



BUDGET AND COUNCIL TAX SETTING 2016/17

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

PURPOSE OF REPORT To seek approval of the Comhairle's budget for 2016/17, to set the Council Tax for 2016/17 and to consider the 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's 2016-18 budget strategy was planned in the context of an upcoming General Election in May 2015. This saw the return of a majority Conservative Government and was followed by a Summer Budget on 8 July 2015. However, the Scottish allocations for 2016-20 were not determined until the Autumn Statement was published on 25 November 2015. These timings meant that the Scottish Budget and Local Government Settlement were only announced on 16 December 2015.
- 2.2 Details of the Scottish Government's offer to Local Authorities were set out in a letter to Council Leaders on 16 December 2015 (Appendix A). The one year proposal for 2016/17 included the requirement to maintain teacher numbers and continue the Council Tax freeze. The letter also indicated that a further £250m would be available to support Social Care.
- 2.3 For 2017/18 overall Local Government funding will fall by £350m (3.5%) in cash terms compared with 2015/16. The extent to which Councils might be able to offset this by using the funding for Social Care to meet pressures has been the subject of extensive discussions between COSLA and the Scottish Government and resulted in a revised letter being issued on 27 January 2016 (Appendix B).
- 2.4 To accept the offer Councils are required to sign up to three commitments:
- to maintain the national pupil teacher ratio at 13.7;
 - to continue the Council Tax Freeze; and
 - to use half of the Social Care funding of £250m to expand social care as part of integration (including progressing charging thresholds for non-residential services) and to use the other half to help meet Council cost pressures in Health and Social Care provided all Care Workers in the private and voluntary sectors are paid a wage of £8.25 by October 2016.
- 2.5 Councils that do not sign up to the whole package will forfeit their share of the funding associated with support for Teacher Numbers (£88m), the Council Tax freeze (£70m) and Social Care (£250m). Authorities that accept the offer but subsequently fail to achieve any of the commitments will lose the funding associated with the part of the package they are unable to deliver.
- 2.6 At its meeting on 29 January 2016 COSLA Leaders agreed that that the offer of settlement from the Scottish Government remained undeliverable without an unacceptable level of cuts to services and staffing and consequently COSLA could not accept it or recommend it to its constituent councils.
- 2.7 However, the terms of the package are such that it is recommended the Comhairle accept the settlement offer. Failure to do so would result in a loss of around £2.2m in funding (£0.3m in relation to the Council Tax freeze, £0.3m in relation to support for teachers and £1.6m in relation to Social Care).
- 2.8 Due to the way the funding is distributed between authorities the outcome of the settlement for the Comhairle is a £4.5m (4.5%) reduction in grant. Taken together with the budget deficit carried over from 2015/16 (£1.5m), inflationary pressures (£1m), additional National Insurance and pension related costs (£1.5m), the Comhairle is faced with a budget gap of £8.5m in 2016/17 before taking account of the cost pressures arising from Health and Social Care.
- 2.9 To ensure that the new Integration Joint Board is funded to deliver the services delegated to it an additional £1,054k of demand growth is required from 2015/16. Provision also needs to be made for the cost of meeting the aspiration to deliver the £8.25 per hour living wage for care workers from October 2016, provisionally estimated at £200k in 2016/17. These two aspects can be offset by the £820k of funding which is the Comhairle's share of the £125m of funding 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.

- 2.10 Further cost pressures for 2016/17 already amount to £465k but the Integration Joint Board will receive a further £820k in 2016/17 to support additional spend on expanding services. Of this sum an estimated £100k might be needed to progress charging thresholds.
- 2.11 It is difficult to determine what the position might be in 2017/18 but a further 3% fall in funding would leave the Comhairle with an estimated £4.7m to find the following year.
- 2.12 Details of the overall position for 2016-18 are set out in Appendix C and the proposed delegated budget for the Integration Joint Board at Appendix D.
- 2.13 Work started on identifying potential budget savings in April 2015 and this included an extensive workforce planning exercise that identified efficiencies which the Comhairle approved in December 2015. In total £6.2m of savings for 2016/17 and £2.2m for 2017/18 have been agreed.
- 2.14 The detail of the Budget Strategy is set out in Sections 4, 5 and 6 of the Report and Appendix C. As the budget shortfall exceeds the balances available by £1.6m the Comhairle will need to implement some, or all, of the Budget Choices to deliver a balanced budget across both years.
- 2.15 In January 2016 the Comhairle agreed to consult on twenty nine proposals that could realise savings of £1,398k in 2016/17 and £743k in 2017/18. There was a high level of engagement with the consultation and details of the responses are included at Appendix E.
- 2.16 The proposed delegated budget that is recommended for the Integration Joint Board is detailed in Section 6 of the Report. Given the revised settlement offer it is proposed that Budget Choices C11-16, which relate to the functions delegated to the Integration Joint Board be referred to the Joint Board for determination, on the basis that any savings realised will remain in the delegated budget.
- 2.17 It is recommended that the Comhairle determine which of the other Budget Choices (C1-9 and C17-29) to implement on the basis that the Comhairle should seek to minimise the recurring deficit at the end of 2017/18 and plan for a balanced budget in both 2016/17 and 2017/18.
- 2.18 The Comhairle's business plans and budgets have been prepared in accordance with the Single Outcome Agreement, Corporate Strategy and Budget 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 2016/17.
- 2.19 Where relevant, recommended fees and charges for 2016/17 are detailed at Budget Item (d). Unless indicated otherwise, or set by statute, other fees and charges will rise by 1% and the draft budget includes provision for this increase.
- 2.20 It is recommended that, in the light of the reduction in the Contingency budget and the current financial risks, as shown in Appendix F, the level of uncommitted balances be increased to £3.5m for 2016/17.
- 2.21 The Comhairle has been developing its long term financial model since 2013. This draws on census figures, population projections, delivery models and cost estimates. Appendix G provides the latest update of these projections for the period to 2018-28, though it should be noted that there remains considerable uncertainty around the level of Government Grant over this period. However, it is anticipated that a three year settlement for 2017-20 will be developed after the Scottish Parliament elections on 5 May 2016 and consequently the next Budget Strategy report will be presented to the June 2016 meeting of the Policy and Resources Committee.

RECOMMENDATIONS

3.1 It is recommended that the Comhairle:

- (a) agree to accept the 2016/17 settlement offer from the Scottish Government as set out in the Scottish Government letter at Appendix B;**
- (b) agree the budget strategy for 2016-18 as set out in Sections 4, 5 and 6 of the Report and Appendix C;**
- (c) agree the delegated budget for the Integration Joint Board as detailed in Section 6 of the Report and in Appendix D;**
- (d) determine which of the Budget Choices C1-9 and C17-29 to implement;**
- (e) approve the business plans for 2016/17 at Budget Item (b) of the Agenda, as amended by 3.1(d);**
- (f) approve the draft budgets for 2016/17 at Budget Item (c) of the Agenda, as amended by 3.1(d);**
- (g) approve the recommendations for fees and charges for 2016/17 at Budget Item (d) of the Agenda;**

- (h) agree to freeze the 2016/17 Council Tax at the 2007/08 level of £1,024 for Band D properties;**
- (i) in the light of the reduction in Contingency, as detailed in section 5.1(d) of the Report, and the risks set out in Appendix F to increase the level of uncommitted balances to £3.5m for 2016/17 and to continue the policy of setting aside underspends on winter maintenance for future severe winters; and**
- (j) note the long term financial plan set out in Appendix G and that the next Budget Strategy Report will be presented to the Policy and Resources Committee in June 2016.**

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Appendices: A Scottish Government Settlement Offer - 16 December 2015
B Revised Letter - LG Finance Settlement - 27 January 2016
C Budget Summary 2016-18
D Integrated Joint Board Delegated Budget 2016/17
E Budget Consultation Responses
F Significant Financial Risks February 2016
G Long Term Financial Plan February 2016

Background Papers: Budget Strategy 2016-18 (Policy and Resources Committee 22 April 2015)
Budget Strategy Update (Policy and Resources Committee 24 June 2015)
Budget Strategy Update (Policy and Resources Committee 30 September 2015)
Budget Strategy Update (Policy and Resources Committee 2 December 2015)
Budget Strategy Consultation 2016-18 (Policy and Resources Committee 13 January 2016)

BUDGET ASSUMPTIONS

- 4.1 The 2016/17 budget provides for general inflation of 1%. The budget incorporates a 1% pay award that has been agreed for all staff groups. Provision has been made centrally for additional costs associated with the removal of the National Insurance rebate as a consequence of the introduction of the Single Tier state pension, increases to employer pension contributions and the living wage.
- 4.2 The budget for 2016/17 assumes that all fees and charges in the control of the Comhairle will generate 1% 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. Specific reports in relation to Piers and Harbours and Care Charges are included at Budget Item (d) of the relevant agendas.
- 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 2016/17 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	106
Inflation on running costs	1.00	1.00	356
Pay Inflation teaching staff	1.00	1.00	175
Pay Inflation (non-teaching staff)	1.00	1.00	398
Non-domestic Rates Default	1.00	1.00	80

OVERALL BUDGET

- 5.1 Appendix C sets out, in addition to the proposals already agreed, five recommendations proposed to help deliver the 2016/17 budget specifically:
- (a) to reallocate capital to projects funded by prudential borrowing and thus generate savings of £76k in 2016/17 and £164k in 2017/18. This will result in a reduced capital programme and if approved the details will be agreed as part of the review of the capital programme which will be considered by the Policy and Resources Committee in March 2016;
 - (b) to delete the £70k provision that was set aside to enable a 5 day service between Benbecula and Stornoway in the event that NHS Western Isles agreed to match it;
 - (c) to reduce the annual provision of £60k for flood prevention planning to £30k; and
 - (d) to reduce the annual contingency provision from £500k to £200k on the basis of increasing the level of uncommitted balances from £3.0m to £3.5m.
- 5.2 In addition the Comhairle will benefit from a £71k income receipt from 2016/17 for which there is no current provision. A further £470k will be realised from re-profiling the write off period of properties to match the expected asset lives (this relates to the WISP Schools, Lews Castle and Museum, Harris House and Ardseileach).
- 5.3 Taken together the budget proposals set out in this Report, if none of the Budget Choices were agreed, would lead to a deficit of £2,191k in 2016/17 and an estimated £4,865k in 2017/18 a total of £7.108m.
- 5.4 The potential savings realisable from the Budget Choices amount to a cumulative £2.1m.

Planned use of Balances

- 5.5 As part of the strategy for 2013-15 the Comhairle agreed to use £2m of balances (£400k per year) over the term of the Comhairle to deliver a balanced budget. The early achievement of some of the budget savings and improved financial performance meant that the Comhairle was able to increase this to £1.5m for 2015/16 and had set aside £4.0m for 2016/17 and 2017/18.

- 5.6 As part of the budget setting exercise a review of balances has been undertaken and has identified earmarked balances of £1.713m that are no longer required. This is made up of £550k for auto enrolment, £204k for air services; £17k for inter-island business development; -£160k in relation to renewable energy savings not realised, £513k for trading operations asset rentals; £54k of savings already realised; £2k for the Integration Joint Board Chief Officer; £200k from welfare reform; £15k for the children's panel; £31k from spend to save; £47k for the living wage and £243k from a legal settlement.
- 5.7 Based on the forecast outturn for 2015/16 as set out in the concurrent Revenue Monitoring Report the Comhairle will have uncommitted balances of £3.2m by 31 March 2016. Setting aside an additional £0.3m of the £1.7m identified to increase this to £3.5m (in line with the proposal at 5.1(d) above) will leave £1.4m to add to the £4m of balances making a sum of £5.4m available to support the budget.

Settlement changes

- 5.8 A number of other minor changes, funded in the settlement, including Teaching funding streams (£78k), Criminal Justice (£50k) and Scottish Welfare Fund (£19k) have been included in departmental budgets.

HEALTH AND SOCIAL CARE

- 6.1 In relation to the Integration Joint Board it is recommended that the Comhairle agree to a delegated budget as follows:
- (a) to establish a base budget of £22,052k set out in the 2016/17 Budget Book;
 - (b) to provide an additional £348k to fund recurrent care packages that commenced in 2015/16;
 - (c) to provide an additional £442k to meet additional costs associated with the introduction of the single tier pension scheme and increased employer contributions to the Local Government Pension Scheme;
 - (d) to provide £200k in the Comhairle budget for the cost of meeting the Living Wage requirements of the settlement in 2016/17 on the basis that the Comhairle will fund the actual costs incurred and signed off by the Integration Joint Board section 95 Officer;
 - (e) in light of the net increase in funding of £1.054m and (b) and (c) above to reduce the Comhairle contribution to the Integration Joint Board by £820k, being the Comhairle's share of the £125m for these purposes;
 - (f) to agree that further growth arising in 2016/17 be met from the additional £820k provided as part of the settlement to address charging and demand in Social Care;
 - (g) to remit to the Integration Joint Board the decisions in relation to Budget Choices C11-16 on the basis that if implemented the savings will accrue to the Board's budget. If implemented these would realise savings of £240k in 2016/17 and a further £265k in 2017/18.
- 6.2 These recommendations would establish a delegated budget of £22,028k. The Comhairle would retain a budget of £200k to fund living wage costs.

FORWARD STRATEGY

- 7.1 Despite a four year Spending Review there remains considerable uncertainty about the next three year settlement that will not be known until after the Scottish Parliament elections in May 2016.
- 7.2 Appendix G sets out the financial plan over the next ten years and whilst the level of Government funding is subject to political decisions it is clear that the Comhairle will be faced with further challenging budgets in the next council.
- 7.3 It is proposed that the next Budget Strategy Report be presented to Policy and Resources Committee in June 2016.

Deputy First Minister
and Cabinet Secretary for Finance, Constitution and Economy
John Swinney MSP



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Copy to: The Leaders of all Scottish local authorities

16 December 2015

Dear Cllr O'Neill

This letter contains proposals for the terms of the settlement to be provided to local government for 2016-17 under the 2015 Spending Review which is set against the UK Government's continuing austerity programme and the real terms reduction in the Scottish Budget. This has required tough decisions to be taken about expenditure across government and careful consideration of pressures and priorities in all portfolios including local government. I propose that we engage in further discussions to consider the approach to implementing the budget in advance of Stage 3 of the Budget Bill, and associated Local Government Finance Order, and recognise that we need to conclude these discussions as early as possible so councils can confirm their plans for setting their budgets in the new year.

The proposals are framed by the ongoing partnership between the Scottish Government and local government and our commitment to working together on our Joint Priorities. We have reaffirmed our commitment to our partnership and are clear about the benefits which have flowed from it in the form of more effective delivery of the outcomes on which the people of Scotland and their communities rely.

Local government is an essential partner in the Scottish Government's transformative programme of public service reform. This funding proposal delivers a strong but challenging financial settlement for local government which will be strengthened by our joint working to improve outcomes for local people through health and social care integration and by improving educational attainment.

Following the report from the joint Settlement and Distribution Group, details of the indicative allocations to individual authorities for 2016-17 are also being published today as set out in Local Government Finance Circular No. 7/2015.

Under the settlement we will look to all local authorities to continue to work in partnership with Scottish Government in pursuit of our Joint Priorities, including delivery of the Government's programme as set out in the *Draft Budget 2016-17* and the *Scotland's Economic Strategy published in March 2015*.

In addition to the pursuit of Joint Priorities, the proposition is that individual local authorities will, in return for this settlement, deliver certain specific commitments. The detail of the settlement and the package of measures included are described below.

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

As we have previously committed to, the consequential for health will be passed on in full to the health budget. However, by contrast with the UK Government, we see health as being about all the services that help people to maintain their wellbeing, not just front line NHS services. For that reason, we will go further than the annual investment of £130 million in the Integration and Delayed Discharge Funds, and direct in the allocations to NHS boards for 2016-17 that an additional £250 million per annum will be transferred to the health and social care partnerships to protect and grow social care services and to deliver our shared priorities in respect of reform.

We agree the need to pick up the pace on health and social care integration by developing better community and primary services to help people to stay safe and cared for at home and the provision of good quality social care provided through local government is central to that reform process.

We understand the pressures on local government spending, including in relation to the Living Wage, and these are the same as for all public services in Scotland. We also recognise that these pressures have implications for all areas of service delivery, but the actions that we have taken under this budget and our commitment to provide support for social care means that the totality of social care spend through health and social care partnerships can be protected and enhanced. We would expect to see the process of reform make clear progress during 2016-17 in terms of sustainability and outcomes for people. Given good progress on reform in localities we would anticipate that health and social care partnerships could deliver cash releasing efficiencies. We would like to work with you to consider that approach further and the extent to which cash releasing efficiencies could be retained by local authorities to offset the contribution they make to health and social care partnerships for social care.

Turning to education I note the positive results at a national level published in the latest Teacher and Pupil census statistics which confirmed that pupil teacher ratios and the number of teachers in Scotland's schools have been maintained since last year.

Taking that into account I confirm the proposal makes provision for a return to a national agreement to maintain teacher numbers at 2015-16 levels, and secure places for all probationers who require one under the teacher induction scheme 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.

Our position on teacher numbers has been consistent that we see this as a central part of our priority to raise attainment. In parallel we have been developing the National Improvement Framework, to bring together key information to evaluate performance and inform action to improve attainment and wider outcomes for every child in Scotland. We wish to work with COSLA and all local authorities to fully implement the Framework, as the next phase of Curriculum for Excellence to build on our strong record of achievement recognising our shared commitment to improved educational outcomes.

Following the report from the Commission on Local Tax Reform the Scottish Government is considering its position in response to that on the future of council tax. We will bring forward our proposals in the new year and I can confirm our commitment to engage with COSLA as part of our partnership working to help inform our position.

The proposition is that the measures set out in this settlement offer must be viewed as a package to protect shared priorities and maintain a journey of reform. As noted I propose that we engage in further discussions to consider the approach to implementing the measures set out in this budget in advance of Stage 3 of the Budget Bill and this would include agreement on the scale and retention of cashable efficiency savings for local authorities contribution for social care to the health and social care partnerships.

Following those discussions and agreement on the implementation of the measures I have set out in the settlement offer I will write to you and council Leaders again confirming all the details we have agreed. My expectation is that I will again ask any Council not intending to take up the offer and agree the terms of the full package of measures to write to me setting out the reasons why they do not wish to comply and to do that by no later than Friday 22 January 2016 in Order to meet with our Parliamentary timetable for the Budget Bill and Local Government Finance Order.

For 2015-16 I can also confirm that as an act of good faith, I will maintain the existing distribution of the £41 million to support teacher numbers across all 32 local authorities and will not seek to claw back funding which I am entitled to under the terms of my agreement with individual local authorities. However, in the interests of fairness, I will reward only those authorities who have maintained or increased teacher numbers and maintained pupil teacher ratios, by distributing the additional £10 million which I provided last year among them in recognition of the additional staff costs they have incurred and for their contribution to maintaining the national figures.

Having listened to the representations from COSLA, the total funding which the Scottish Government will provide to local government in 2016-17 as part of this package of measures is £10,244 million.

This total includes the Government's estimate of non-domestic rate income in 2016-17. Within this total, revenue funding will amount to £9,637 million and capital £607 million.

This takes into account the re-profiling of -£150 million from the 2016-17 capital budget and comes with a commitment that £150 million will be added to Local Government's capital share in the next Spending Review covering the period 2017-20. Taking into account the reprofiling the capital settlement meets our commitment to maintain local government's share of the Scottish Government's capital budget.

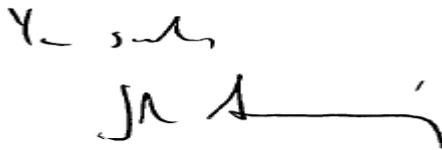
Taking into account non-baselined funding provided in the 2015-16 capital allocation (this includes funding to support implementation of the Children and Young People Act, repayment of the earlier reprofiling agreement and housing support for Shetland) and the further reprofiling proposed for 2016-17, a like for like comparison of the adjusted baseline position shows that capital provision in the settlement will have increased by 9% or £62 million in 2016-17. I can also confirm our intention that, if re-elected, the commitment to protect the local government share of the capital budget, which was due to end in 2018-19, will be extended by a further year to the end of the next Spending Review period in 2019-20.

In addition local authorities will receive £250 million from Integration Authorities to support spending on social care which as set out above will allow, subject to our further discussion

and agreement for cash releasing efficiencies delivered through reform to be retained by local authorities.

As in previous years councils will be free to retain any savings they can generate through efficiencies to re-invest in reform and the challenge for them along with the rest of the public sector is delivering transformational change in service delivery, together in key partnerships and through a step change in the implementation of transformation programmes, including shared services between local authorities and between local authorities and other public sector partners.

I believe that in the circumstances this settlement delivers the best possible outcome that can be achieved and the package of measures I have set out, if accepted, provides local authorities with the necessary resources they need to protect our key priorities around investment in health and social care and educational attainment.

Handwritten signature of John Swinney in black ink.

JOHN SWINNEY

Deputy First Minister and Cabinet Secretary for Finance, Constitution and
Economy
John Swinney MSP



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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.

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.

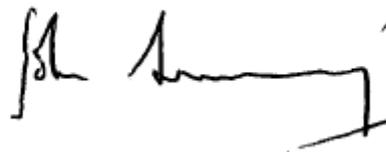
For 2016-17 individual local authorities will again require to agree to work with the Scottish Government to deliver a council tax freeze for the ninth consecutive year.

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.

A handwritten signature in black ink, appearing to read 'John Swinney', written in a cursive style.

JOHN SWINNEY

Budget Summary 2016-18

	2016/17	2017/18
	<i>£000</i>	<i>£000</i>
Planned Expenditure		
Cash Planning Limits	89,863	90,517
Loan Charges	21,202	17,491
Centrally Held Budgets	2,657	1,828
Total Planned Expenditure	113,722	109,836
Income		
Revenue grant	(88,457)	(85,803)
NNDR	(8,020)	(7,779)
Council Tax	(9,254)	(9,347)
Total Income	(105,731)	(102,929)
Health and Social Care		
Health and Social Care demand	706	0
Transitions and mainland placements	348	0
Living Wage in Social Care	200	200
Comhairle share of £125m	(820)	0
Net Social Care Increase	434	200
Agreed Savings		
Loan Charges	(3,300)	0
Corporate Projects	(350)	(978)
Workforce plans	(1,567)	(1,100)
Sub total agreed savings	(5,217)	(2,078)
Recommended Savings		
Paying off Prudential Borrowing	(76)	(164)
Matching Provision for Air Service	(70)	0
Flood Prevention	(30)	0
Reduced Contingency	(300)	0
Lochboisdale Receipt	(71)	0
Resheduling of Debt	(470)	0
Sub total proposed savings	(1,017)	(164)
Residual deficit to be funded	2,191	4,865

Significant Financial Risks: February 2015

Service	Risk / Pressure	Added	Amended	Scale	Probability	Planned and Potential Mitigation strategies
Revenue						
Health & Social Care	Increasing number of high cost cases (including mainland placements).	Feb 2008	Feb 2014	£1m	Medium	Strategies to provide care on island
	Increasing proportion of elderly people.	Feb 2008	Feb 2013	£1m	Medium	Review of Home Care Workforce Provision in Budget for Demographic Change
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 Choices	Implementation of Budget Choices is delayed or projected savings not realised.	Feb 2013	Feb 2016	£1-2m	Medium	Performance Reporting 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
	Pay award is over 1% and exceeds budgetary provision.	Feb 2010	Feb 2016	£0.6m	Low	Pay award for 2016/17 already agreed
Financial Environment	Increase in bad debts Additional pressure on Economic Development budgets	Jun 2008	Feb 2010	£1m	Medium	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 2017/18	Feb 2010	Feb 2016	£3-4m	High	Early start on long term financial planning Engage in review process through COSLA
	Reduction in capital funding from 2017/18	Feb 2010	Feb 2016	£1-3m	Medium	
Change in funding	Floor Mechanism	Feb 2008	Feb 2012	£16m	Medium	Engage in review process through COSLA Political engagement.
	Distribution Review	Feb 2009	Feb 2013	£?m	Medium	Maintain flexibility in use of resources.
Financial Environment	Loss of investments	Feb 2013	Feb 2016	£5-30m	Low	Effective Treasury Management
	Financial contagion leading to increased borrowing costs and further austerity	Feb 2013		£1-5m	Low	