



<b>Meeting(s):</b>	<b>Shetland Islands Council</b>	<b>17 January 2018</b>
<b>Report Title:</b>	<b>2018/19 Financial Settlement</b>	
<b>Reference Number:</b>	<b>F-004-F</b>	
<b>Author / Job Title:</b>	<b>Jonathan Belford, Executive Manager – Finance</b>	

## 1.0 Decisions / Action required:

That the Council:

- 1.1 NOTE the information presented in this report; and
- 1.2 AGREE and RESOLVE to accept the package of measures and benefits set out for Shetland Islands Council within the Local Government Finance Settlement 2018/19, as contained in the Scottish Government's draft budget for 2018/19, and set out in the Local Government Finance Circular 5/2017.

## 2.0 High Level Summary:

- 2.1 The Scottish Government issued a circular to all local authorities on 14 December 2017 which detailed the financial settlement for the next financial year, 2018/19.
- 2.2 The circular provides information on revenue and capital funding and details of the package of measures that local authorities will have to accept to receive the funding. (See revised Finance Circular 5/2017 at Appendix 1)
- 2.3 If a local authority does not intend "...to agree the offer and accept the full package of measures and benefits..." it has been requested to write to the Cabinet Secretary for Finance and the Constitution no later than Friday 26 January 2018 (this has been extended from the original date of Friday 19 January 2018).
- 2.4 For local authorities not agreeing the offer, a revised offer will be made. The Cabinet Secretary has been clear that any revised offer will be "less favourable", although no specific reference to the value of any such financial consequences has been provided.
- 2.5 **2018/19 Revenue funding of £78.815m.** On a comparative basis this is £1.5m (1.8%) less than in 2017/18. In addition specific grants will be received (see 2.8 below).
- 2.6 The revenue funding package includes:
  - 2.6.1 The continuation of £130m that was added to revenue funding announced at Stage 1 of the Budget Bill for 2017/18. This **protects the additional £1m that was received by SIC** in the current year and ensures this is receivable

next year and that it forms part of the Local Government settlement into the future.

- 2.6.2 Nationally a requirement to maintain the overall pupil: teacher ratio at 13.7:1, with funding in the settlement of £88m for maintaining teacher numbers and to support the Teacher Induction Scheme, which means local government must provide places to all probationers who require one. **SIC complies with these conditions.**
- 2.6.3 £24m has been included for the additional full year impact of the revised Teachers' Pay offer for 2017/18 – which incorporates an additional 1% pay increase from 1 January 2018, on top of the 1% increase from 1 April 2017. **SIC will receive £0.155m however according to calculations this is lower than the actual cost to SIC.**
- 2.6.4 Funding has been included for social care, this is a departure from the last two financial settlements, where funding has been directed to the NHS budget to be transferred to the Integration Joint Board, to then support social care. That funding to NHS Boards for IJB's from 2016/17 and 2017/18 has been baselined so will continue to be receivable by IJB's for allocation to social care activities. **SIC will continue to benefit from that source of funding.**
- 2.6.5 The funding that has been included for social care in 2018/19 is £66m to support additional investment, including support for the Carers (Scotland) Act 2016, maintain the commitment to the Living Wage and sleepover pay levels and increases in free personal care and nursing care payments. **SIC will receive £0.260m but is not required by the financial settlement to allocate any specific funding value to the IJB.**
- 2.7 In relation to Council Tax the package provides that there is flexibility to increase Council Tax by up to 3%. **SIC would receive an additional sum of £0.270m in 2018/19 if an increase of 3% were approved.**
- 2.8 In addition to the main grant revenue funding value of £75.815m, in 2018/19 additional revenue funding was announced, which will be paid to the Council as specific grants (meaning they come with conditions that require the funding to be spent on the specific purpose for which they are offered). These were:
- 2.8.1 The continuation of £120m in 2018/19 for schools to support closing the attainment gap, this is distributed as a specific grant and is paid in addition to general revenue funding, as referred to at 2.5 above. **SIC will receive £0.219m in 2018/19, an increase of £0.028m on the value received in 2017/18.**
- 2.8.2 Announced at a Scotland wide level, but distribution not yet agreed to individual local authorities, is £52.2m of revenue funding for working towards the expansion of early years education and childcare (the 1,140 hours commitment). **SIC should expect to receive (not yet agreed) approximately £0.320m of revenue funding and will have to work within this distribution during 2018/19.** There is also a capital allocation, see 2.12 below.

- 2.9 The revenue allocations to local authorities have been arrived at using the historically agreed distribution methodology, with updated indicator data. The “floor” was set at 0.6% reduction.
- 2.10 **2018/19 Capital Grant Funding of £6.643m.** (This includes specific capital grants). On a comparative basis this is £0.6m (8.3%) less than in 2017/18.
- 2.11 In 2016/17 a proportion of capital funding was withheld by the Scottish Government, which for SIC was £1.240m, this will not now be distributed to Councils until financial year 2019/20.
- 2.12 As referred to in 2.8.2 above, there is £150m of capital funding, which has been announced but has not yet been distributed to local authorities. This capital funding is for the expansion of early years education and childcare so that the infrastructure required to deliver this commitment is created. This too will be paid as a specific grant and will be in addition to the capital grant value shown above. **SIC should expect to receive (not yet agreed) approximately £0.900m of capital funding and will have to work within this distribution during 2018/19.**
- 2.13 Overall the funding package for Shetland Islands Council is lower than in 2017/18 and is generally in line with forecasts set out in the Medium Term Financial Plan and is therefore not unexpected, reinforcing the scale of the extremely challenging position for the Council that lies ahead, where it is forecast that a £20m funding gap between income and expenditure in 2021/22 will require to be addressed through difficult choices and difficult decisions. These decisions will have to be made in the foreseeable future.
- 2.14 Work aimed at addressing the Scottish Government’s commitment to fair funding for internal ferry services has been carried out with Transport Scotland and therefore is not addressed by the Local Government Financial Circular.
- 2.15 The Scottish Budget 2018/19 presented to the Scottish Parliament on 14 December 2017 contains no revenue or capital funding for addressing the fair funding for ferries commitment.
- 2.16 The Scottish Budget is not approved until it has been through 3 Stages in the Scottish Parliament, with the final debate due to be heard on 21 February 2018. It is understood that the Local Government Finance (Scotland) Order 2018 will be laid before Parliament by the start of February 2018 to meet the 21 February timescale.

### **3.0 Corporate Priorities and Joint Working:**

- 3.1 There is a specific objective in the Corporate Plan to ensure that the Council is “continuing to keep a balanced and sustainable budget, and are living within our means” and the Council continues to pursue a range of measures which will enable effective and successful management of its finances over the medium to long term. This involves correct alignment of the Council's resources with its priorities and expected outcomes, and maintaining a strong and resilient balance sheet.
- 3.2 The Medium Term Financial Plan also includes a stated objective to achieve financial sustainability over the lifetime of the Council.

3.3 The Council, in partnership with NHS Shetland, provides funding to the Community Health and Social Care Partnership Integration Joint Board for the delegated functions and this is to be funded from the resources available to it.

**4.0 Key Issues:**

4.1 Funding for local authorities is continuing to reduce, while obligations and increase.

4.2 The financial settlement is a package and if the full package of measures and benefits – as per the Scottish Government – is not accepted then a revised (lower) offer will be made. There is no information on how much lower an offer would be. There is therefore no alternative that can be described and the choice is to accept or reject what has been stated.

4.3 CoSLA wrote to the Cabinet Secretary for Finance and the Constitution following the financial settlement announcement and sought clarification on the extent to which the settlement is ‘sanction free’.

4.4 His response was “I can confirm that this is a sanction free settlement. I believe that I have kept my part of the bargain by protecting local government funding and in return it is now up to each individual local authority to implement the agreed joint priorities as set out in my letter of 14 December. If, however, any authority is not prepared to work in partnership then, as my letter made clear, a revised, less favourable, offer will be made.”

**5.0 Exempt and/or confidential information:**

5.1 None.

**6.0 Implications :**

<p><b>6.1 Service Users, Patients and Communities:</b></p>	<p>The financial settlement announced by the Scottish Government provides the primary funding source for local government service delivery and is therefore vital in defining the nature and scale of services that can be delivered for the benefit of the population of Shetland. A reduction in funding can have an adverse effect on the affordability of services currently delivered, the Council seeks to engage with service users and communities where change is proposed. Any such proposals will be subject to separate reporting.</p>
<p><b>6.2 Human Resources and Organisational Development:</b></p>	<p>There is no direct implication arising from this report. Any service development proposals or changes affecting staff will be subject to full staff engagement and consultation using the relevant agencies policies and procedures and reported via the relevant employee consultative forums.</p>
<p><b>6.3 Equality, Diversity and Human Rights:</b></p>	<p>There is no direct implication arising from this report. Any equalities impacts will be assessed and considered as part of any proposals for change and schemes for efficiency savings.</p>
<p><b>6.4 Legal:</b></p>	<p>There is an obligation on the Council to annually set a balanced budget and to set the rate of Council Tax for the forthcoming</p>

	financial year, which is done in conjunction with information contained in the local government financial settlement.
<b>6.5 Finance:</b>	<p>The financial settlement defines the funding that the Scottish Government will provide to Shetland Islands Council for the delivery of local government services.</p> <p>For the Council, the Scottish Government's funding represents up to 75% of the budget that the Council can set and therefore any change in that funding has an impact on the affordability of those services.</p> <p>A balanced budget is a requirement and therefore budget setting proposals must take account of the package of measures that the Scottish Government provides.</p> <p>The outcome of any further work with Transport Scotland in relation to funding for inter-island ferry services has not yet been announced to the Council. Any additional funding would have to be considered further in the context of the budget and the medium term financial plan.</p>
<b>6.6 Assets and Property:</b>	There are no implications for Assets and Property. However, any significant changes to existing service models and methods of delivery may, in time, affect the overall asset base and property estate in order that service costs can be afforded within the total budget allocation.
<b>6.7 ICT and new technologies:</b>	There are no implications for ICT and new technologies. However, any significant changes to existing service models and methods of delivery may, in time, affect the overall infrastructure in order that service costs can be afforded within the total budget allocation.
<b>6.8 Environmental:</b>	None arising directly from this report.
<b>6.9 Risk Management:</b>	<p>Significant risks arise from the financial settlement due to the value of the reduction in the funding package that is included. These include the risk of failing to set a balanced the budget for 2018/19 as measures and actions will have to be agreed to address the reduction in funding; the risk of failing to live within the financial constraints during the year because those agreed measures and actions are not implemented; the risk of not adequately planning for the future in response to the trend that exists in relation to ongoing reductions in funding for local government services.</p> <p>These risks can be managed and controlled through robust decision making and financial management practices with a regular review of progress being at the foundation.</p>

	Furthermore there is a risk that in not accepting the package announced by the Scottish Government the Council will receive an even lower settlement than already detailed.
<b>6.10 Policy and Delegated Authority:</b>	The decisions required to set the budget may only be determined by the Council, in accordance with Section 2.1.3 of the Council's Scheme of Administration and Delegations.
<b>6.11 Previously considered by:</b>	None.

**Contact Details:**

Jonathan Belford, Executive Manager – Finance

[jonathan.belford@shetland.gov.uk](mailto:jonathan.belford@shetland.gov.uk)

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**Appendices:**

Appendix 1 – Scottish Government Finance Circular 5/2017

**Background Documents:** None.

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