Financial Planning 2018/19

1 Purpose of report

1.1 The purpose of this report is to present to the Partnership financial planning options for the 2018/19 revenue budget and to commence financial planning for future years.

2 Background

2.1 Section 3 of the Transport (Scotland) Act 2005 requires the constituent councils of each Regional Transport Partnership to meet the Partnership's net expenses after taking account of grant from the Scottish Government (£782,000 since 2011/12) and any other external funding.

2.2 The net expenses of the Partnership are shared between constituent councils based on population. The current share ranges from 33% for City of Edinburgh Council to 2% to Clackmannanshire Council. Since 2008, the Partnership has only received revenue support monies from Scottish Government and no capital investment funding. Regional Transport Partnership's originally received a total of £35 million of capital investment funding in 2006/07.

Scottish Government Draft Budget 2018-19

2.3 The provisional Local Government Finance Settlement for 2018/19 is due to be announced on 14th December 2017. Funding is expected to cover one year only. This provides a challenge to address the external audit report findings about the need for a longer-term budget for the Partnership, and therefore necessitates the use of economic forecasts of future funding.

2.4 While based on a range of projections and assumptions, the recently-published Fraser of Allander Institute report on Scotland's Budget 2017 indicated the total Scottish resource budget (grant and tax revenues) is forecast to fall by 2.3% in real terms between 2016/17 and 2020/21. Under alternative but equally realistic scenarios (an 'upside budget risk' and a 'downside budget risk'), the Scottish resource budget could decline by 1.2% or by up to 3.8% by 2020/21.

2.5 If certain areas of Government expenditure are protected, 'non-protected' areas will shoulder a greater share of the burden. As an illustration, protecting just four Scottish Government budget priorities – health, policing, childcare and educational attainment – could mean that 'non-protected' areas face real terms cuts of between 9% to 14% over the current parliamentary term (2016/17 to 2020/21). It is possible that the non-education elements of local government will be the largest part of the budget which could be categorised as "non-protected".

2.6 Once protected areas of the budget are considered e.g. teaching budgets, adult social care and demographic pressures, constituent councils are generally planning on incremental savings of up to 5% year-on-year.

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2.7 Revenue budget planning is being progressed for 2018/19. Planning assumptions are being updated for:

2.7.1 Implementation of Single Status;

2.7.2 staff recharges to projects in 2018/19;

2.7.3 pay award and increment provision;

2.7.4 the outcome of the Lothian Pension Fund triennial actuarial valuation;

2.7.5 Scottish Government grant funding assumptions;

2.7.6 other budget planning assumptions, including the desire from several constituent councils for further information and scoping of shared capacity and resilience via City Deals for regional governance.

2.8 Scottish Government grant funding has remained fixed at £782,000 since 2011/12. Council requisitions were previously reduced voluntarily by the Partnership by 5% in 2017/18 to £190,000. Council requisitions were fixed at £200,000 between 2012/13 and 2015/16. Appendix 1 shows budgeted expenditure and income since 2011/12.

2.9 A recommendation made by the Partnership's External Auditor on the audit of the 2016/17 annual accounts was: "to ensure financial sustainability, the Partnership should develop medium to long term financial plans on a 3 to 5-year basis. This would assist the Partnership in highlighting risks to its sustainability and ensure funding is allocated in line with the long term strategic aims of the Regional Transport Strategy".

Financial Planning 2018/19 Options

2.10 Three financial planning scenarios have been identified for 2018-19, with the options being capable of implementation in financial years beyond 2018/19 to address the External Auditor's recommendation noted at paragraph 2.9.

2.11 Options assume Scottish Government grant remains fixed at £782,000. The Scottish Government has yet to confirm the level of grant funding for 2018/19.

Option 1 – 5% reduction in constituent council requisition

2.12 Recognising the financial pressures facing constituent councils, the Partnership could reduce its requisition to constituent councils by 5% (£9,500); this following the 5% reduction in the 2017/18 requisition.

2.13 The reduction for 2017/18 was anticipated to be achieved from a forecast underspend on core expenditure. Since approving the 2017/18 budget, the findings of the Partnership's Pay/Grading Review showed historic pay/grading anomalies when implementing Single Status.

2.14 A 5% reduction (£10,000) in 2018/19 will increase budget pressure following implementation of the new pay structure and the proposed removal of the Pay Cap on public sector workers.

2.15 A 5% reduction in constituent council requisition will require a reduction in expenditure on projects. The likely area of reduction will be the Sustainable Transport Grants scheme, which provides match funding for councils and other stakeholders for Smarter Choices /Smarter Places and wider sustainable travel. This will impact on the Partnership's ability to deliver projects which are the primary method of addressing the long-term aims of the Regional Transport Strategy and will reduce funding towards the long-term aims of the Regional Transport Strategy.

Option 2 - 'Flat-cash' retain constituent council requisition

2.16 'Flat-cash' retain constituent council requisition would allow requisitions to be set at the 2017/18 level of £190,000. The Partnership would be required to absorb budget pressure arising from the new pay structure and the proposed removal of the Pay Cap on public sector workers. This option will also impact on the Partnership's ability to deliver projects which are the primary method of addressing the long-term aims of the Regional Transport Strategy.

Option 3 –increase constituent council requisition and progress "Intelligent Centralisation"

2.17 Investigate the opportunity to reduce costs to constituent councils from other sources of cost pressures within transportation services, by sharing services such as regional modelling or appraisal frameworks, sharing specialist skills or undertaking marketing/prevention measures for active travel/car use growth collectively. This would build on the success of the Trapeze software (Novus FX succeeding Routewise for bus service data) roll out across certain constituent councils where working through the Partnership has enabled costs to be reduced. This type of option represents savings by reforming current processes to be more efficient and cost effective for same/improved outcomes.

2.18 This would, in a small but initial step, examine opportunities councils wished to explore for a "Model 2" form of regional delivery, following the declination of Model 3 structures. The Partnership Director recognises that the greater headline budget through the Partnerships would be offset by a reduction in spending within councils on marketing or other shared outcomes, which would then be delivered at a regional level on a contractual basis with councils as clients for these shared services.

2.19 It is envisaged that the business case for an increase in constituent council requisition of any significant magnitude would be developed by reducing council spending on such marketing or other shared outcomes or prevention of negative outcomes and costly demand on services. This option is in line with the stated preferences of 5 of 8 councils in response to the Model 3 consultation, which advised of a position of wanting further discussions on the options for sharing resource and capacity.

2.20 This option would require scoping of the potential for regional working on key activities and the development of service level agreements. This would require to be progressed on a joint basis, with the intention of achieving greater spend through the Partnership, whilst making a compensating reduction in each constituent council's costs for the same activity.

2.21 Within the financial constraints currently facing Local Government and forecast to continue until at least 2020/21, the model of delivery for this option will require to be robustly developed, for it to be affordable to constituent councils. The lead time for such development may preclude implementation of many options for 2018/19, but it remains relevant to the development of future financial plans by the Partnership. The Chief Officers Group meeting on 9th November 2017 agreed to provide by the end of 2017, examples for 2018/19 of potential options for delivery by Summer 2018 of joint working across councils and through the Partnership, with the aim being to reduce cost pressures and improve outcomes for the statutory Regional Transport Strategy.

Risk Assessment

2.22 When approving the revenue budget in March 2018, the Partnership Board will be required to consider the risks inherent in the budget process and the arrangements in place to manage those risks. An initial risk assessment has been drafted and this is included at Appendix 2. An updated risk assessment will be reported to the Board in March 2018.

3 Review

3.1 The SEStran Chief Officers Group reviewed this report at its meeting on 9th November 2017 and concluded that for 2018/19, either Option 1 or 2 should be progressed, with the potential to deliver Intelligent Centralisation to be explored for specific options for 2018/19, if possible. Chief Officers also made a commitment, over the next 6-9 months, to look at future years budgets for 2019/20 and 2020/21 and the potential for joint resourcing and delivery through the Partnership.

3.2 Given the relative scale of the potential saving at Option1, Performance and Audit Committee expressed a view at its' meeting on 24th November 2017 towards Option 2 – Flat Cash - with the potential to deliver Intelligent Centralisation to be explored for specific options for 2018/19 and beyond.

4 Recommendation

The Partnership Board is recommended to note:

4.1 the financial planning assumptions currently being progressed for 2018/19;

4.2 the view of Chief Officers Group, noted at paragraph 3.1, on financial planning assumptions for 2018/19 and agree that a paper should be brought to the first two meetings of 2018 on "aggregation" proposals for 2019/20 and if possible 2018/19;

4.3 the view of Performance and Audit Committee, noted at paragraph 3.2, on financial planning assumptions for 2018/19;

4.4 the risk that Scottish Government funding allocations to Regional Transport Partnership's may be reduced;

4.5 a revenue budget for 2018/19 will be presented to the Partnership Board for approval in March 2018.

Hugh Dunn
Treasurer

Appendix	Appendix 1 – SEStran Budget 2011/12 - 2017/18 Appendix 2 – Risk Assessment
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Policy Implications	There would be a further reduction in the implementation of the long-term aims of the RTS
Financial Implications	At this stage, there is no financial commitment arising from this report.
Equalities Implications	There are no equalities implications arising as a result of this report.
Climate Change Implications	Subject to the approval of the revenue budget in March 2018, there may be a reduction in spending on sustainable travel grant projects.

Appendix 1
SEStran Budget 2011/12 – 2017/18

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Core	467	461	463	465	550	551	478
Projects	791	709	504	1,076	2,384	725	510
RTPI	110	117	222	286	230	344	339
Total Budget	**1,368**	**1,287**	**1,189**	**1,827**	**3,164**	**1,620**	**1,327**
External Funding							
EU Grants	313	245	146	233	131	152	95
Other income	48	60	61	266	1,051	486	260
Bus Investment Fund				346	1,000	0	0
Total Ext. Funding	**361**	**305**	**207**	**845**	**2,182**	**638**	**355**
Scottish Government	782	782	782	782	782	782	782
Council Requisition	225	200	200	200	200	200	190
Total Funding	**1,368**	**1,287**	**1,189**	**1,827**	**3,164**	**1,620**	**1,327**

Appendix 2

Risk Assessment

Risk Description	**Existing Controls**
Pay awards. Each 1% uplift in pay provision equates to an increase of £3,300.	Alignment with Scottish Local Government pay policy.
Staff recharges – EU Projects. There is a risk that opportunities for additional funding through income for EU projects may reduce.	Any shortfall in employee cost recharges will be offset by a corresponding reduction in Projects Budget expenditure.
Inflation. There is a risk that there is an increase in price inflation.	Allowance will be made for specific price inflation and budgets adjusted in line with current cost forecasts.
Delays in payment of external grants results in additional short-term borrowing costs.	SEStran grant claims for projects are submitted in compliance with grant funding requirements to ensure minimal delay in payment. Ongoing monitoring of cash flow will be undertaken to manage exposure to additional short-term borrowing costs.
There is a risk that current levels of staffing cannot be maintained due to funding constraints and that the Partnership will incur staff release costs.	Recruitment control and additional sources of external funding will continue to be sought for activities aligned to the Partnership's objectives.
There is a risk that sources of additional income to the Partnership may become constrained in the current economic climate and/or due to changes in operating arrangements.	Develop revenue budget to take account of most likely level of external income in 2018/19.
Funding Reductions. Reduction in funding from Scottish Government and/or council requisitions.	Subject to decision by the Partnership Board, the draft budget will be prepared noting the risk of a 5% reduction in funding from council requisitions and Scottish Government grant. In the event of a reduction in funding in Scottish Government grant, a review will be undertaken of Project expenditure commitments, to re-align expenditure to financial resources. Continue to source and develop external funding.