
Report to Council

Date of Meeting: 16 December 2010

Subject: The 2010 Spending Review and Budget up-date

Report by: Director of Finance and Corporate Services

1.0 Purpose

- 1.1. The purpose of this report is to update Council on the implications of the Scottish Government Spending Review 2010 and approve the proposed funding package contained therein. The report also provides an update on the Council's draft budget position for 2011/12 and indicative funding gap.

2.0 Recommendations

It is recommended that the Council:

- 2.1. agrees to accept the package of measures and commitments outlined in letter of 17th November to Leaders of all Scottish local authorities;
- 2.2. agrees the current planning assumptions relating to the Council's draft 2011/12 budget;
- 2.3. endorses the Council's application under the Scottish Government's General Consent to Borrow Scheme.

3.0 Background

- 3.1. The terms of the agreement between the Scottish Government and COSLA are attached as Appendix 1 to this report. Local Government has maintained its share of the Scottish Budget at 34.5%. The actual settlement for local government is a reduction in revenue funding to Councils of 2.6% in cash terms and a reduction in capital funding of 17.9%.
- 3.2. In cash terms, this reduction in revenue grant would amount to £2.529m in Clackmannanshire, resulting in General Fund Revenue income of approximately £94.735m in 2011/12. The Council's actual funding will be confirmed in early December. This could result in a different allocation should the Scottish Government make any changes to distribution methodologies and/ or proportions.
- 3.3. The Scottish Government also proposes that the reduction in capital support will be implemented through a reduction in supported borrowing, rather than

capital grant. This measure aims to reduce the impact of reductions in cash grant and maintain existing levels of capital investment. The Government has proposed to maintain loan charge support at existing levels so councils should not see a reduction in revenue support following this change.

3.4. In making this offer, the Scottish Government has indicated that the Council needs to formally agree to deliver the following commitments:

- To remain committed to the delivery of the current Single Outcome Agreements, the 3 jointly agreed social strategies and the Curriculum for Excellence.
- To a council tax freeze for 2011-12.
- To police officers being maintained at 17,234 throughout 2011-12.
- To maintain the pupil-teacher ratio in P1-P3,
- To protect the number of teacher posts as far as possible in order to secure:
 - places for all probationers who require a place under the induction scheme in August 2011;
 - Sufficient teaching posts available for all probationers who achieve Standard for Full Registration in summer 2011 (i.e. successfully complete their probation); and
 - A reduction in the total number of unemployed teachers.
- To an independently chaired review of all aspects of the McCrone Agreement, to report by June 2011 with the clear intention that its recommendations should be available for implementation before August 2012.
- To continue to deliver the shared Scottish Government/COSLA commitments on Free Personal Care, for which payments will be uprated in 2011-12.
- To continue to work with the Scottish Government towards implementation of the Carers and Young Carers Strategy at local level, including the maintenance of an extra 10,000 weeks respite provision.

3.5 The above commitments are generalised in many ways, and further clarity is being sought on the specific impact of each of them, including the potential financial impact. What will be important is that they are protected from cuts in the current budget savings deliberations. At this stage it has been necessary to make assumptions about the levels of funding required to deliver the requested commitments.

3.6 The Government has proposed a financial penalty on Councils which do not agree to the full package. In effect our grant will be cut by 6.4% (average cut for all other public services) rather than the 2.6% reduction contained in the offer. This would equate to a further loss of grant of c£3.696m which would have to be found from further equivalent savings or alternatively raised from Council Tax, which would equate to a 17% increase in tax.

4.0 General Services Draft Budget 2011/12

4.1 In February 2010 the Council's General Services Revenue Budget summarised the following medium term financial position:

	2010/11 £000	2011/12 £000	2012/13 £000
Net expenditure	119,179	119,943	122,389
Funding	119,179	116,379	113,578
Gap	0	3,565	8,811

4.2 Over the past month accountants have been working on the detailed base budget position for 2011/12. This takes account of all known current commitments including the estimated Government Grant funding referred to above. On the basis of this recent work the Budget Strategy assumptions approved by Council in August 2010 remain reasonable.

4.3 Overall the current funding gap is estimated to be approximately £7 million i.e a slight reduction on the planned £7.5 million savings target previously reported. This funding gap is summarised as follows:

	£million
2.6% cash reduction	2.5
Inflation	0.8
Demand led pressures	3.7
TOTAL	7.0

4.4 The demand led pressures comprise projections for the funding required to meet ongoing demographic pressures including increased demand for social care services and more children staying on at school. It also necessarily considers the potential resources needed to meet the commitments set out in paragraph 3.4 earlier in this report as well as the impact of the increase in the salary pay bill as a consequence of the implementation of new arrangements under Single Status.

4.5 The work to implement the Council's Budget Strategy is ongoing and this includes the identification of savings options which will be presented to the Council as part of the budget setting process. Officers are aiming to identify options in excess of the £7million funding gap identified above to provide the potential for some choice for elected members and to offset the level of anticipated reductions in revenue funding in future years. Officers also continue to focus effort through increased challenge and budgetary control to achieve a favourable outturn for the 2010/11 budget. This would also have the potential to make a contribution to meeting the funding gap of £7million for 2011/2012.

4.6 To provide an element of financial flexibility to councils during this period of financial pressure, Scottish Government has made available a general borrowing consent scheme in 2010/11. The scheme is intended to help councils manage costs which have arisen as a consequence of factors beyond the local authorities control such as voluntary severance. Clackmannanshire Council has made an application under this scheme in case further financial flexibility is required. The outcome of this application is not yet available but should approval be gained, any application of the scheme would be subject to the approval of the full Council.

5.0. Conclusion

- 5.1 The outcome of the spending review has not produced any major surprises, in that the likely reduction in grant to this Council remains broadly in line with forecasts a year ago. What is challenging is that the Government has only produced a one year settlement. This makes it problematic for Councils to properly plan for expected further reductions in funding in future years.
- 5.3 The approved budget strategy outlined a target level of savings required of £7.5 in 2011/12. On the basis of current assumptions this has been slightly reduced to approximately 7 million.
- 5.4 It is considered to be prudent that the Council continues to plan to identify a range of savings options in excess of £7million to ensure that the 2011/12 budget is deliverable and /or in anticipation of the likely reductions in future year's funding levels.

6.0 Appendices

- 6.1 Settlement letter 2011/12



7.0 Background Papers

- 7.1 Clackmannanshire Council Financial Strategy
- 7.2 Clackmannanshire Council Budget Strategy
- 7.3 Clackmannanshire Council Indicative General Services Revenue Budget 2010-13

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Appendix 1: Settlement Letter 2011/12

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To: The Leaders of all Scottish local authorities

17 November 2010

Dear Council Leader

THE 2010 SPENDING REVIEW

This letter contains the terms of the agreement, for recommendation to individual councils, reached between the Scottish Government and COSLA's Leadership on the 2010 spending review.

The agreement is represented by a package of measures. The package has been agreed against the background of the tightest financial circumstances for a generation. Given those circumstances, both sides believe that it is the best that can be achieved.

Focus on outcomes

The agreement is firmly anchored in the ongoing relationship between the Scottish Government and COSLA, based upon mutual respect and partnership. Both sides reaffirm their commitment to that relationship and are clear about the benefits which have flowed from it.

No part of the public sector has escaped without the need to prioritise or to secure efficiencies, given the significant reduction in the overall available

resource. We agree that a focus on outcomes, when money is so tight, is the only way to protect what matters to the people of Scotland.

Funding for local government in 2011-12

Overall, the Scottish Government's total budget in 2011-12 is £33.5 billion, excluding £100 million that is being carried forward from 2010-11 to mitigate the significant reductions in the capital budget. The cash reduction in the Scottish Government's Departmental Expenditure Limit compared to 2010-11 is £1.3 billion (or 4.5%). In assessing what share of this funding should go to local government, the Scottish Government has taken account of the unique position held by local government in the governance of Scotland and the major contribution local government makes to all of the Government's strategic objectives and the successful delivery of national outcomes.

The package of measures negotiated with COSLA's Leadership and now being put to councils would mean a drop of 2.6% in cash terms in the revenue funding provided to local authorities compared to 2010-11. That compares to an average cut in revenue budgets for all other (non-protected) public services of 6.4%. The reduction in capital funding represents a drop of 17.9% in the capital provided to local government by the Scottish Government compared to 2010-11. By comparison, the overall reduction in the Scottish Government's total capital budget over the same period will be 23.9%.

The Scottish Government has made clear to the COSLA Leadership that for councils to access the full amount of the financial package, the Government will require each local authority to agree formally to the full list of commitments contained within the package. COSLA's Leadership has noted this.

The Scottish Government's position is that it will not be possible for authorities to select elements of the package, including elements of the funding on offer. The Scottish Government is therefore asking each local authority Leader to write to the Scottish Government, by 21 December 2010, to indicate whether or not you agree to the full package on these terms. If you do not, the revenue funding available to your council would be reduced, not by 2.6%, but by 6.4% (which, across the whole of local government, would be worth £426 million in 2011-12).

In each of the past 3 years, the Scottish Government has held back £70 million from the Local Government Finance Order put to Parliament in early February (representing the amount to be made available to councils which freeze their council tax). Parliamentary approval to pay out the remaining amount is then sought in March, once all councils have set their budgets and their council tax rates for the year ahead.

The arrangements now proposed by the Scottish Government for 2011-12 will be similar, except that the amount held back will be greater – at £426 million

(including the £70 million associated with the council tax freeze). Once councils have set their budgets and it is clear they have made provision in their budgets to deliver the full package, including the council tax freeze, approval will be sought from Parliament in March 2011 to make available the remaining amount.

For the purposes of this letter, the Scottish Government has assumed that all authorities will endorse the package and receive the full amount of funding associated with it. How that level of funding support (including the amount to be held back) will be distributed to authorities will be the subject of consultation with COSLA under the usual arrangements for discussing distribution and set out in a Scottish Government Circular in early December. This will assist councils in deciding whether to take up the terms of the offer now put to them.

The package

The package of measures agreed is founded on the relationship established between the Scottish Government and COSLA in 2007. The new elements of the package are:

- The total amount of funding to be made available in 2011-12.
- Specific commitments to be delivered from within the funding envelope provided which replace the specific commitments set out in the 2007 Concordat document.

The level of funding

The funding which the Scottish Government will provide to local government in 2011-12 will total £11.548 billion. This total includes the Government's estimate of non domestic rate income over the period. Within this total, revenue funding will amount to £10.856 billion and capital funding will amount to £0.692 billion.

The £11.548 billion represents 34.5% of the Scottish Government's total budget for 2011-12. This maintains local government's share of the Scottish Budget between 2010-11 and 2011-12 (at the point of agreement between the Scottish Government and COSLA's Leadership on the funding package). The capital settlement also maintains local government's share of the Scottish Government's capital budget at the level it was in 2009-10, as agreed last year between the Scottish Government and COSLA, (excluding the carry forward referred to above).

There is some further funding that will also go to local government which is in addition to the figures above. This includes, for example, funding that is provided through European grants which are channelled through the Scottish

Government; funding provided in respect of the new school building programme announced in stages during 2009; and funding for a health and social care change fund, the details of which are contained below.

Specified set of commitments

To secure the funding package, individual councils will agree:

- To remain committed to the delivery of the current Single Outcome Agreements, the 3 jointly agreed social strategies and the Curriculum for Excellence.
- To a council tax freeze for 2011-12.
- To police officers being maintained at 17,234 throughout 2011-12.
- To maintain the pupil-teacher ratio in P1-P3, the crucial early years of primary school.
- To protect the number of teacher posts as far as possible in order to secure:
 - places for all probationers who require a place under the induction scheme in August 2011;
 - Sufficient teaching posts available for all probationers who achieve Standard for Full Registration in summer 2011 (i.e. successfully complete their probation); and
 - A reduction in the total number of unemployed teachers.
- To an independently chaired review of all aspects of the McCrone Agreement, to report by June 2011 with the clear intention that its recommendations should be available for implementation before August 2012.
- To continue to deliver the shared Scottish Government/COSLA commitments on Free Personal Care, for which payments will be uprated in 2011-12.
- To continue to work with the Scottish Government towards implementation of the Carers and Young Carers Strategy at local level, including the maintenance of an extra 10,000 weeks respite provision.

In return for delivery of these commitments, the Scottish Government:

- Will ensure that the funding to be provided to police forces within the funding settlement will be subject to a loss of resources no greater than that affecting the remainder of the local government family.
- Has included an additional £15 million within the total of £11.548 billion to cover the education costs associated with protecting, as far as possible, the number of teacher posts.
- Has agreed to consider changes through the Scottish Negotiating Committee for Teachers negotiations (or other changes that achieve the same value), on which decisions would be sought by end January 2011 and which would deliver:
 - A pay freeze in 2011/12 and 2012/13 for all employees (teachers and all associated professionals);
 - An increase in contact time for probationers to 0.9 FTE;
 - Agreement that all supply teachers are paid on Point 1 of the Main Grade Scale and only for hours worked;
 - Removal of salary conservation;
 - Agreement that the Teacher leave year is moved to 40 days per annum for the calculation of family leave entitlements; and
 - Freeze entry into the Chartered Teacher Scheme.
- In recognition of the wider pressures on the health and social care system, has allocated £70 million for a new change fund in 2011-12. The fund, which will be held by NHS Boards and so be additional to the local government settlement amount of £11.548 billion, is intended to enable the redesign of services that support shifting the balance of care towards primary and community care. The spending of these resources will be overseen by a partnership governance arrangement on the basis of plans to be agreed locally between NHS Boards, local government and the third/independent sectors. The detailed governance arrangements and guidance for these plans is currently being developed in partnership.

Conclusion

In very challenging circumstances, this proposed settlement for 2011-12 and the package of measures negotiated between the Scottish Government and COSLA's Leadership is the best outcome that can be achieved. It is now for individual councils to determine whether they wish to take up these terms.

Yours faithfully

John Swinney MSP
For the Scottish Government

Councillor Pat Watters
For COSLA

