

## Local Government and Communities Committee

### Draft Budget 2018-19

#### Submission from North Ayrshire Council

#### Local Government Budget

- We want to hear how spending is prioritised and resources are managed effectively, for instance through service redesign.**

The Council has a hierarchy which sets out the approach to bridging its funding gap. This is reflected in the diagram below.



The impact of all savings options on the Council's outcomes, as set out in the Council Plan, are considered when the Council sets its budget.

Whilst the Council is committed to redesigning services to be as efficient and effective as possible, the emerging trend on how the Council bridges its resourcing gap is increasingly one of stopping / rationalising and reducing services, 60% of savings in these categories were delivered in 2016/17, rising to 74% in 2017/18. Further the Council used reserves to balance its budget in 2017/18, an unsustainable position and one which creates further pressures in 2018/19.

Over the last 8 years savings equating to 25% (£80m) of the base budget have been delivered (to meet resource reduction and service pressures) - the relative protection of education (16% reduction) and social care services (20% reduction) has resulted in a significant disinvestment in economy and communities (50%

reduction) and place based services (35% reduction). There is an emerging concern that core support services are reaching a critical minimum with further reductions having the potential to undermine sound governance and financial stewardship.

The Council's Long Term Financial outlook identifies an estimated funding gap over the 10 year period to 2027/28 of £156m, with £70m of this anticipated in the first three years. This creates a significant challenge for the Council, a challenge exacerbated by the current protections to elements of the budget including teacher pupil ratios and a partial ring fencing of health and social care services. Ongoing funding reductions impact on our capacity to reshape services to help mitigate emerging cost and demographic pressures as well as the ability to fund the cost of change, including workforce resizing.

We therefore need to take a different approach to focus on medium/long-term service transformation to reflect the completely different funding levels predicted for the future.

- 2. We want to hear how national policies are impacting on local government spending, for instance how will increased revenue from the end of the Council Tax freeze and banding multiplier be used, and what is the impact of spending being 'protected' through national policy.**

The level of protection provided for Health and Police alongside funding for new national policies e.g. expansion of Early Learning and Child Care, means that local government is one of the "unprotected budgets". This has had a significant impact on the resources available to fund core local government services, in particular inflationary pressures, anticipated to increase significantly with the removal of the public sector pay cap, and pressures emerging from increasing demand, particularly in health and social care, which are a real issue for North Ayrshire given the relatively high levels of deprivation within our communities.

North Ayrshire welcomes the removal of the Council Tax freeze and reinstatement of local flexibility to set its own Council Tax, however this local flexibility could be enhanced through removal of the 3% cap. The additional funding for the banding changes which took place from 1 April 2017 mitigated some of the funding and demand pressures, reducing the level of service reduction required to set a balanced budget.

- 3. We want to hear how fees and charges are being used, and how decisions are made on which service areas are affected.**

Fees and charges are considered as part of the budget setting process. In 2016/17 this raised an estimated £0.946m, this fell to £0.114m in 2017/18. Consideration of increasing charges requires to recognise the impact this might have on the wider policy objectives and demand for services, whether local residents or businesses.

24 of the 32 Scottish local authorities are participating in an externally facilitated exercise to benchmark practice across Scotland and wider, and assess the opportunity for further income to be generated, taking account of the points raised

in the preceding paragraph. This work will also inform our Charging and Concessions Policies.

**4. We want to know how local authorities assess the impact of increased charges and service redesign on different social demographics.**

Equality Impact Assessments are carried out and published in advance of Members taking budget decisions.

The impact of all changes to charges for all service user groupings is considered. As a matter of course all users have their income maximised via our Money Matters Team.

**5. Following on from evidence heard last year, we invite local authorities to provide an update on the use of General Fund Reserves.**

Councils generally hold two main reserves, Earmarked which are set aside for specific purposes and Unearmarked. 85% of North Ayrshire Council's General Fund Reserves are earmarked for a particular purpose, including; planned capital investment; flexibility to manage spend across financial years and its insurance fund.

The appropriate level of reserves is essential where there is uncertainty on the level of available funding in the short and medium term to ensure that the Council can absorb any significant deviation from its planning assumptions and continue to meet the statutory obligation to set a balanced budget.

Reserves are a non-recurring source of funding and are not a substitute for effective medium term financial planning.

On an annual basis all reserves held by the Council are reviewed as part of the budget setting process. As noted above when the Council set its budget for 2017/18, £3.4m of Earmarked reserves were used. In addition the Council took the decision to reduce its unearmarked reserves to the minimal level of 2%, the lower end of recognised good practice, releasing £2.6m.

Moving forward, given the planned application of Earmarked Reserves, the Council has limited flexibility to use Reserves to help it deliver a balanced budget.

**6. We want to hear your views on the transparency of the local government financial settlement, and how this could be improved.**

Evidence submitted by North Ayrshire Council in response to the Call for Evidence on the interim report of the Budget Process Review Group identified a number of issues in respect of the current process including:

- Lack of information on funding beyond a single year, adversely impacting on the ability to plan for the medium and longer term with a concern that short term decisions may not deliver the best investment for local communities, a concern shared by Audit Scotland on a regular basis

- Associated with the above is Parliament approving its budget towards the end of February with local government requiring to do the same within a matter of weeks
- Lack of clarity on how additional investment across the Scottish Government is funded, a clarity which is evident within the local government budget setting process
- Allied to the above and increasingly important given devolution powers is transparency re taxation
- Securing agreement on what is included when we measure movement in resources between years – is it funding from the Scottish Government or is the totality of funding, including council tax.
- Comparing budgets at different point in time resulting in a difference in movement, it is essential that comparative timescale and bases are used at all time. Different interpretations depend on which denominator is used. When assessing the scale of change on the level of Scottish Government resources which support local government, North Ayrshire believes that the correct denominator is the combined revenue and general grant rather than total estimated expenditure. This gives a true reflection of the percentage change in Scottish Government funding for local government services.
- Providing resources specifically for local government social care services via the Health Settlement creates confusion and unnecessary bureaucracy, the same end could have been achieved by directing the resources via the local government settlement. Resources should flow through the Settlement process by the most efficient means.

**7. We want to hear your ideas on how local government finance, including revenue streams, may change in the future.**

A number of issues are noted below and reflect some of the comments noted above:

- Alignment of resources with delivery of Scottish Government priorities
- Removal of ring fencing of resources
- Channel all resources for local government services via the local government settlement
- Maximise local revenue raising powers including, removal of the council tax cap, ability to raise local discretionary taxes e.g. tourist tax
- Address issues considered in the Commission on Local Tax Reform including; underpin council tax with wholesale revaluation of house values with regular revaluations thereafter and localisation of NDR

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North Ayrshire Council

## Housing Budget

Thank you for the opportunity to respond to the call for evidence in relation to the draft Budget 2018/19. This response relates to the following two questions in bold.

**We want to hear your view on the three year RPAs and how this will help local authorities to plan to meet affordable housing needs in local areas and also the Scottish Government's 50,000 affordable homes target.**

**We want to hear your views on any other aspect of the housing supply budget.**

North Ayrshire Council welcomes the Scottish Government's ambition for delivery of 50,000 homes over the parliamentary period, 35,000 of which are targeted for construction by local authorities and Registered Social Landlords (RSLs).

Our Council has an excellent track record of building Council housing, having completed a total of 300 homes to date. We have plans for a further 768 new build homes within our latest Strategic Housing Investment Plan 2018-2023, which has been approved by our Cabinet and will shortly be submitted to the Government. We are confident that we will play a significant role in helping to meet the Government's target of 35,000 social homes by end of the parliamentary period, along with our RSL partners.

In relation to the three year RPAs for affordable housing delivery, North Ayrshire Council welcomes this announcement. The decision to move from annual RPA announcements to three year allocations has assisted our forward programme planning by providing additional budget certainty. This has given us confidence in determining the extent of our programme, the profiling of the programme, and also in proceeding with land acquisitions and site investigations where required. The three year nature of the allocation has facilitated strategic decision making in terms of the types of units we will build, by allowing us to make decisions on site mixes across a longer term. In relation to procurement, the additional certainty provides opportunities to consider a more strategic approach to procuring partners for delivery of our programme.

A further benefit from the three year allocation is the ability to update our Housing Revenue Account 30 Year Business Plan to reflect the updated borrowing requirements for our development programme. This has given elected members and tenants a clearer picture for decision making in terms of the annual rent increases required to fully fund the programme.

Lastly, we would take this opportunity to again urge the Scottish Government to increase local authority subsidy rates, at least by interim construction output price index (OPI) rates. This would allow subsidy rates keep pace with construction costs, and would help avoid the widening funding gap that local authorities and tenants require to fill in order to fully realise our collective development ambitions.

Regards

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