

## **Financial Strategy 2019/20 (including projections to 2022/23)**

### **Supplementary report by Gary Fairley, Head of Finance and Integrated Service Support**

#### **1 Purpose of Report**

This supplementary report provides Council with an update on the Financial Strategy 2019/20 report setting out the changes arising from the revised grant settlement for 2019/20 announced on 31 January 2019.

#### **2 Background**

This remains as set out in the main report.

#### **3 Scottish Government Grant Settlement**

The package of further measures announced on 31 January 2019 covering local taxation and local government finance are set out in the letter from the Cabinet Secretary to Councillor Alison Evison, COSLA President which is attached to the main report as appendix 13. This package of measures has secured the necessary support for the Government's budget bill to progress through the three parliamentary stages.

The letter includes details of the following changes:-

- An increase in the core resource local government settlement of £90 million, of which Midlothian will receive £1.493 million;
- Continue to provide an earmarked £160 million from the Scottish Government for health and social care investment to support social care and mental health services – including those under the direction of Integration Authorities– whilst, as part of this package, allowing local authorities the flexibility to offset their adult social care allocations to Integration Authorities in 2019-20 by 2.2% compared to 2018-19, i.e. by up to £50 million across all local authorities to help them manage their own budgets
- Greater flexibility on Council Tax with the flexibility to increase the Council Tax up to 4.79% next year. The increase from the previous 3% maximum would raise an additional £0.871 million.
- Bringing forward a three year funding settlement for local government from 2020-21 budget onwards; and to develop a rules based framework for local government funding in partnership with COSLA that would be introduced for the next Parliament.

The Cabinet Secretary stated that taken together, this enhanced package offers up to £187 million of increased funding and flexibility to local authorities. Members should however note that only the £1.493 million share of the £90 million is additional grant support from Government. The balance of the £187 million is attributable to additional Council Tax income from a 4.79% increase and the flexibility to reduce the resources passed to Integration Joint Boards.

In addition Scottish Government has indicated that Council should now only have to make provision in their budgets to meet a smaller share of the increase in teachers' pension contributions with Government funding now expected to cover 79% of the increase. For Midlothian this change equates to £0.290 million.

Taken together the increase in core resources and clarification on teachers' pension funding reduce the budget shortfall set out in the main report by £1.783 million to £9.739 million.

However members should note that the revised grant settlement still represents a cut in core funding (at a national level of approximately 1.5%) and after applying the full 4.79% Council Tax increase still requires the Council to make budget savings totalling at least £7.408 million to achieve a balanced budget.

The Cabinet Secretary's letter set out a range of other measures in relation to local taxation and local government finance which he considers will be the biggest empowerment of local authorities since devolution.

In respect of local taxation the changes include:

- To consult, in 2019, on the principles of a locally determined tourist tax, prior to introducing legislation to permit local authorities to introduce a transient visitor levy, if it is appropriate for local circumstances;
- To support an agreed amendment from the Scottish Greens to the Transport (Scotland) Bill that would enable those local authorities who wish to use such a power, to introduce a workplace parking levy. Scottish Government support will be contingent on the exclusion of hospitals and NHS properties; and
- To devolve Non-Domestic Rates Empty Property Relief to local authorities in time for the next revaluation.

In respect of Council Tax the Scottish Government will convene cross-party talks on its replacement with a view to publishing legislation, should cross-party agreement on a replacement be reached, by the end of this Parliament, with that legislation taken forward in the following Parliament

In respect of Teachers Pensions the Scottish Government will fully fund its contribution to the cost of the teachers' pay deal, and has advised that the shortfall in funding for the teachers' Pension increase is likely to be closer to 21% than the 33% Midlothian has estimated for. Government also intend to bring forward early in the new financial year changes to legislation which will allow Councils to vary loans fund repayments for advances made before 1 April 2016.

The impact of these changes on the main report is set out below.

## 4 Council Tax

The budget shortfalls set out in table 1 are based on the current Band D Council Tax of £1,283 and reflects the additional income from an increase in the number of properties.

The revised grant conditions now limit the flexibility to increase Council Tax by up to 4.79 %. For Midlothian a 4.79% per annum increase is estimated to generate £2.331 million for 2019/20 and would result in Band D Council Tax rising to £1,344 in 2019/20. An increase of over 4.79% would breach the terms of the revised grant settlement package and indications are that this would result in a less favourable settlement although the extent of any reduction is unknown.

Given there is still a cut in core grant funding and the service pressures, particularly the acute demographic cost pressures in Education and Health and Social Care, set out in section 5, Council is recommended to apply the 4.79% increase and set a Band D Council tax of £1,344 for 2019/20 as set out in Appendix 1.

## 5 Cost of Services

The projected cost of services has been updated for 2019/20 to reflect the revised grant settlement and new information in respect of funding for teachers' pension costs. All other assumptions remain as set out in the main report.

Table 2 provides an updated analysis of the year on year budget changes in respect of 2019/20 only.

**Table 1: Revised Budget Shortfall 2019/120 -12 February 2019**

	<b>2019/20</b>
	<b>£m</b>
Cost of Services	215.808
Less: Council Tax	(48.656)
Less: Scottish Government Grant	(157.413)
<b>Budget Shortfalls</b>	<b>9.739</b>

The budget shortfall set out in table 1 arises for the following reasons:

**Table 2: Analysis of Shortfall – 12 February 2019**

	<b>2019/20</b>
	<b>£m</b>
Opening Shortfall	<b>(0.200)</b>
Pay Inflation and Salary Progression	5.820
Teachers' Pension increase	2.397
Contractual Inflation	0.997
Utilities	0.227
Demographics: Care	1.040
Demographics: School Rolls	2.194

	<b>2019/20</b>
	<b>£m</b>
ASN Increase	0.373
Demand pressures: Children	0.640
School Estate Investment	0.323
Waste Disposal Costs	(0.193)
Non Domestic Rates	0.452
Borrowing Costs	(0.937)
Scottish Government Grant	0.460
Scottish Government Grant – Teachers pension increase	(1.887)
Council Tax Income	(1.337)
Full year effect of 2018/19 savings	(1.180)
Other Movements	0.550
<b>Totals</b>	<b>9.739</b>

The movements from the figures set out in the 18 December 2018 report are as follows.

**Table 3: Movement from 18 December 2018 to 12 February 2019**

	<b>2019/20</b>
	<b>£m</b>
<b>Shortfall 18 December 2018</b>	<b>9.591</b>
Scottish Government Grant	(1.029)
Non Domestic Rates	0.120
Scottish Government Grant – Teachers pension increase	0.510
Pay Inflation	0.461
Other	0.086
<b>Shortfall 12 February 2019</b>	<b>9.739</b>

## **6 Sensitivity Analysis**

Remains as set out in main report.

## **7 Midlothian Integration Joint Board**

As part of the budget setting process the Council has to determine an allocation of resources to the Midlothian Integrated Joint Board (IJB) and in turn the IJB will need to consider if this represents a “fair and adequate” allocation of resources. For 2018/19 the allocation was £39.750 million.

The clarification provided in the revised grant settlement allows Councils the flexibility to offset their adult social care allocations to Integration Authorities in 2019-20 by 2.2% compared to 2018-19. In effect this sets out how the minimum allocation which can be made to an Integration Joint Boards would be determined.

For Midlothian the minimum, or floor, would equate to 97.8% of £39.750 million plus the share of the £160 million, estimated at £2.426 million. This equates to £41.302 million.

The proposed allocation remains at £42.652 million reflecting the demographic and other cost pressures faced by the IJB. Any reduction in allocation from that proposed is unlikely to be considered fair and adequate by the IJB.

## 8 Change Programme

The Change Programme remains as set out in the main report.

The updated projections incorporating the impact of the revised grant settlement and a 4.79% per annum increases in Council Tax are set out in table 5 below.

**Table 5: Financial Strategy 2019/20 12 February 2019**

<b>Cumulative</b>	<b>2019/20 £m</b>
<b>Budget Shortfall Table 1</b>	<b>9.793</b>
<b>Less: Change Programme</b>	
IJB Allocation Table 5	(0.974)
IJB efficiency target	(0.540)
<b>Transformation Programme 8.2</b>	
- Existing Programme	(1.130)
- Additions to Programme	(0.020)
<b>Less: Resource Allocation Changes</b>	
- Operational 8.4	(1.025)
- Policy 8.5	(3.798)
- Efficiency Targets 8.6	(1.970)
- Bottom Up/Cross Cutting Reviews 8.7	(0.455)
- Fees and Charges General 8.8	(0.150)
Council Tax Increase of 4.79%	(2.331)
<b>Remaining Budget Gap</b>	<b>(2.654)</b>

## 9 Governance and Timetable

The Governance arrangements remains as set out in the main report.

## **10 Reserves Update**

The third quarter Financial Monitoring reports are presented elsewhere on today's agenda as is a Reserve Strategy.

## **11 Report Implications**

### **11.1 Resources**

Whilst this report deals with financial issues there are no financial implications arising directly from it.

### **11.2 Risk**

The risks remain as set out in the main report.

### **11.3 Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

### **11.4 Impact on Performance and Outcomes**

As main report.

### **11.5 Adopting a Preventative Approach**

As main report.

### **11.6 Involving Communities and Other Stakeholders**

As main report.

### **11.7 Ensuring Equalities**

As main report.

### **11.8 Supporting Sustainable Development**

As main report.

### **11.9 Digital Issues**

As main report.

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## **12 Summary**

This supplementary report provides an update for 2019/20 to reflect the revised grant settlement package announced on 31 January 2019.

## **13 Revised Recommendations**

Council is recommended to:-

- a) Note the position in respect of the Scottish Government Grant Settlement for 2019/20 as set out in section 3 of both the main and this supplementary report;
- b) Note the current projected cost of services, key assumptions and resultant budget shortfalls as set out in section 5 of both the main and this supplementary report and endorse the key assumptions on which the budget projections are based;
- c) Note that given the level of available contingent reserves it is not considered prudent for Council to meet additional spending pressures from the contingent reserve or to use the contingent reserve as part of the strategy to secure a balanced budget for 2019/20;
- d) In line with the provisions of the revised Grant Settlement package set a Band D Council Tax of £1,344 for 2019/20 as set out in appendix 1;
- e) Note the continuing uncertainties and the potential impact as outlined in the differing scenarios as set out in section 6 of the main report;
- f) Approve the allocation of £42.652 million to the Midlothian Integrated Joint Board for 2019/20 in respect of delegated services and approve the increase to telecare charges;
- g) Consider the Change Programme measures as set out in section 8 of the main report and to achieve a balanced budget:-
  - I. Approve the savings measures associated with the additions to the Transformation Programme as set out in appendix 3;
  - II. Note the operational savings summarised in appendix 4;
  - III. Consider the policy savings measures as set out in appendix 5;
  - IV. Consider a 1.35% efficiency target for all services, with the exception Children's Services as detailed in appendix 6 and delegate authority to the Chief Executive, in consultation with the leaders of the three Political Groups to progress any non-operational measures necessary to achieve these efficiency targets;
  - V. Consider the Bottom Up Review savings as detailed in Appendix 7;
- h) Note the additional income anticipated from fees and charges as set out in section 8.7 and approve the general uplift of 3% together with the resultant detailed charges set out in appendix 8;
- i) Subject to any amendments for the decisions taken at items d), f) and g) I , III, IV and V approve the resultant 2019/20 service budget as set out in appendix 9;
- j) In considering the recommendations also consider the contents of the overview of feedback from engagement activity set out in appendix 11 and the overarching EQIA set out in appendix 12 attached to the main report;
- k) Note the acute financial pressures for future years and also the risks as set out in section 11.2 of the main report ;

- l) Recognising the impact of a rapidly growing population and greater demand for services, this report also calls for a strategic step change in our financial planning, in the form of a proposal to bring forward to Council before the summer recess a Medium Term Financial Strategy (MTFS) which contains a planned and balanced budgets covering the four years 2020/21 to 2023/24;
- m) Otherwise note the contents of the main and supplementary reports.

**Date** 5 February 2019

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Revised Appendix 1 - Council Tax

Revised Appendix 9 - Proposed 2019/20 Service Budgets



## MIDLOTHIAN COUNCIL

## Council Tax for Financial Year 2019/20

This statement gives details of the 2019/20 Council Tax payable in respect of a chargeable dwelling in each of the valuation bands specified in Section 74(2) of the Local Government Finance Act 1992 determined in accordance with Section 74(1) of the Act (as amended)  
**Based on Band D Council Tax of £1,344.**

Band	Range of Values		Band D Proportion	Council Tax £
	From £	To £		
A	-	27,000	240/360	896.00
B	27,001	35,000	280/360	1,045.33
C	35,001	45,000	320/360	1,194.66
D	45,001	58,000	360/360	1,344.00
E	58,001	80,000	473/360	1,765.86
F	80,001	106,000	585/360	2,184.00
G	106,001	212,000	705/360	2,632.00
H	212,001	upward	882/360	3,292.80

## REVENUE BUDGET 2019/20 SUMMARY

<b>Service Function</b>	<b>Budget 2019/20 £</b>
Management and Members	1,776,587
<u>Education Communities and Economy</u>	
Children's Services	15,795,457
Communities and Economy	3,024,584
Education	94,011,873
<u>Health and Social Care</u>	
Adult Social Care - IJB	42,652,073
Adult Social Care – Non IJB	405,798
Customer and Housing Services	10,167,866
<u>Resources</u>	
Commercial Operations	12,129,025
Finance and Integrated Service Support	10,199,484
Properties and Facilities Management	13,127,792
Lothian Valuation Joint Board	545,551
Centrally Held Budget Provisions	(129,792)
Non Distributable Costs	1,338,436
<b>GENERAL FUND SERVICES NET EXPENDITURE</b>	<b>205,044,734</b>
Loan Charges	6,123,494
Investment Income	(406,420)
Allocations to HRA, Capital Account etc.	(5,015,808)
<b>NET EXPENDITURE</b>	<b>205,746,000</b>
(Enhancement ) /Utilisation of Reserves	(2,654,000)
Scottish Government Grant	157,413,000
Council Tax	50,987,000
<b>TOTAL FUNDING</b>	<b>205,746,000</b>