

## **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 local government finance settlement;
- 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;
- Proposals to address the budget shortfall; and
- Reserves.

The report also recommends that Council approves a Council Tax freeze for 2014/15.

#### **2 Scottish Government Grant Settlement**

As previously reported the local government finance settlement distribution for 2014/15 will remain in line with indicative figures set out in finance circular 1/2013. For 2015/16 it would be normal practice to update the indicators used in the grant distribution process to reflect the up to date data.

However since the last Revenue Budget report to Council on 24 September 2013, COSLA leaders have considered a report on distribution issues which, in line with normal practice, recommended the updating of indicators used in the formula used to distribute grant between Councils. As a result the decision taken at the leaders meeting, COSLA'S position is that the distribution formula should not be updated to reflect these issues and as such the 2014/15 grant would in effect be rolled forward to 2015/16.

If this decision is adopted by Scottish Government it will mean that Midlothian will not receive any increase in grant in 2015/16 to reflect the growth in population, pupil numbers etc. The final grant distribution to authorities will not be known until December when the finance circular setting out the individual Council allocations is known. In the meantime, the grant projections set out in table 1 remains as reported to Council on 24 September 2013.

### **3 Council Tax**

The position remains as previously reported to Council.

The budget projections are based on a continuing Council Tax freeze (a condition of The Scottish Government Grant Settlement) with Band D Council Tax remaining at £1,210. The Council Tax income detailed in table 1 reflects the additional income from an increase in the number of properties. Appendix 1 sets out the Council Tax levels for 2014/15.

### **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. COSLA has agreed a two year pay settlement for Local Government Workers covering 2013/14 and 2014/15 of 1% per annum accompanied by the introduction of the Scottish Local Government Living Wage set at £7.50 per hour for 2013/14 and £7.58 for 2014/15. In addition there is a commitment to match the Living Wage Foundation hourly rate in November 2013 (for application from 1 April 2014) if it is higher than £7.58.
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- A provision for increased national insurance costs as a result of the Public Services Pensions Act 2013. Initial estimates are an increased cost for the Council from 2016/17 of £2 million.
- 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 budget projections provide for the introduction of food waste collection from 2015;
- The cost associated with the replacement of Newbattle Community High School whilst retaining the existing community facilities in the catchment area.

## 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.

The budget projections set out in table 1 now incorporate the operational savings endorsed by Council on 24 September 2013.

Work continues to refine the budget projections and a further update will be presented to Council on 17 December 2013.

**Table 1: Budget Shortfall 2014/15 to 2016/17 – 5 November 2013**

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Cost of Services	187.4	190.9	195.1	202.9
Less: Council Tax	38.4	38.8	39.3	39.9
Less: Scottish Government Grant	149.0	149.0	149.0	147.5
<b>Budget Shortfall</b>	<b>0.0</b>	<b>3.1</b>	<b>6.8</b>	<b>15.5</b>

The changes from the last update on 24 September 2013 are attributable to the following key elements:-

**Table 2: Analysis of Change – 24 September 2013 – 5 November 2013**

	2014/15 £m	2015/16 £m	2016/17 £m
Budget Shortfall 24 September	4.0	7.9	16.6
- Operational Savings	(0.9)	(1.1)	(1.1)
<b>Budget Shortfall 5 November 2013</b>	<b>3.1</b>	<b>6.8</b>	<b>15.5</b>

## 5 2014/15 Budget

The updated position on transformation programme savings following Council on 24 September 2013 is as follows:-

**Table 3: Transformation Programme – September 2013**

	£m
Service Reviews	0.381
Partnership Working	0.089
EWiM	0.165
Procurement	0.455
Integrate Service Support	0.750
Maximising Attendance	0.155
<b>Transformation Savings</b>	<b>1.995</b>

## 5.1 Service Reviews

The savings targets set out in table 3 remain as previously reported and the ongoing programme of reviews as detailed in table 4.

**Table 4: Service Review Savings 5 November 2013**

	£m
Secondary Management	0.088
Janitorial & Facilities Management	0.055
Sport & Leisure	0.088
Cowan Court	0.150
<b>Totals</b>	<b>0.381</b>

## 5.2 Partnership Working

The position remains as reported to Council on 24 September 2013.

## 5.3 EWiM

The position remains as reported to Council on 24 September 2013.

## 5.4 Integrated Service Support

The position remains as reported to Council on 24 September 2013.

## 5.5 Maximising Attendance

The position remains as reported to Council on 24 September 2013.

## 5.6 Further Savings

It was the intention to bring further savings proposals to Council today to bridge the remaining 2014/15 budget shortfall. However the Strategic Leadership Group (SLG) are continuing to develop proposals to address the remaining budget shortfall and therefore an update will now be provided to the Business Transformation Steering Group on 3 December 2013 and then Council on 17 December 2013.

## 5.7 Remaining Budget Shortfall 2014/15

After incorporating the above savings there would remain a budget shortfall in 2014/15 as follows:

**Table 5: Remaining Budget Shortfall 5 November 2013**

	£m
Base budget shortfall	3.090
Less:	
Transformation Program Savings	1.995
<b>Remaining budget shortfall</b>	<b>1.095</b>

## 6 2015/16 and 2016/17 Budgets

The projected budget shortfall for 2015/16 and 2016/17 is as follows:

**Table 6 – 2015/16 & 2016/17 5 November 2013**

	<b>2015/16</b>	<b>2016/17</b>
	<b>£m</b>	<b>£m</b>
Base budget shortfall	6.800	15.500
less transformation program savings	1.995	1.995
	<b>4.805</b>	<b>13.505</b>

In addition to the remaining £1.095 million shortfall in 2014/15 the gap between projected service expenditure and the available income is predicted to rise by a further £3.7 million in 2015/16 and again by a further £8.7 million in 2016/17, a cumulative shortfall of £13.5 million by March 2017.

SLG is continuing to develop a transformation program aimed at addressing this projected shortfall. In addition to ongoing work on procurement, integrated service support and seeking operational efficiencies the program includes;

- Energy Reduction;
- Customer Service;
- Income Maximisation Collection;
- School Clusters;
- Services to Communities;
- Externalisation/In-sourcing.

An outline of each was reported on 24 September 2013.

Again the later year's program will continue to be developed under the direction of the BTSG.

## 7 Reserves

The projected uncommitted general Reserve at 31 March 2014 as reported to Council today is £7.529 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 £3.529 million greater than this and so provides some flexibility to meet unforeseen cost pressures, overspends and capacity to deliver transformational change.

## **8 Report Implications**

### **8.1 Resources**

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

### **8.2 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 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 on future years grant settlements and grant distribution;
- 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, including those arising from reductions in the staffing establishment;
- Impact of Welfare Reform and Pension changes;
- The Replacement of Newbattle Community High School.

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

### **8.3 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

#### **8.4 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.

#### **8.5 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.

#### **8.6 Involving Communities and Other Stakeholders**

The budget strategy provides for consultation on the budget proposals. Changes in the staffing establishment will be subject to consultation in accordance with the Council's Human Resources policies.

#### **8.7 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.

#### **8.8 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.

#### **8.9 IT Issues**

There are no IT implications arising from this report.

### **9 Summary**

In addition to the remaining £1.095 million shortfall in 2014/15 the gap between projected service expenditure and the available income is predicted to rise by a further £3.7 million in 2015/16 and again by a further £8.7 million in 2016/17, a cumulative shortfall of £13.5 million by March 2017.

## **10 Recommendations**

It is recommended that Council:

- (a) Note the update on Scottish Government grant allocation;
- (b) Approve a Council Tax freeze with a Band D Council Tax of £1,210 as set out in appendix 1.
- (c) Note that proposals to address the remaining shortfall of £1.095 million for 2014/15 will be presented to Council on 17 December 2013; and
- (d) In addition to the remaining £1.095 million shortfall in 2014/15 the gap between projected service expenditure and the available income is predicted to rise by a further £3.7 million in 2015/16 and again by a further £8.7 million in 2016/17, a cumulative shortfall of £13.5million by March 2017

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## MIDLOTHIAN COUNCIL

## REVENUE BUDGET 2014/15

## Council Tax Levels

This statement gives details of the 2014/15 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 **Based on Band D Council Tax of £1,210.**

Band	Range of Values		Band D Proportion	Council Tax £
	From £	To £		
<b>A</b>	-	27,000	6/9	806.67
<b>B</b>	27,001	35,000	7/9	941.11
<b>C</b>	35,001	45,000	8/9	1,075.56
<b>D</b>	45,001	58,000	9/9	1,210.00
<b>E</b>	58,001	80,000	11/9	1,478.89
<b>F</b>	80,001	106,000	13/9	1,747.78
<b>G</b>	106,001	212,000	15/9	2,016.67
<b>H</b>	212,001	upward	18/9	2,420.00