

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 Scottish Government budget and the associated local government finance settlement allocations;
- 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
- An update on reserves.

2 Scottish Government Grant Settlement

The Cabinet Secretary for Finance, Employment and Sustainable Growth presented the Scottish Government budget for 2014/15 and indicative spending plans for 2015/16 to Parliament on the 11 September 2013.

The local government finance settlement allocations for 2014/15 remain in line with the indicative figures set out in finance circular 1/2013. Scottish Local Authorities will receive £9,758.2 million which includes an additional £50.7 million for the impact of the Children and Young Peoples Bill and £23 million for the continuation of the Government contribution to the Council Tax Reduction Scheme. Midlothian's allocation of these is estimated at £0.750 million and £0.350 million respectively.

For 2015/16 the indicative local government finance allocation represents a broadly cash flat settlement compared to 2014/15 of £9,790.9 million. Previous projections incorporated a 1% reduction in grant for 2015/16 and 2016/17. The indicative allocation for 2015/16 equates to an improvement in the budget position of £1.5 million per annum.

Further information on the settlement is set out in a letter from the Cabinet Secretary to the President of COSLA (appendix1). This also details conditions attached to the settlement.

The final grant distribution to authorities will not be known until December when the finance circular setting out the individual Council allocations is known.

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 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. It is anticipated that there will be a two year pay settlement covering 2013/14 and 2014/15 of 1% per annum with a commitment to match the national living wage uplift which will be announced in the late autumn. Work is ongoing to assess the budget impact of matching the national living wage uplift.
- The Pension Bill 2013 will introduce a flat-rate state pension from April 2016. As part of these changes the proposals to end contracting out would result in additional National Insurance costs for local government pension scheme employers and employees of 3.4% and 1.4% of relevant earnings respectively. 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.

Work continues to refine the budget projections and a further update will be presented to November Council.

Table 1: Budget Shortfall 2014/15 to 2016/17 – 24 September 2013

	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
Cost of Services	187.4	191.8	196.2	204.0
Less: Council Tax	38.4	38.8	39.3	39.9
Less: Scottish Government Grant	149.0	149.0	149.0	147.5
Budget Shortfall	0.0	4.0	7.9	16.6

The changes from the last update on 25 June 2013 are attributable to the following key elements:-

Table 2: Analysis of Change – 25 June 2013 to 24 September 2013

	2014/15	2015/16	2016/17
	£m	£m	£m
Budget Shortfall 25 June	4.0	9.4	15.4
- Cost of Newbattle retaining facilities	0.0	0.0	0.7
- Grant Settlement	0.0	(1.5)	(1.5)
- Pension Bill 2013	0.0	0.0	2.0
Budget Shortfall 24 September 2013	4.0	7.9	16.6

5 2014/15 Budget

Council has a statutory duty to set a Council Tax and a balanced budget for 2014/15 before 11 March 2014.

The Strategic Leadership Group (SLG) have and are continuing to develop proposals to address the projected budget shortfalls. In respect of 2014/15 an update on the measures proposed to bridge the £4 million shortfall was provided to Business Transformation Steering Group (BTSG) on 10 September 2013. BTSG endorsed these for Council consideration.

The updated position, reflecting SLG proposals to BTSG is as follows:-

Table 3: Transformation Programme – Savings Proposals 2014/15 24 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
Transformation Savings	1.995

5.1 Service Reviews

The savings targets set out in table 3 have been updated to reflect the ongoing programme of reviews as detailed in table 4.

Table 4: Service Review Savings 24 September 2013

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

5.2 Partnership Working

It is projected that the development of partnership arrangements with East Lothian Council for Environmental Health and Trading Standards will deliver savings in 2014/15.

5.3 EWiM

The latest projections incorporate the full year affect of the closure of Loanhead Social Work Centre and the Ironmills office together with a further consolidation of the office estate during 2014/15.

5.4 Integrated Service Support

The scope of this project is to transform support services moving to an integrated Service Support model. The core objectives are to improve support services by making them efficient and effective, reduce costs, and improving career paths in support functions.

The ISS project will be delivered in two phases, Phase one, Consolidation, and Phase two, Customer First.

5.5 Maximising Attendance

This workstream aims to support managers in maximising attendance levels which will reduce expenditure on overtime and agency staff to maintain service delivery.

5.6 Operational Savings

In addition to the saving outlined in tables 3 and 4 above SLG has also identified financial discipline savings and revisions to the staffing establishment as follows:-

Table 5: Operational savings 2014/15 – 24 September 2013

	£m
Financial Discipline	0.330
Staffing Establishment	0.580
Operational Savings	0.910

Further details are set out in appendix 2 and 3. The staffing establishment changes will be subject to consultation in accordance with the Council's Human Resource Policies.

5.7 Remaining Budget Shortfall 2014/15

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

Table 6: Remaining Budget Shortfall 24 September 2013

	£m
Base budget shortfall	4.000
Less:	
Transformation Program Savings	1.995
Operational Savings	<u>0.910</u>
Remaining budget shortfall	<u>1.095</u>

As noted earlier in this report work continues to develop the Transformation Programme under the direction of the BTSG. SLG is working towards the development of options which will be presented to BTSG and then Council on 5 November 2013 to bridge the remaining 2014/15 budget shortfall.

6 2015/16 and 2016/17 Budgets

In addition to the £4 million shortfall in 2014/15 the gap between projected service expenditure and the available income is predicted to rise by a further £3.9 million in 2015/16 and again by a further £8.7 million in 2016/17, a cumulative shortfall of £12.6 million between April 2015 and March 2017.

In addition to the proposals set out in section five, SLG is developing 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 is set out in Appendix 4.

The extent of the budget shortfall means that it is inevitable that there will be a need for service reductions in some areas to balance the budget.

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 £6.860 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 £2.860 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;
- 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.

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.

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

The budget shortfall before Business Transformation saving is projected to be £4.0 million in 2014/15 rising to £16.6 million in 2016/17.

10 Recommendations

It is recommended that Council:

- (a) Note the impact of the draft Scottish Government budget 2014/15 and indicative spending plans for 2015/16.
- (b) Accept the conditions attached to the grant settlement as set out in Appendix 1.
- (c) Notes that the projections are a budget shortfall of £4.0 million for 2014/15 rising to £16.6 million in 2016/17.
- (d) Endorses the saving proposals for 2014/15 set out in section 5 of the report.
- (e) Notes that proposals to address the remaining shortfall of £1.095 million for 2014/15 will be presented to Council on 5 November 2013.
- (f) Note the Council Transformation program for 2015/16 and 2016/17 as set out in section 6.
- (g) Note that it is inevitable that there will be a need for service reductions to balance later year's budgets.

17 September 2013

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Copy to: The Leaders of all Scottish local authorities

11 September 2013

D. Davis

This letter confirms a number of changes to the local government finance settlement allocations that we have agreed since the figures for 2014-15 were previously announced and provides the terms of the indicative settlement allocations to be provided to local government for 2015-16 as part of our continuing partnership negotiations.

This settlement is set against the significant challenges presented by the recent outcome of the UK Budget and the June UK Spending round and the further cuts imposed on the Scottish Budget for 2014-15 which have been baselined for 2015-16. Against that background, the funding package on offer to local government represents a very fair settlement and the strongest possible outcome that can be achieved in the circumstances. It continues to be focussed on delivery of our joint priorities of growing the economy together with protecting front-line services and the most vulnerable in our society. COSLA is invited to agree the terms of the settlement set out below on behalf of local authorities.

This settlement remains firmly anchored in the ongoing relationship between the Scottish Government and local government and our commitment to working together in pursuit of our joint priorities, including delivery of the Government's programme as set out in the First Minister's statement to Parliament on 3 September and the Government Economic Strategy.

In addition to the pursuit of our joint priorities, individual local authorities will, in return for this settlement, be expected to continue to deliver certain specific commitments.

Maintain a council tax freeze.

Maintain teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher induction scheme.

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Delivery of these commitments will be monitored and in the event of a failure to deliver, appropriate adjustments made to distributable resources as described below.

In line with the agreement reached in previous settlements, it will not be possible for local authorities to select elements of the package, including elements of the funding on offer. As in previous years, the Scottish Government will hold back £70m from the Local Government Finance Order put to Parliament in early February, representing the amount that is included in the settlement to deliver the Council Tax Freeze and in addition will take steps to recover £39m for the Teacher commitments in 2014-15 from any local authority not agreeing to the terms of the full package. Parliamentary approval to pay out the remaining amount will be sought in March 2014 once all councils have set their budgets and their council tax rates for the year ahead.

Failure to deliver sufficient FTE teachers in 2014-15 as reported in the annual census may invoke collective and/or individual sanctions in the shape of corresponding reductions in the local government settlement for future years. Scottish Government and COSLA will agree these numbers in the context of on-going discussions on the effective delivery of school education. For 2015-16, our priority is to continue to maintain teacher numbers in line with pupil numbers. However, in recognition of the on-going concerns from Local Government around this input measure, I have agreed that the Government will have a dialogue with COSLA, and engage with other partners, on the possibility of adopting outcome measures using existing resources to improve attainment for children and young people.

I can confirm that for 2014-15 I will only require those Council Leaders who **do not** intend to take up the offer and agree the full package of measures to write to me setting out the reasons why they do not wish to comply. Any Leader not intending to take up the offer should write to me confirming their Council's decision by no later than 11 March, but preferably by the end of February, (and ideally as soon as possible after they have set their budgets and announced their council tax rates for 2014-15). Any Council not taking up the offer will not receive their share of the monies held back to be distributed later in March 2014 for the Council Tax freeze and steps will be taken to recover £39m for the Teacher commitments in 2014-15 (£109 million in total).

The total funding as set out in the Draft Budget 2014-15 document, including provision for the council tax freeze and the support for teacher employment, which the Scottish Government will provide to local government is as follows:

Year	£m
2014-15	10,531.4
2015-16	10,608.2

This total includes the Government's estimate of non domestic rate income over the period. The sums include a further £80.7m in 2014-15 and £111.9m in 2015-16 to deliver on the Scottish Government's commitment to fully fund the additional costs of the early learning and childcare provisions; £4.5m in 2014-15 and £6m for 2015-16 for Free Personal and Nursing Care in return for uprating of these fees in line with inflation, £2.5m in both 2014-15 and 2015-16 to baseline the funding provided in 2013-14 for the National Care Home Contract fee uplift; £0.4m in both 2014-15 and 2015-16 to adjust the Police transfer total and £0.8m in both years for the transfer of responsibility for Oban Airport.

Other changes included are the transfer of £320 million from DWP following the abolition of Council Tax Benefit which is being passed on in full for both 2014-15 and 2015-16, and in

order to maintain funding for the Council Tax Reduction scheme, the Scottish Government are rolling forward our contribution of £23 million to fill the gap left by the UK Government for the Council Tax Reduction Scheme, with an expectation that local authorities will again contribute £17 million.

These sums do not include a number of other agreed, or still to be finally agreed, sums that will be included in the final local government finance settlements for both 2014-15 and 2015-16. These include:

- A further £12 million which will be added in-year to these sums for both 2014-15 and 2015-16 following a transfer from the Enterprise budget to meet the anticipated costs of the Enterprise Areas business rates relief scheme.
- Subject to formal approval of the proposed pay agreement, which I am aware the Scottish Negotiating Committee for Teachers (SNCT) is considering, a contribution from the Scottish Government of £1.5m per annum will be baselined into the local government settlement to reduce the shortfall arising from the application of the new supply teacher pay rates.
- Early Years (£1.5m/£1.5m); Early Years Task Force (£3m/£3m); and the Blue Badge Scheme (£0.72m/£0.72m); £0.15m/£0.15m for Fresh Talent and the Scottish Welfare Fund (tbc).

Within the total funding package, revenue funding will amount to £9,758.2m/£9,790.9m, including the funding to deliver a council tax freeze, and capital £773.2m/£817.3m over the period. The capital allocation takes into account the re-profiling of the LG capital budgets and I can confirm that £94.2m has been added and Local Government's capital share (net of the police and fire component) has been maintained for 2015-16.

The partnership working between the Scottish Government and local government remains a hallmark of our approach to public service reform and will ensure that a preventative approach to the delivery of outcomes is embedded in the new Single Outcome Agreements (SOAs). The Agreement on Joint Working, which forms part of the Budget announcement, places clear expectations on the public sector to share their budget and resource planning assumptions at an early stage and to work together, through Community Planning Partnerships (CPPs) to deploy resources towards the jointly agreed priorities set out in each CPP's SOA. Local Government, NHS Boards and other partners will be expected to show a demonstrable commitment to the Agreement on Joint Working.

That preventative approach is also demonstrated by the actions we have taken with COSLA for the integration of adult health and social care planning and provision. To support the integrated funding arrangements for health and social care additional resource of £100 million will be available to be allocated via Health Boards in 2015-16 to help drive the shift towards prevention, and a further £20 million which will be held centrally within Health to support national initiatives. This additional resource replaces the Change Fund for older people's services and will be a partnership resource accessible to local authorities, working in partnership with Health Boards and the third and independent sectors, in 2015-16 to support investment in health and social care services as arrangements for integration of health and social care are implemented under the Public Bodies (Joint Working) Bill.

This settlement package for 2014-15 and 2015-16 remains the strongest possible outcome that can be achieved in the continuing challenging financial circumstances. The package is focussed on delivery of our joint priorities of growing the Scottish economy and protecting front line services and the most vulnerable in our society, and supported by continued investment in prevention and wider reform actions.

Yours



JOHN SWINNEY

2014/15

Revisions to the staffing establishment

	FTE	£
Education, Communities & Economy		
Community & Support Services	2.240	57,232
Planning & Development	1.000	47,263
Health & Social Care		
Adult & Community Care	5.630	60,609
Housing & Community Safety	1.500	28,214
Resources		
Commercial Operations	5.420	147,219
Customer Services	5.000	62,821
Finance & Human Resources	3.220	92,607
Property & Facilities Management	10.675	84,669
TOTAL	34.685	580,634

2014/15

Financial Discipline

	£	£
1. Underspend Budgets		
Education, Communities & Economy		
Communities & Support	33,500	
Education	28,000	
Health & Social Care		
Housing & Community Safety	16,000	
Resources		
Customer Services	17,450	
Chief Executive/Business Transformation	2,000	
		96,950
2. Through Operational Improvements		
Education, Communities & Economy		
Planning & Development	14,000	
Resources		
Commercial Operations	101,000	
Customer Services	18,150	
Finance & Human Resources	20,842	
Property & Facilities Management	80,000	
		233,992
TOTAL		330,942

Energy Reduction

Review will examine areas of savings through identifying areas where the current £3.5m spend within the Council on fuel can be reduced.

The purpose of the review is to:

- Deliver Energy reduction through switching off monitors/computers/lights/heating coupled with closing doors and windows
- Replacement of plant/controls e.g. efficient lighting, boilers and controls;
- Effective monitoring of summer/winter heating policy of our offices and schools to contribute towards efficiencies and
- Work with grants/Sponsors to tap into all sources of monetary support for capital replacement products

Customer Service

The remit of this review is to moderate the Council's customer service approach and deliver a customer service provision that is responsive and adaptable to customer demands, to:

- Understand our customer profile.
- Provide efficient and effective customer contact points.
- Channel shift action plan to understand and move customers towards lower cost interactions and close down costly channels,

Review outcomes are likely to have positive impacts on performance and customer experience and lead to long term efficiencies and cost savings. This will also align to the review of Services to Communities to ensure we provide services which are targeted and focused on customers within our communities.

Failure to progress and introduce identified changes will lead to continuing pressure on existing resources, procedures and practices.

Income Maximisation

With the rise of social debt problems coupled with the challenges of economic downturn councils are now looking for new, socially responsible ways to maximise collection. Current estimated debt owed to Midlothian is approx £3m. The purpose of this review is to ensure we proactively manage our cashflow across the Council. With increasing financial pressures from reductions in budgets and resources and ensuring collections processes are optimised this should ensure debt recovery is maximised. This is currently a significant challenge for Midlothian.

The purpose of the review is to:

- generate significant revenue rapidly
- improve in year and aged debt collections performance
- reduce operational and resource costs

- ensure confidence and evidence revenue collection is optimised.

School Clusters

The purpose of this review is to examine the potential for making best use of administration functions within the Secondary and Primary School provision. The approx spend on school administration is £2.3m.

The purpose of the review is to:

- examine areas of duplication
- look for more efficient working arrangements
- provide innovative solutions to provision of administration support to all schools

Services to Communities

The scope of this review is about a fundamental re-evaluation of how the Council interacts, engages with, and support local communities in Midlothian incorporating; community planning, community capacity building, adult learning, employability and positive destinations. It is proposed that in future resources are aligned closely with the CPPS key priorities and as a consequence there would need to be transparency in targeting those specifically in need. The overall context should be one which seeks to build up the self-sustaining capacity of local communities and transform the relationship of the Council from provider to one of enabler.

Initial focus to implement change would be on the further development of community planning, a structured approach to funding models being an essential feature and a rationalisation of the current portfolio of premises to deliver the most effective and efficient spread of facilities. The most significant risks relate to the overall impact of this fundamental change of approach to engaging with communities with the level of service provided more focussed and therefore reduced in its breadth from that currently in operation.

Externalisation/In-sourcing

The purpose of this review is to examine all services provided by external providers and payments made to third parties, contractual or otherwise and will call for consideration of alternative service delivery models, including in-sourcing. This may result in changes which impact existing providers, including local businesses but it will allow us to ensure we continue to focus our spend and activities in right areas.