

**Revenue Budget 2014/15 to 2016/17****Report by Gary Fairley, Head of Finance and Human Resources****1 Purpose of Report**

The purpose of this report is to provide Council with an update on:-

- The budget projections for the three financial years 2014/15 to 2016/17 together with the assumptions which underpin these projections;
- The savings targets attached to the Council transformation programme;
- The projected budget shortfall for each of the three years; and
- An update on reserves.

**2 Scottish Government Grant Settlement**

The position remains as reported to Council on 14 May 2013.

To recap, the budget projections for 2014/15 are based on the indicative grant allocations set out in finance circular 1/2013 with the budget projections for 2015/16 and 2016/17 assuming a 1% reduction in grant in each year.

**3 Council Tax**

The position remains as reported to Council on 14 May 2013.

The budget projections are based on a continuing Council Tax freeze with Band D Council Tax remaining at £1,210. The Council Tax income detailed in table 1 overleaf reflects the additional income from an increase in the number of properties.

**4 Cost of Services**

Table 1 sets out the latest projections of the costs of providing services and is based on a number of assumptions on cost and income. These include:

**Inflationary and other cost pressures on existing service costs:-**

- A provision for pay awards of 1% and contractual inflation on other costs for each of the years. Each 0.5% variation in pay awards equates to approximately £0.600 million per annum;
- No other changes to salary structures or employee terms and conditions;
- Pension deficit funding remaining at current levels;

- An additional £0.460 million in 2014/15 in respect of the additional costs arising from welfare reform as reported to Council on 14 May 2013;
- Borrowing costs reflect the approved capital plan;
- The cost associated with the recommended option for the replacement of Newbattle Community High School as reported on today's agenda.

### Demographic cost pressures

- A provision for social care services demographic cost pressures of £1.1 million per year, amounting to £3.3 million by 2016/17;
- A provision for increasing school rolls of £0.470 million in 2014/15, with a further £0.406 million per year in 2015/16 and 2016/17, amounting to £1.282 million by 2016/17.

### Waste Management

- The budget projections provide for the introduction of food waste collection from 2015.

It is stressed that these continue to be very much initial planning assumptions and that work will continue to review and adjust the budget projections over the coming months.

**Table 1: Budget Shortfall 2014/15 to 2016/17 – 25 June 2013**

	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
Cost of Services	187.4	191.8	196.2	201.3
Less: Council Tax	38.4	38.8	39.3	39.9
Less: Scottish Government Grant	149.0	149.0	147.5	146.0
<b>Budget Shortfall</b>	<b>0.0</b>	<b>4.0</b>	<b>9.4</b>	<b>15.4</b>

The changes from the last update on 14 May 2013 is attributable to the following key elements:-

**Table 2: Analysis of Change – 14 May 2013 to 25 June 2013**

	2014/15	2015/16	2016/17
	£m	£m	£m
Budget Shortfall 14 May	4.0	9.4	14.9
- Newbattle CHS	0.0	0.0	0.5
<b>Budget Shortfall 25 June</b>	<b>4.0</b>	<b>9.4</b>	<b>15.4</b>

## 5 Bridging the Budget Shortfall

The updated savings targets attached to the current transformation programme are set out in table 3 below.

The Council transformation programme will continue to be the principal means of identifying savings options to address the projected shortfall. The Strategic Leadership Group (Directors and Heads of Service) are progressing a series of proposals and an update will be presented to Business Transformation Steering Group and to Council thereafter.

**Table 3: Transformation Programme – Current Savings Targets – 14 May 2013**

	2014/15 £m	2015/16 £m	2016/17 £m
Service Reviews	0.371	0.413	0.413
Partnership Working	-	-	-
EWiM	0.090	0.090	0.090
Procurement	0.455	0.751	0.893
<b>Transformation Savings</b>	<b>0.916</b>	<b>1.254</b>	<b>1.396</b>

### 5.1 Service Reviews

The savings targets set out in table 3 are those attached to the current service review programme. These have been updated to reflect the ongoing programme of reviews as detailed in table 4. As proposals are developed by the Strategic Leadership Group, these will be incorporated into the plans.

**Table 4: Service Review Savings 25 June 2013**

	2014/15 £m	2015/16 £m	2016/17 £m
Secondary Management	0.088	0.088	0.088
Janitorial & Facilities Management	0.055	0.097	0.097
Sport & Leisure	0.088	0.088	0.088
Housing & Homeless	0.140	0.140	0.140
<b>Totals</b>	<b>0.371</b>	<b>0.413</b>	<b>0.413</b>

### 5.2 Partnership Working

There is no change from the position reported on 14 May 2013.

### 5.3 EWiM

There is no change from the position reported on 14 May 2013.

## 5.4 Procurement

The projected savings now reflect the revised procurement contract delivery plan 2013-17 which was approved by Business Transformation Steering Group on 11 June 2013.

## 5.5 Remaining Budget Shortfall

After incorporating all of the above savings there would remain a budget shortfall in each of the years.

**Table 5: Remaining Budget Shortfall 25 June 2013**

	2014/15	2015/16	2016/17
	£m	£m	£m
Base budget shortfall	4.000	9.400	15.400
Less:			
Business Transformation Savings	0.916	1.254	1.396
<b>Remaining budget shortfall</b>	<b>3.084</b>	<b>8.146</b>	<b>14.004</b>

As noted earlier in this report work continues to develop the Transformation Programme under the direction of the Business Transformation Steering Group. The group is working towards the development of options which will be presented to Council on 24 September 2013 to bridge the 2014/15 budget shortfall and to provide indicative savings for later years.

## 6 Reserves

The uncommitted General Reserve at 31 March 2013 as reported to Council today is £6.402 million.

A prudent level of uncommitted reserves is seen to be 2% of net expenditure which equates to approximately £4 million. The General Reserve shown above is £2.402 million greater than this and so provides some flexibility to meet unforeseen costs pressures and overspends.

## 7 Report Implications

### 7.1 Resources

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

## 7.2 Risk

Within any financial year's budget 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 economic climate and significant emerging issues mean that risk is inevitably greater and more difficult to predict. The following key risks and issues are highlighted in the context of the budget:

- Impact of economic climate on range of factors including: inflation, interest rates, employment, tax and income levels, service demands;
- Outstanding pay award settlements;
- Decision by Scottish Government future years grant settlements;
- Outstanding employment tribunal claims;
- Extreme weather events (or other unforeseen events) and provision for immediate response as well as longer-term implications;
- Cost pressures exceeding budget estimates;
- Non-delivery or late delivery of planned savings;
- Impact of Welfare Reform and Pension changes;.
- The Replacement of Newbattle Community High School.

The Budget process and the Council transformation programme mitigates a number of these risks by improving forward planning, and the early identification of future saving proposals.

## 7.3 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

## 7.4 Impact on Performance and Outcomes

The decisions taken to balance the budget will have fundamental implications for service performance and outcomes. The Council's transformation programme aims to minimise the impact on priority services.

## 7.5 Adopting a Preventative Approach

Whilst the proposals in this report do not directly impact on the adoption of a preventative approach, early budget planning will in turn allow resources to be prioritised to support prevention.

## 7.6 Involving Communities and Other Stakeholders

The budget strategy provides for consultation in autumn of 2013.

## **7.7 Ensuring Equalities**

There are no equality implications arising directly from this report. Each of the proposals which contribute to balancing the budget will be individually assessed and an overarching EQIA will be prepared covering the revenue budget, capital plan and service plans.

## **7.8 Supporting Sustainable Development**

There are no sustainability issues arising from this report. The impact on sustainability of proposals presented by Services will be reported on separately.

## **7.9 IT Issues**

There are no IT implications arising from this report.

## **8 Summary**

The budget shortfall before Business Transformation saving is projected to be £4.0 million in 2014/15 rising to £15.4 million in 2016/17.

## **9 Recommendations**

It is recommended that Council:

- (a) Notes that the projections are a budget shortfall of £4.0 million for 2014/15 rising to £15.4 million in 2016/17;
- (b) Note that options to address the projected budget shortfall will be brought forward through existing Business Transformation governance arrangements.

10 June 2013

### **Report Contact:**

Gary Fairley, Head of Finance and Human Resources

Tel No: 0131 271 3110

[gary.fairley@midlothian.gov.uk](mailto:gary.fairley@midlothian.gov.uk)

**Declaration Box**

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**Title of Report: Revenue Budget 2014/15 and 2016/17**

**Meeting Presented to: Midlothian Council**

**Author of Report: Gary Fairley, Head of Finance and Human Resources**

*I confirm that I have undertaken the following actions before submitting this report to the Council Secretariat (Check boxes to confirm):-*

- All resource implications have been addressed. Any financial and HR implications have been approved by the Head of Finance and Human Resources.*
- All risk implications have been addressed.*
- All other report implications have been addressed.*
- My Director has endorsed the report for submission to the Council Secretariat.*

*For Cabinet reports, please advise the Council Secretariat if the report has an education interest. This will allow the report to be located on the Cabinet agenda among the items in which the Religious Representatives are entitled to participate.*

*Likewise, please advise the Council Secretariat if any report for Midlothian Council has an education interest. The Religious Representatives are currently entitled to attend meetings of the Council in a non-voting observer capacity, but with the right to speak (but not vote) on any education matter under consideration, subject always to observing the authority of the Chair.*