

Financial Strategy 2017/18 to 2021/22 – Revised Report**Report by Gary Fairley, Head of Finance and Integrated Service Support****1 Purpose of Report**

This report replaces the previous Financial Strategy 2017/18 to 2021/22 report dated 31 January 2017 and incorporates the implications of the additional grant funding for 2017/18 announced by Scottish Government on 2 February 2017.

This report provides Council with an update on the Financial Strategy encompassing the years 2017/18 to 2021/22. It sets out recommendations to enable Council to set Council Tax and to determine a budget for 2017/18.

It also includes:-

- An update on Scottish Government Grant;
- Updated budget projections for 2017/18 to 2021/22;
- A sensitivity analysis reflecting the potential impact of different pay and grant settlement scenarios for later years;
- An update on the resources to be provided to the Midlothian Integration Joint Board in 2017/18;
- An update on the strands of the change programme;
- The resultant 2017/18 service budgets;
- An update on reserves.

2 Background

The core objective of the Financial Strategy is that of securing the Council's continued financial sustainability during an ongoing period of substantial financial constraint coupled with continuing service demand pressures and increasing customer expectations.

On 20 December 2016 Council was provided with an updated assessment of projected budgets shortfalls through to 2021/22 together with a verbal update on the recently announced Scottish Government Grant settlement for 2017/18. In respect of 2017/18 the initial assessment of the grant settlement had indicated that the budget shortfall for 2017/18 would increase to £12.880 million from that set out in the report.

Encompassing the savings targets for the change programme and incorporating the full 3% per annum increase in Council Tax resulted in a remaining budget gap to be addressed for 2017/18 of £4.080 million.

3 Scottish Government Grant Settlement

The Scottish Government's draft budget for 2017/18 was published on 15 December 2016 together with Finance Circular 9/2016 which set out the grant settlement package being offered to Councils and included the individual grant figures for each Council. Alongside these the Cabinet Secretary for Finance and the Constitution set out further details of the terms of the settlement in a letter to the COSLA President and Council Leaders (A copy of which was circulated as part of the Administration motion on 20 December 2016 in respect of the Financial Strategy 2017/18 to 2021/22).

At a national level the settlement represented a reduction of £349 million or 3.6% in core revenue funding for Councils. The full funding package set out in the finance circular incorporates an additional specific grant of £120 million for the Attainment Scotland Fund for schools to support closing the attainment gap. This will be distributed to schools based on pupils registered for Free School Meals and at the time of writing there is limited information on the conditions and constraints associated with the fund. Accordingly the projections set out later in this report presume that these resources will be committed towards additional spending.

Integrated Joint Boards will receive an additional £107 million allocated from the Health budget. This additional funding is provided to meet the full year costs of the joint aspiration to deliver the Living Wage for social care workers, sleepovers and sustainability (£100 million) and removal of social care charges for those in receipt of war pensions and pre-implementation work in respect of the new carers legislation pressures (£7 million). To reflect this additional support Councils are able to adjust their allocations to Integration Authorities in 2017-18 by up to their share of £80 million below the level of budget agreed with their Integration Authority for 2016-17.

In a departure from what had previously been indicated by Government the additional income estimated at £111 million as a result of the Council Tax reforms will be available in full to be spent in the Council area it was collected.

The settlement package requires Councils to maintain the overall pupil/teacher ratio at 2016-17 levels (13.7) and secure places for all probationers who require one under the teacher induction scheme.

The package provides flexibility to increase Council Tax by up to 3%.

On 2 February 2017 the Finance Secretary confirmed, as part of an agreement with the Scottish Green party to support the passage of the budget bill, that Councils would benefit from an additional £130 million revenue and £30 million capital funding for them to spend at their discretion on local priorities. For Midlothian this equates to an additional £2.115 million revenue grant and £0.458 million capital grant.

Earlier projections of the budget shortfall for 2017/18 had been based on a £1.000 million grant reduction together with a reduction in the core grant funding in respect of the monies raised by Council Tax reform. It is now estimated that for 2017/18 Midlothian will receive a total funding package of £153.022 million of which £3.330 million is ring fenced, £2.273 million for the Attainment Scotland Fund and £1.057 for Community Justice. This leaves a core grant allocation of £149.692 million. This core grant allocation is approximately £2.000 million less than the equivalent sum for 2016/17.

At its meeting on 20 December 2016 Council agreed note the terms of the settlement as set out in the letter from the Cabinet Secretary for Finance and the Constitution and agree that the Leader of the Council write to the Cabinet Secretary confirming Midlothian Council's agreement to the offer and accepting the full package of measures and benefits.

It is now estimated that the impact of the revised settlement would reduce the budget shortfall for 2017/18 by £0.358 million from that set out in the report on 20 December 2016.

The 2018/19 to 2021/22 year grant projections set out later in this report have also been reassessed from those presented on 20 December 2016 to reflect the impact of the original 2017/18 settlement and are based on a central planning assumption that reductions in grant at a similar level to the original 2017/18 settlement will continue (a 3.6% reduction at a national level, offset by the impact of the relative growth in the Midlothian population).

It is stressed that the grant settlement figures for 2018/19 to 2021/22 set out table 1 are projections, the actual figures being dependant on future budget decisions taken by Government. However they do provide Council with an assessment of the impact of the grant settlement on the Council's financial position. Critically they highlight the extent of the challenge ahead for the term of the next Council and the extent to which service provision will have to be transformed.

4 Council Tax

The budget shortfalls set out in table 1 are based on the current Band D Council Tax of £1,210 and reflect the additional income from an increase in the number of properties, the changes to discounts on second homes and the anticipated income generated by the reform of Council Tax.

As indicated earlier the funding package set out in Finance Circular 9/2016 means that the additional income arising from reform will be available in full to be spent in the Council area it was collected. The package also provides flexibility to increase Council Tax by up to 3%.

For Midlothian a 3% increase is estimated to generate £1.254 million for 2017/18 rising to £1.334 million by 2021/22 and would result in Band D Council Tax rising to £1,246 in 2017/18 and to £1,403 by 2021/22. Given the grant prospects and budget shortfalls set out in this report it is recommended that Council apply the full 3% increase in 2017/18 to contribute to reducing the projected budget shortfalls.

Appendix 1 sets out the proposed Council Tax levels for 2017/18 based on the recommended 3% increase.

5 Cost of Services

The assessment of the projected cost of services for 2017/18 to 2021/22 set out in this report reflects the latest information available.

The projected cost of services for 2017/18 has increased from that set out in the update provided to Council on 20 December 2016. This is attributable to the grant settlement, and the other cost pressures as detailed in table 3. These changes increase the projected budget shortfall for 2017/18 to £12.431 million, an increase of £1.351 million from the shortfall set out in the previous report.

Table 2 provides an analysis of the principal year on year budget changes which include the following key assumptions and cost drivers:

- Pay inflation averaging 1.4% for Local Government Workers and 1% for Teachers and Chief Officials in 2017/18. Thereafter 1% per annum for all groups. Since the last report the provision for 2017/18 has been increased by £350,000 to reflect our current best estimate of the likely impact.
- The cost of the Review of Pay and Grading and subsequent incremental pay progression;
- The impact of Pension Reform and anticipated changes in the Council's contribution towards employee pensions costs;
- Provision for the Apprenticeship Levy which is 0.5% of the pay bill and equates to £0.480 million. Previous projections were based on this cost being offset by additional grant or other funding from Government. However there is no provision in the grant settlement and the most recent indication from COSLA officials is that there is now unlikely to be any other funding provided to Councils to offset the impact of the levy.
- Provision for the Devolved School Management allocation to schools based on the indicative pupil numbers and the requirement to maintain the pupil teacher ratio.
- The additional cost, revised since the last report, of delivering the statutory 25 hours of teacher contact each week in primary schools;
- Contractual inflation linked to existing contractual conditions, many of which mirror pay inflation assumptions;
- An initial provision for future years costs of maintain pay levels for procured care services at or above the living wage;
- The impact of current demand for services;
- The demographic impact on the future demand for services;
- Borrowing costs related to capital investment decisions based on future interest rate forecasts provided by the Council's Treasury Advisers;
- Any new government policy requiring budgetary growth will be fully funded through increased Scottish Government grant;
- Council Tax income continues to grow in line with previous trends and planned future housing growth.

The 2017/18 budget shortfall and projections for later years reflecting the assumptions set out in sections 3 to 5 are therefore as follows:-

Table 1: Budget Shortfalls 2017/18 to 2021/22– 7 February 2017

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Cost of Services	205.573	212.448	220.653	228.351	235.924
Less: Council Tax	(43.450)	(44.100)	(44.750)	(45.400)	(46.050)
Less: Scottish Government Grant	(149.692)	(145.708)	(142.118)	(138.618)	(135.205)
Budget Shortfall	12.431	22.640	33.785	44.333	54.669

The budget shortfall in 2017/18 equates 6% of the net cost of services and the projections indicate this could rise to 23% by 2021/22.

As Council is aware, significant elements of the budget are either fixed or are challenging to change for a number of reasons including:-

- Historic decisions, for example, loan charges and unitary charge contractual payments;
- Specific conditions, for example the maintenance of the teacher pupil ratio; and
- Growing demand for services through demographic pressures.

These elements of the budget equate to £112 million in 2017/18 and are projected to rise to £140 million by 2021/22. Consequently the budget shortfall expressed as a percentage of the remainder of the budget equates to 13% for 2017/18 and has the potential to rise to 57% by 2021/22.

Whilst the projected cost of service provision, Council Tax and Scottish Government grant has been projected forward for 2018/19 to 2021/22 these are very much indicative projections based on the assumptions set out in sections 3 to 5 and will inevitable change over the period.

The main purpose of the projections is to provide Council with an assessment of the key factors which influence income and expenditure and the overall impact these may have on the Council's financial position for future years. Critically they highlight the extent of the challenge ahead for the term of the next Council and the extent to which service provision will have to be transformed.

Again it is stressed that the cost of services set out in table 1 above and the analysis set out in table 2 and 3 for 2018/19 to 2021/22 are projections based on an analysis of a range of information sources. The projections and planning assumptions on which they are based will be updated and reported to Council as new information becomes available.

Members should note that the projections are based on the continuation of the existing service delivery and funding arrangements for Local Government both of which Scottish Government has indicated its intention to review during the term of the current Parliament.

The budget shortfalls set out in table 1 arise for the following reasons:

Table 2: Analysis of Shortfalls – 7 February 2017

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Opening Shortfall / (surplus)	2.668	12.431	22.640	33.785	44.333
Pay Inflation and Progression	2.700	1.893	2.344	2.297	2.451
Pensions Reform	0.350	0.000	0.000	0.000	0.000
Pension Contributions	0.000	0.450	0.450	0.450	0.000
Apprenticeship Levy	0.500	0.000	0.000	0.000	0.000
Contractual Inflation	0.465	0.547	0.637	0.571	0.652
Demographics: Care	1.120	1.040	1.040	1.040	1.040
Demographics: School Rolls	2.098	2.260	2.770	2.798	3.083
Demographics: Thorough Care	0.600	0.000	0.000	0.000	0.000
25 Hours in Primary Schools	0.300	0.090	0.000	0.000	0.000
Demand pressures: Children	0.000	0.324	0.024	0.024	0.024
School Estate Investment	0.311	0.381	1.126	0.033	0.036
Waste Disposal Costs	0.320	0.213	(0.285)	0.125	0.125
Non Domestic Rates	0.128	0.132	0.135	0.138	1.142
Borrowing Costs	0.997	(0.003)	(0.089)	0.123	(0.007)
Scottish Government Grant	2.342	3.466	3.590	3.500	3.413
Council Tax Income	(2.850)	(0.650)	(0.650)	(0.650)	(0.650)
Other Movements	0.382	0.066	0.053	0.099	(0.973)
Totals	12.431	22.640	33.785	44.333	54.669

The principal movement from the figures set out in the 20 December 2016 report are as follows.

Table 3: Movement from 20 December 2016 to 7 February 2017

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Shortfall 20 December 2016	11.080	18.867	27.422	35.470	43.393
Grant Settlement	(0.358)	2.108	4.698	7.198	9.611
Apprenticeship Levy	0.480	0.480	0.480	0.480	0.480
Pay Inflation	0.350	0.350	0.350	0.350	0.350
Additional Cost of 25 hours in Primary Schools	0.140	0.140	0.140	0.140	0.140
Other movements reflecting current service provision	0.739	0.695	0.695	0.695	0.695
Shortfall 7 February 2016	12.431	22.640	33.785	44.333	54.669

6 Sensitivity Analysis

Given the level of uncertainty for future year grant settlements and outstanding pay awards table 4 provides a sensitivity analysis reflecting the potential impact of different scenarios/outcomes for these two key aspects of the budget.

Scenario 1. This is a more optimistic scenario which continues to assume a 1% pay award in each of the years but with cash flat grant settlements. Otherwise all other assumptions remain as set out in section 3.

Scenario 2. Is a more pessimistic scenario which assumes a 2% pay award and reducing grant income as set out in section 2.

Table 4: Sensitivity Analysis – 7 February 2017

	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m
Scenario 1				
Central Assumption	22.640	33.785	44.333	54.669
Cash Flat Government Grant	(3.466)	(7.056)	(10.556)	(13.969)
Amended Shortfall	19.174	26.729	33.777	40.700
Scenario 2				
Central Assumption	22.640	33.785	44.333	54.669
Revised Pay Award Assumption	1.893	4.237	6.534	8.895
Amended Shortfall	24.533	38.022	50.867	63.564

These scenarios help to demonstrate the significance of the impact that changes from the central planning assumption for either government grant or pay inflation have on the projected budget shortfalls.

7 Midlothian Integration Joint Board

The 2017/18 budget as set out in appendix 2 provides for an allocation to the Integrated Joint Board (IJB) for 2017/18 of £37.510 million. This represents a net increase of £0.424 million from the 2016/17 allocation.

The provisions set out in the grant settlement package would allow Council to reduce its allocation to the IJB by a maximum of £1.160 million. However given the demographic and other cost pressures projected for Health and Social Care such a reduction may not be feasible without a reassessment of the Services delegated to the IJB and as such it is unlikely that the IJB would agree to the reduced allocation. Consequently the reduction is not reflected in the IJB allocation however the feasibility of part or all of the reduction being achieved will be raised with the Chief Officer and Chief Financial Officer of the IJB.

The Chief Officer and Chief Financial Officer of the IJB are currently supporting the IJB to develop its 2017/18 Financial Plan and the Directions it will issue to the Council and NHS Lothian within the context of the indicative allocations from the Council and NHS Lothian.

Subject to Council determining its budget for 2017/18 it is recommended that Council approve the allocation of £37.510 million to the Midlothian Integrated Joint Board for 2017/18 in respect of delegated services, noting that the feasibility of part or all of the £1.160 million reduction being applied will be raised with the Chief Officer and Chief Financial Officer.

8 Change Programme

The strands of work that will continue to be necessary to address the projected budget shortfalls represent a change programme, encompassing:-

- The Delivering Excellence programme;
- The delivery of savings approved in 2016/17 and 2017/18; and the continued control over expenditure;
- The Transformation Programme;
- The EWiM programme;
- An updated Capital Strategy and Reserves Strategy;
- Operational savings encompassing financial discipline measures;
- The development of further savings options for 2018/19 and beyond.

8.1 Delivering Excellence

The Delivering Excellence framework supports the repositioning of services to ensure they have a greater emphasis on and achieve better outcomes for those most disadvantaged and vulnerable in the community. The framework focuses on reshaping service delivery as the most sustainable way to address the financial and service challenges and maintain financial sustainability.

The framework sets out an approach that provides the means to:

- Realise savings of the scale and magnitude required and to continue to deliver high quality services by engaging staff, partners, stakeholders and citizens to determine the nature of service delivery, the level of service standards and the method of delivering these services;
- To perform successfully in this environment, the Council will require to forward plan for the period beyond known financial settlements, to prioritise the services to be delivered and to clearly identify those services which will no longer be funded or indeed provided or may be provided through alternative mechanisms or approaches; and
- To ensure that there is achievement of the outcomes and priorities of the Council and Community Planning Partners.

The savings proposals presented to Council on 20 December 2016 emerged from the focussed Delivering Excellence activity which has taken place over the earlier part of the year. In addition to identifying savings proposals to reduce the 2017/18 budget gap it has also identified key transformational activities which it is anticipated can generate savings in future years. These are summarised in table 5, or where they relate to the existing transformation programme they have been reflected in table 6 included in section 8.2 – Transformation Programme.

As each strand is developed proposals will be presented to the Business Transformation Steering Group for their consideration and direction and then to Council.

Table 5: Delivering Excellence – Emerging Projects – 7 February 2017

	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m
Asset Management	0.078	0.500	2.650	2.650
Waste Services	0.400	0.400	0.400	0.400
Destination Hillend	0.000	1.000	1.000	1.000
Others	0.070	0.284	0.284	0.284
Totals	0.548	2.184	4.334	4.334

8.2 Transformation Programme

The existing Transformation Programme remains a major focus with a continued drive towards delivering on the agreed outcomes and targets. The future year's savings targets incorporated in the Financial Strategy are derived from those set out in the Council's Transformation Programme update reports to Business Transformation Steering Group (BTSG) revised to incorporate the transformational activity as outlined in section 8.1 and are set out in table 6 below.

Table 6: Council Transformation Programme Savings – 7 February 2017

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Children's Services	0.532	0.806	0.867	0.867	0.867
Services to Communities	0.200	1.050	1.050	1.050	1.050
Education	0.329	0.755	0.790	0.790	0.790
Customer Service	0.175	0.175	0.175	0.175	0.175
Health & Social Care	1.555	2.555	2.555	2.555	2.555
Totals	2.791	5.341	5.437	5.437	5.437

The savings targets set out in table 6 exclude those already reflected in the 2016/17 approved budget and are predicated on the outcomes of the reviews and any subsequent decisions taken by Council and so remain indicative.

8.3 Asset Management

The position remains as reported on 28 June 2016.

8.4 Capital Strategy and Reserves Strategy

A separate report is on today's agenda setting out the latest projection of the General Services Capital plan. An update on General Fund Reserves is set out in section 11 of this report.

The £0.458 million of additional capital grant funding will increase the headroom reported in the General Services Capital plan report elsewhere on today's agenda. However it does not have a material impact on the recommendations set out in that report nor does it have a material impact on the Treasury Management and Investment Strategy report.

The impact of the additional capital grant will be reflected in the next General Service Capital Plan report to Council in June 2017.

8.5 Operational Savings

The budget projections set out in tables 1 and 2 already reflect the operational savings reported in previous year's budgets.

As reported on 20 December 2016 further operational savings have been identified by the Strategic Leadership Group. These total £2.021 million in 2017/18 rising to £3.139 million by 2021/22.

8.6 Savings

On 20 December 2016 Council approved a range of savings proposals. These total £2.115 million in 2017/18 rising to £4.121 million by 2021/22.

On 1 February Scottish Government announced the school level pupil equity funding (Attainment Scotland fund) allocations together with draft national operational guidance. It is clear from that guidance that the decision of Council on 20 December 2016 in respect of Music Tuition, "to ensure that funding for this is directed from the recently announced schools' attainment funding", would not be achievable and accordingly the savings reduce to £1.995 million in 2017/18 and £4.001 million by 2021/22.

8.7 Fees and Charges

The position remains as reported on 20 December 2016.

8.8 Summary of Financial Strategy

The updated projections incorporating the impact of the various strands of the Financial Strategy and the full 3% per annum increases in Council Tax are set out in table 7 below. The change programme set out above reduces the remaining budget gap for 2017/18 to £3.970million.

As part of the development and consideration of the proposals recommended by the Strategic Leadership Group all Heads of Service have provided assurance to me, as Section 95 Officer, that the savings proposals incorporated in 2017/18 are achievable. It is stressed however that ultimately the achievement of savings will also be dependent on decisions taken by Council.

In order to achieve a balanced budget for 2017/18 it will be necessary to utilise £3.970 million of reserves. While this will result in a level of contingent reserves below the level previously recommended it is considered a practical response to the financial position against the alternative of developing and bring forward additional savings proposals for immediate implementation without the opportunity for further consultation.

Table 7: Financial Strategy 2017/18 to 2021/22 – 7 February 2017

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Budget Shortfall Table 1	12.431	22.640	33.785	44.333	54.669
Less: Change Programme					
Delivering Excellence 8.1	-	(0.548)	(2.184)	(4.334)	(4.334)
Transformation Programme 8.2	(2.791)	(5.341)	(5.437)	(5.437)	(5.437)
Asset Management 8.3	0.000	0.000	(0.288)	(0.288)	(0.288)
Operational Savings 8.5	(2.021)	(3.029)	(3.139)	(3.139)	(3.139)
Savings Options 8.6	(1.995)	(2.283)	(2.531)	(3.391)	(4.001)
Fees and Charges 8.7	(0.100)	(0.180)	(0.240)	(0.280)	(0.300)
Less:					
Council Tax Increase	(1.254)	(2.528)	(3.823)	(5.138)	(6.472)
Council Tax on Second Homes	(0.300)	(0.250)	(0.200)	(0.200)	(0.200)
Utilisation of Reserves	(3.970)	-	-	-	-
Remaining Budget Gap	-	8.481	15.943	22.126	30.498

9 Governance and Timetable

Each element of the Financial Strategy continues to have clear governance in place to ensure the timely delivery of the work stream, with proposals being reported through Business Transformation Steering Group and then to Council as appropriate.

Members are reminded that Council has a duty as set out in Section 93 of the Local Government Finance Act 1992 (as amended) to set its Council Tax and a balanced budget for the following financial year commencing 1 April by 11 March.

Accordingly the budget timetable, agreed by Council on 28 June 2016, provides for Council to set Council Tax and determine a budget for 2017/18 at today's meeting.

Furthermore members are also reminded that in terms of Section 112 of the Local Government Finance Act 1992 (as amended) it is an offence to participate in any vote in respect of setting Council Tax where the member has unpaid Council Tax. Members are required to disclose the fact this section of the act applies to them and not vote on any question with respect to the matter.

10 Focussing Resources to Key Priorities

The Financial Strategy is designed to ensure that available resources are as far as possible targeted on delivery of improved outcomes, particularly against the key priorities of:-

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances

The Midlothian Community Planning Partnership continues to prioritise the available resources towards the delivery of the partnerships key priorities and the Financial Strategy sets out for partners the parameters the Council is working within and provides a means to better facilitate the sharing of budget and resource planning information.

The Change Programme, incorporating the Delivering Excellence framework and Transformation Programme, is central to ensuring that resources are directed towards the priorities set out in the Midlothian Single Plan. The development activity for the 2017/18 budget has ensured that as far as possible the resultant budget, reflecting the savings outlined in section 10, will be focussed on delivery of the Council's key priorities.

Recognising the impact of continued substantial financial constrain and the projected remaining budget gaps set out in table 7 the Strategic Leadership Group is engaged in developing further options for change so that these can be considered early in the term of the next Council.

11 Reserves

The projected position for General Fund Reserves is set out in the Financial Monitoring 2016/17 – General Fund Revenue report also on today's agenda.

As indicated in section 8 to balance the 2017/18 budget it will be necessary to utilise £3.970 million of General Fund Reserves which would reduce the contingency level of General Fund Reserves to £5.408 million.

At £5.408 million the contingency is below the £8 million level set out in the Reserves Strategy approved by Council on 8 November 2016 and equates to 2.7% of projected net expenditure for 2017/18. It still provides a level of contingency against unforeseen events or financial risks.

Table 8 summarises the General Fund reserve position.

Table 8: Available General Fund Reserve 31 March 2017 – 7 February 2017

	£million
General Fund Balance at 31 March 2017	13.243
<i>Earmarked for specific purposes</i>	
• Earmarked for Council Transformation	(3.838)
• Borders Rail Economic Development Opportunities	(0.027)
Proposed Utilisation in 2017/18	(3.970)
Available Contingent Reserve at 31 March 2017	5.408

In addition the unallocated balance on the Capital Fund at 31 March 2017 is projected to be £8.556 million, equivalent to 4.3% of projected net revenue expenditure.

12 Report Implications

12.1 Resources

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

12.2 Risk

Within any financial projections, there are a number of inherent assumptions in arriving at figures and budget provisions and therefore risks that may be faced if costs change or new pressures emerge. The following key risks and issues are highlighted in the context of this report:

- The economic outlook and decision by Scottish Government on future years grant settlements and grant distribution;
- Given the nature of the savings options incorporated in the budget proposals the increase risk of non-delivery or late delivery of planned savings, including those arising from reductions in the staffing establishment;
- The risk to service provision and service users associated with a continued decline in available resources to fund services.
- Outstanding pay award settlements and the implications of the National Living Wage for external service providers;
- Actual school rolls for the 2017/18 academic term exceeding those provided for in the budget;
- The impact of the wider economic climate on range of factors including: inflation, interest rates, employment, tax and income levels and service demands;
- Cost pressures, particularly demographic demand, exceeding budget estimates;
- The impact of Universal Credit, and potential pension changes;
- The costs of implementation of national policies varying from the resources provided by Government; and
- Unplanned capital investment requirements and associated cost.

The Financial Strategy aims to mitigate a number of these risks by setting out the key assumptions on which forward plans are based, and through the Change Programme activities, setting out the early identification of future saving proposals.

12.3 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

12.4 Impact on Performance and Outcomes

The Financial Strategy facilitates decision on how Council allocates and uses its available resources and as such has fundamental implications for service performance and outcomes. The budget projections indicate that in 2021/22 the Council will have available in the region of £180 million for the provision of services and the pursuit of key outcomes as set out in the Single Midlothian Plan

12.5 Adopting a Preventative Approach

Whilst the proposals in this report do not directly impact on the adoption of a preventative approach, an effective Financial Strategy in turn allows resources to be prioritised to support prevention.

12.6 Involving Communities and Other Stakeholders

Shaping our Future, the consultation strand of the Delivering Excellence framework, has been a key aspect of informing the community and other stakeholders of the financial and service challenges and included consultation on a range of options as the change programme developed.

In addition, there continues to be engagement with the recognised Trade Unions on the Council's financial position and service challenges.

12.7 Ensuring Equalities

Whilst the financial strategy and the supporting proposals have been developed within the context of ensuring that resources are directed towards key priorities, Midlothian Council is committed to the ethos of the Equality Act 2010 and has considered the interests of the most vulnerable in our communities through equality impact assessment for all the budget proposals.

An updated EQIA encompassing the revenue budget for 2017/18 as set out in table 7 is attached as appendix 3.

12.8 Supporting Sustainable Development

There are no direct sustainability issues arising from this report.

12.9 IT Issues

There are no direct IT implications arising from this report.

13 Summary

This report sets out recommendations to enable Council to set Council Tax and to determine a budget for 2017/18.

It also provides:-

- An update on Scottish Government Grant;
- Updated budget projections for 2017/18 to 2021/22;
- A sensitivity analysis reflecting the potential impact of different pay and grant settlement scenarios for later years;
- An update on the resources to be provided to the Midlothian Integration Joint Board in 2017/18;
- An update on the strands of the Change Programme;
- The resultant 2017/18 service budget analysis;

- An update on reserves.

14 Recommendations

Council is recommended to:-

- a) In line with the provisions of the Grant Settlement package set a Band D Council Tax of £1,246 for 2017/18 as set out in appendix 1;
 - b) Note the updated projected cost of services, key assumptions and resultant budget shortfalls as set out in section 3;
 - c) Note the continuing uncertainties and the potential impact as outlined in the differing scenarios as set out in section 6;
 - d) Approve the 2017/18 service budget analysis as set out in appendix 2, including the utilisation of £3.970 million of reserves.
 - e) Approve the allocation of £37.510 million to the Midlothian Integrated Joint Board for 2017/18 in respect of delegated services, noting that the feasibility of part or all of the £1.160 million reduction being applied will be raised with the Chief Officer and Chief Financial Officer of the IJB.
- a) Note that the Strategic Leadership Group is engaged in developing further options for change so that these can be considered early in the term of the next Council.
 - b) In considering the recommendations also consider the contents of the draft EQIA set out in appendix 3;
 - c) Otherwise note the contents of the report.

Date 3 February 2017

Report Contact:

Gary Fairley Tel No 0131 271 3110

gary.fairley@midlothian.gov.uk

MIDLOTHIAN COUNCIL

Council Tax for Financial Year 2017/18

This statement gives details of the 2017/18 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 £1,246.

Band	Range of Values		Band D	Council
	From	To	Proportion	Tax
	£	£		£
A	-	27,000	240/360	830.66
B	27,001	35,000	280/360	969.11
C	35,001	45,000	320/360	1,107.55
D	45,001	58,000	360/360	1,246.00
E	58,001	80,000	473/360	1,637.10
F	80,001	106,000	585/360	2,024.75
G	106,001	212,000	705/360	2,440.08
H	212,001	upward	882/360	3,052.70

REVENUE BUDGET 2017/18 SUMMARY

Service Function	Budget 2017/18 £
Management and Members	1,603,944
<u>Education Communities and Economy</u>	
Childrens Services	14,542,843
Communities and Economy	3,987,437
Education	85,143,974
<u>Health and Social Care</u>	
Adult Social Care	37,509,783
Customer and Housing Services	11,578,657
<u>Resources</u>	
Commercial Services	15,472,619
Finance and Integrated Service Support	11,736,179
Properties and Facilities Management	12,949,607
Lothian Valuation Joint Board	555,551
Centrally Held Budget Provisions	1,591,000
Non Distributable Costs	1,338,436
GENERAL FUND SERVICES NET EXPENDITURE	198,010,030
Loan Charges	7,406,000
Investment Income	(300,475)
Council Transformation Programme savings targets	(1,667,125)
Allocations to HRA, Capital Account etc.	(4,782,000)
NET EXPENDITURE	198,666,430
Utilisation of Reserves	3,970,430
Scottish Government Grant	149,692,000
Council Tax	45,004,000
TOTAL FUNDING	198,666,430



Overview Equality Impact Assessment (EqIA)
on
Midlothian Council
Budget
2017/18

31 January 2017

Midlothian



Midlothian Council

Equality Impact Assessment (EqIA) on Midlothian Council Budget

2017/18

Budget Proposal: Operational Policy	As set out in appendices to Council report 20/12/16
Council Tax	A 3% increase as set out in report 07/02/17
Directorate and service area	List as detailed above

Overview of Budget Investment through the Financial Strategy	The core objective of the Financial Strategy 2017/18 to 2021/22 is that of securing the Council's continued financial sustainability during what is expected to be an ongoing period of financial constraint coupled with continuing service demand pressures and increasing customer expectations.
Completion Date	31 January 2017
Lead officer	Gary Fairley

Aims and Objectives

The public sector continues to face significant service delivery challenges due to reduced income streams, funding constraints, inflationary cost pressures and additional legislative burdens. Demand for public services in Midlothian continues to increase as a consequence of changes in the size and profile of the county's population with greater numbers of young and older people, those in poor economic situations, and those with disabilities be they physical, sensory, mental health or learning disabilities. The Council must continue to prioritise expenditure on public services which prevent negative outcomes for those within its communities whilst securing maximum benefit from all available resources. Accordingly, it is prudent that significant savings and cuts are made over the coming years and projected budget shortfalls stemmed. This will allow the Council to maintain its financial sustainability and also to ensure that all within its communities, irrespective of protected characteristics, (age, disability, gender re-assignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation plus in Midlothian poor socio-economic circumstances), are not unlawfully discriminated against, and that equality of opportunity and advancement of good relations is upheld between those who have a protected characteristic and those who do not.

1. Does the proposed budget affect people?

Yes



No



2. What is/are the reason(s) for your proposed Council Tax Increase, budget savings and use of reserves?

On 7 February 2017 Council will be provided with an updated assessment of projected budgets shortfalls through to 2021/22 which, based on the assumptions set out in that report, projected a budget shortfall for 2017/18 of £14.546 million rising to £56.784 million . Encompassing the savings targets for the change programme and the recommended 3% per annum increase in Council Tax resulted in a use of reserves in 2017/18 £5.965 million for 2017/18 and a potential budget gap by 2021/22 of £32.493 million.

Scottish Government grant accounts for 80% of external funding. As in previous years the prospects for and the timing of future years grant settlements have been a major factor which dominated the financial projections set out in the Financial Strategy 2017/18 to 2021/22. The Grant Settlement, which was published on the 15 December 2016 resulted in a reduction of core grant funding which increased the budget gap from that previously projected by £1.8 million in 2017/18. In addition since the December report additional budget provision has also been made for pay awards, the provision of 25 hours class contact and the unfunded costs of the Apprenticeship Levy. While these national policy initiatives will all benefit minority groups they do however increase the budget gap.

In addition whilst the grant settlement was only for 2017/18 it will have an impact on medium term plans and as such will significantly influence the timing of and the extent to which Council has to reshape and reduce service budgets in order to maintain financial sustainability.

3. Impact

Which of the protected characteristics* will the proposed budget savings have an impact upon?

Equality Target Group*	Positive Impact	Negative Impact	Relevant evidence/ information
Age			Overall Grid in Appendix 1 attached.
Disability			
Gender Reassignment			
Marriage & Civil Partnership			
Pregnancy and maternity			
Race			
Religion or Belief			
Sex			
Sexual Orientation			

4. Overall Impact of Budget

Each budget proposal which was presented in December 2016 was subjected to an Equality Impact Assessment. The overall grid (Appendix 1) details the protected characteristics which are considered to be most likely to be affected in a potentially negative way. The overall grid includes the currently non-enacted 10th protected characteristic of socio-economic deprivation which Midlothian Council voluntarily considers. It is understood that this 10th protected characteristic will be enacted in 2017 by the Scottish Government.

In no proposal area has any unlawful negative impact been identified, and where possible reduction/removal of services will be monitored to establish the actual affect to those within our communities.

5. How will the implementation of proposed budget savings be communicated to those affected by any changes?

Information will be available on the Council's web site and communicated to affected businesses/customers/service users by letter, email, etc. In addition, information documents, as required, can and will be made available in different formats and languages on request. If an individual or group require this information in another language or format, then they should email equalities@midlothian.gov.uk or telephone the Equality, Diversity & Human Rights Officer on 0131 271 3658.

6. How will you monitor the impact of the changes proposed? When is the budget due to be reviewed?

Changes will be monitored through Covalent, the council's performance management system, discussion groups and forums, fees and charges income, and various other methods detailed in the individual equality impact assessments.

The overall budget is reviewed on an annual basis.

7. Please use the space below to detail any other matters arising from the Equality Impact Assessment (EqIA) process.

If available, mitigating actions for each of the proposals have been outlined in the individual equality impact assessments.

Where no mitigating actions are possible it is considered that any negative effects are not unlawful and are justifiable on a benchmarking/inflationary basis.

Midlothian Council is committed to the ethos of the Equality Act 2010 and has considered this through equality impact assessment of all its budget proposals. For proposals being decided upon on 20 December 2016 the relevant Equality Impact Assessments have been published as legislation requires and this overall EQIA encompasses these decisions, the increase in Council Tax and the resultant 2017/18 service budgets.

Please send an electronic copy of completed forms to lesley.crozier@midlothian.gov.uk

APPENDIX 1 - OVERVIEW EQUALITY ASSESSMENT GRID

[illegible]

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[illegible]

APPENDIX 1 - OVERVIEW EQUALITY ASSESSMENT GRID

[illegible]

APPENDIX 1 - OVERVIEW EQUALITY ASSESSMENT GRID

Service	Budget Proposals	Protected Characteristics									
		Age	Disability	Gender re-assignment	Marriage & Civil Partnership	Pregnancy & Maternity	Race	Religion or belief	Sex	Sexual Orientation	Socio-economic deprivation
	Review FM Officers from two to one (dependent on shared primary school janitors) - operational proposal	√	√								√
Building Services											
Sport & Leisure											
	Review Sport & Leisure staffing - operational proposal	√	√						√		√
	Reduce opening hours during low usage periods at leisure centres - policy proposal	√	√						√		√
	Introduce soft play at Penicuik Centre - operational proposal										
	Increase Sport and Leisure charges by 10% - policy proposal	√	√				√		√		√
PPP Management											
	Maximise use of contractual entitlement in PPP core hours - operational proposal	√	√								
	Review of PPP Contracts - policy proposal										
Property Assets											
	Introduce Energy Management Systems to control heating / power use remotely - operational proposal										
	Mini service review - operational proposal	√	√						√		√
	Reduce drainage charging by utilising soakaways / SUDS ponds -	√	√				√		√		√

APPENDIX 1 - OVERVIEW EQUALITY ASSESSMENT GRID

Service	Budget Proposals	Protected Characteristics									
		Age	Disability	Gender re-assignment	Marriage & Civil Partnership	Pregnancy & Maternity	Race	Religion or belief	Sex	Sexual Orientation	Socio-economic deprivation
	operational proposal										
	Review water metering arrangements to downsize meters, reducing charges - operational proposal	✓	✓				✓		✓		✓
	SALEX funding for energy saving initiatives eg lighting, pool covers etc - operational proposal	✓	✓				✓		✓		✓
EWIM											
	Independent Stores partnership renting new depot space - operational proposal	✓	✓				✓		✓		✓
	Bespoke joinery through Independent Stores - operational proposal	✓	✓				✓		✓		✓
	Property & Facilities Management Service Review - operational proposal										
	Staff consolidation due to reduced locations at new depot - operational proposal	✓	✓				✓		✓		✓
	Earlier closure of Penicuik Town Hall and Library HQ - operational proposal	✓	✓				✓		✓		✓
	Creation of IJB Hub at St Andrew's Street - operational proposal	✓	✓				✓		✓		✓
Children's Services											
	Review of Family Support Staff (2%)	✓	✓				✓		✓		✓

APPENDIX 1 - OVERVIEW EQUALITY ASSESSMENT GRID

Service	Budget Proposals	Protected Characteristics									
		Age	Disability	Gender re-assignment	Marriage & Civil Partnership	Pregnancy & Maternity	Race	Religion or belief	Sex	Sexual Orientation	Socio-economic deprivation
	Reduction in purchase of external foster care placements - policy proposal	√									√
	Multi-Agency Resource Group (MARG) - policy proposal	√									√
Health & Social Care	Increase Income from Charges - policy proposal	√	√	√			√		√	√	√