties currently occupied by council ALEOs. However I am aware that some

councils are planning to increase the numbers of ALEOs or the number of properties occupied by existing ALEOs. To mitigate against this it is my intention to offset any further charity relief benefit awarded in respect of both new council ALEOs and additional properties occupied by existing ALEOs since my announcement, by implementing an equal compensating reduction in General Revenue Grant for the councils in question.

In addition, a new relief for public sector and private sector day nurseries is proposed. This will offer 100% relief for properties wholly or mainly used to provide day nursery care for pre-school children. The relief will be applicable under EU State aid rules.

We will require local authorities to achieve a pupil:teacher ratio of 13.7, and ensure that places are provided for all probationers who require one under the Teacher Induction Scheme. This is supported by a continued funding package of £88 million, made up of £51 million to maintain teacher numbers and £37 million to support the Teacher Induction Scheme. In order to support delivery of this commitment the Scottish Government will work with COSLA to consider how the use of existing or additional data on unfilled posts and teacher vacancies could be better utilised to inform how delivery of this commitment is measured. As in previous years teachers whose posts are funded through the Attainment Scotland Fund, including Pupil Equity Funding, are additional and do not contribute towards the delivery of this commitment. An additional £24 million is also be included in the settlement to cover the additional full year cost of the teachers' pay offer for 2017-18.

We have committed to provide certainty to local authorities over the quantum of multi-year funding for the expansion of early learning and childcare to support authorities in planning for and implementing the delivery of the commitment.

I understand the Deputy First Minister has been very encouraged by the constructive discussions which are taking place through the Early Learning and Childcare Finance Working Group to reach a shared understanding of the costs arising from the expansion. It is right and proper that Scottish Government and local authority colleagues take the time to challenge and refine cost estimates for this significant investment in the education and care of our youngest children, so that we can all be assured that we make best use of public funds.

On that basis, we are content to agree to the proposal made by COSLA leaders that we should agree revenue and capital funding for 2018-19 (adds £52.2 million and £150 million respectively) in our draft spending plans announced today and to continue to work closely together to agree funding levels for 2019-20 onwards in early 2018. For 2018-19 the £52.2 million includes revenue funding for free lunches and implementation of the additional graduate commitment (from August 2018). There is also a further additional £11 million included in 2018-19 for implementation of the 2014 Act provisions.

In 2018-19 an additional £66 million is included in the settlement allocations to support additional expenditure by local government on social care in recognition of a range of pressures they and integration authorities are facing, including support for the implementation of the Carers (Scotland) Act 2016, maintaining our joint commitment to the Living Wage (including our agreement to now extend it to cover sleepovers following the further work we have undertaken) and an increase in the Free Personal and Nursing Care payments. This funding is provided directly to local authorities and is in addition to the £355 million baselined provision transferred from NHS Boards to Integration Authorities. I will look to local authorities to continue to prioritise their financial support for social care.

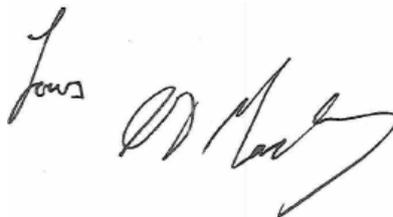
The Scottish Government is fully committed to further engagement with COSLA as we seek to make local taxation as a whole fair and progressive. We will work with COSLA to consider your objectives for local tax reform and our commitments for local government to retain the net incomes from the Crown Estate for the benefit of island and coastal communities.

I can also restate my commitment to our partnership working and can confirm my intention that this will again be a sanction free settlement.

The measures set out in the settlement offer must be viewed as a package to protect our shared priorities. In order to access all of the benefits involved, including those priorities supported by specific financial benefits, local authorities must agree to deliver all of the measures set out in the package and will not be able to select elements of the package.

Any individual authority not intending to agree the offer and accept the full package of measures and benefits should write to me by no later than 19 January 2018. For those authorities not agreeing the offer a revised, and inevitably less favourable, offer will be made.

I have carefully considered the representations made to me by COSLA and this is reflected in the detail of the settlement and the package of measures included. My aim throughout our discussions has been to reach an agreement with councils around the implementation of these commitments. I now invite local authorities to agree the terms of the settlement which I consider delivers the best outcome for local government that can be achieved in the circumstances.



DEREK MACKAY

Significant Financial Risks: February 2018

Service	Risk / Pressure	Added	Amended	Scale	Probability	Planned and Potential Mitigation strategies
Revenue						
Health & Social Care	Increasing service demand due to: demographic; Feb 2008 high cost packages; mainland placements; and transitions from children's services	Feb 2008	Feb 2018	£1-2m	Medium	Integration Joint Board Strategic Plan
Children's Services	Increasing number of high cost cases (including mainland placements).	Feb 2008	Feb 2016	£1m	Low	Strategies to provide care on island
Budget Savings	Implementation of Redesign Programme is delayed or projected savings not realised.	Feb 2013	Feb 2018	£1-2m	Medium	Governance Structure Financial Monitoring
Waste Management	Insufficient landfill diversion leading to increased landfill tax and allowances.	Feb 2008	Feb 2013	£1m	Medium	Detailed scrutiny and monitoring. Waste Management Strategy
Inflationary Pressures	Rising energy costs and implications for energy related operations.	Feb 2008	Feb 2016	£0.5m	Low	Energy saving measures & Carbon Management
	Rapid increase in general inflation impacts on cost of service delivery in year	Feb 2017		£0.5m	Medium	
	Pay award exceeds budgetary provision.	Feb 2010	Feb 2018	£0.6m	Medium	
Financial Environment	Increase in bad debts Additional pressure on Economic Development budgets	Jun 2008	Feb 2018	£1m	Low	Revised Debt Collection policy Payment terms applied to local suppliers improved
Severe Weather	Additional costs of Winter Maintenance and essential repairs due to damage.	Feb 2010	Feb 2015	£1-2m	Medium	Revised Winter Maintenance Policy Winter Maintenance Reserve
New Capital projects	Additional revenue consequences	Feb 2008	Feb 2013	£0.5m	Low	Review of projects before expenditure committed
Welfare Reform	Impact on Clients, Housing Services, Partners, Comhairle funding and staff.	Feb 2012	Feb 2016	£1m	Low	Political engagement Planning for changes
Capital						
Programme Management	Project overspends	Feb 2008	Feb 2013	£1-3m	Medium	Review of Contract Management Improved Monitoring
Prudential borrowing	Introduction of a cap on level of borrowing	Feb 2008	Feb 2013	£3-5m	Low	Reduction in size of programme Introduction of Asset Management Strategy
Core & statutory	Increasing regulation in relation to Legionella, DDA, Care Commission, SEPA etc.	Feb 2008	Feb 2014	£1m	Low	Focus resources on statutory projects
Others						
Reduction in Funding	Reduction in revenue funding from 2019/20	Feb 2010	Feb 2018	£1-2m	High	Early start on long term financial planning Engage in review process through COSLA
	Reduction in capital funding from 2019/20	Feb 2010	Feb 2017	£1-3m	Low	
Change in funding	Floor Mechanism	Feb 2008	Feb 2018	£15m	Medium	Engage in review process through COSLA Political engagement. Maintain flexibility in use of resources.
	Distribution Review	Feb 2009	Feb 2013	£?m	Medium	
Financial Environment	Loss of investments	Feb 2013	Feb 2018	£5-45m	Low	Effective Treasury Management
	Financial contagion leading to increased borrowing costs and further austerity	Feb 2013		£1-5m	Low	