

**Revenue Budget 2013/14 and 2014/15****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 revenue budget for 2013/14 and 2014/15 and in particular:-

- The Scottish government grant settlement;
- The cost of providing services at existing levels;
- Changes to the budget gap since the last report on 26 June 2012;
- Savings considered deliverable at this time for 2013/14 from the business transformation programme.
- An update on reserves.

**2 Scottish Government Grant**

The Cabinet Secretary is expected to present The Scottish Government budget for the forthcoming year to Parliament on the 20 September 2012. He has indicated to COSLA that he doesn't intend to revisit the local government figures for 2013/14 and, subject to adjustments to be made for the reform of police and fire, his intention is that the budget announcement will reflect the indicative figures agreed as part of the 2011 spending review for both revenue and capital.

The settlement continues to be dependent on local government delivering on the commitments set out as part of the spending review, namely:-

- 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.
- To contribute to changes funds in order to support preventative spend
  - Health and social care £20m.
  - Early years £35m.

As in 2012/13 there is a requirement to confirm to government the intention to deliver on these commitments in return for the level of funding set out in the budget. Government will ask the Council Leader to confirm the Council's intention to meet these commitments through a series of letters.

It is anticipated that the Finance Circular setting out the grant settlement will be published in late November/early December 2012. In the meantime the budget projections are based on the grant allocations published in Finance Circular 1/2012, adjusted for the anticipated impact of the reform of Police and Fire.

### **3 Cost of Services at Existing Levels**

The updated budget shortfall detailed in table 1 below reflects the cost of existing services based on a number of assumptions on cost and income. These include:

Inflationary and other cost pressures on existing service costs;

- A provision for competency based pay increments for local government staff;
- A revised provision for pay awards averaging 1.0% and contractual inflation on other costs;
- An initial provision for introducing the Living Wage. This is dependent on the implementation option Council choose and so may change;
- No other changes to salary structures or employee terms and conditions;
- Pension deficit funding remains at current levels;
- Borrowing costs reflect the capital plan on today's agenda.

Demographic cost pressures;

- A provision for demographic cost pressures of £2.000 million in 2013/14 rising to £3.450 million in 2014/15.

Roads Maintenance

- The budget gap for 2013/14 includes £0.525 million for Roads Maintenance approved by Council on 14 August 2012. The remaining £0.475 million is deemed capital expenditure and is included in the General Services Capital Plan.
- For 2014/15 the full £1.000 million is currently estimated to be revenue expenditure.

Waste Management

- The budget projections reflect the financial implications of the Waste Management reports which are on today's agenda. These add an additional £0.752 million to the budget gap in 2013/14 rising to £0.859 million in 2014/15.

Welfare Reform

- Local Governments contribution to the funding shortfall for the Council Tax Benefit replacement scheme is £17 million. For Midlothian this is estimated to equate to £0.250 million which will be in effect be deducted from the Grant Settlement.

Other

- Continuation of the Council tax freeze, maintaining Band D Council tax at £1,210.

Work will continue throughout the budget process to refine the budget projections and an update will be included in each of the planned budget reports to Council over the coming months.

**Table 1**  
**Budget Shortfall 2013/14 and 2014/15 – 25 September 2012**

	<b>2013/14</b>	<b>2014/14</b>
	<b>£m</b>	<b>£m</b>
Cost of Services	186.966	191.771
Less: Council Tax	38.378	38.938
Less: Scottish Government Grant	143.582	143.553
<b>Budget Shortfall</b>	<b>5.006</b>	<b>9.280</b>

This represents an increase of £0.406 million for 2013/14 and £1.380 million for 2014/15 from the position reported on 26 June 2012. The principal changes are attributable to:-

**Table 2**  
**Budget Shortfall Movement 26 June 2012 to 25 September 2012**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£m</b>	<b>£m</b>
Employee cost changes, principally pay award provisions	(1.500)	(3.000)
Waste Services	0.752	0.859
Additional Roads Maintenance	0.525	1.000
Demographic Cost Pressures	0.200	1.650
Other Net Movements	0.429	0.871
<b>Increase in Budget Shortfall</b>	<b>0.406</b>	<b>1.380</b>

#### **4 Fees and Charges**

There is a separate report on today's agenda by the Director Corporate Resources which sets out proposed changes to existing fees and charges. If approved these would contribute £0.279 million in both years towards the budget gap.

#### **5 Bridging the Budget Shortfall**

The Business Transformation Programme is the principal means of identifying savings options to address the projected shortfall. The targets endorsed by Business Transformation Steering are shown in table 3.

**Table 3**  
**Business Transformation Programme Savings Targets**

	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Service Reviews	1.346	6.673	5.314	5.960
Shared Services	0.935	1.275	1.473	2.067
EWiM	0.120	0.120	0.120	0.120
Business Services	0.124	0.372	1.115	1.115
Procurement	<u>0.400</u>	<u>0.400</u>	<u>0.400</u>	<u>0.400</u>
	<b><u>2.925</u></b>	<b><u>8.840</u></b>	<b><u>8.422</u></b>	<b><u>9.662</u></b>

The challenge is the extent to which these targets can be translated into deliverable savings which contribute to addressing the budget gap. At this stage in the business transformation programme the best estimate of the savings currently deliverable for 2013/14 is as follows.

**Table 4**  
**Business Transformation Programme Deliverable Savings - 25 September 2012**

	<b>2013/14</b>
	<b>£m</b>
Service Reviews	0.008
Shared Services	0.000
EWiM	0.120
Business Services	0.124
Procurement	<u>0.400</u>
	<b><u>0.652</u></b>

### **5.1 Service Reviews**

The Service Review Programme was targeted to deliver a further £1.346 million of savings in 2013/14. At this time it is prudent to assume that there will be a saving of £0.008 million to contribute to the 2013/14 budget gap. The reasons for the reduction are:-

- As highlighted earlier the strategy for Waste Management means that costs will increase and so the targeted saving of £0.368 million will not be achievable.
- A number of reviews were due to commence in 2012/13, with savings targets totalling £0.620 million. At this point in the review programme it is difficult to assess the deliverability of these savings targets. The best estimate is that detailed savings proposals amounting to £0.240 million will be available to contribute to the budget gap, resulting in a shortfall of £0.380 million.
- Savings of £0.590 million were targeted for Adult Care and Older Peoples Services. Whilst efficiencies and cost reductions are being achieved these are contributing to the containment of demographic cost pressures and are not expected to reduce the overall resources required for these services.

### **5.2 Shared Services**

Both Midlothian and East Lothian Council remain committed to explore opportunities to work in partnership and to explore opportunities to improve services and reduce costs. However it would not be prudent to reflect the savings target, which was in respect of Education and Children's Services, in the budget.

The Corporate Management Team is giving consideration to the implications of this and what alternative actions are necessary to ensure the sustainability of services.

### **5.3 EWiM**

A seminar of Council has been arranged for 25 September 2012 to consider proposals to rationalise the office portfolio. The seminar will enable a clearer position to be established in respect of savings which can be delivered in 2013/14.

### **5.4 Business Services**

It is anticipated that Business Services work streams will deliver the targeted savings for 2013/14.

The Council has adopted a systems thinking approach to bring about transformational change within the Authority. Supported by Vanguard Consulting, the approach is currently being deployed in two cross organisational areas, procurement and HR recruitment. The system methodology is targeted at improving those areas of the organisation where there is high failure demand and opportunities to reduce waste.

The Business Services review savings targets will be reviewed as this work progresses.

### **5.5 Procurement**

Business Transformation Steering Group on 11 September 2012 endorsed the Procurement Contract Deliver Plan which sets out how the targeted savings will be achieved.

### **5.6 Remaining Budget Gap**

After incorporating the proposed changes to fees and charges and the deliverable savings there would remain a budget shortfall of approximately £4.075 million in 2013/14.

Over the remainder of the 2013/14 budget planning cycle savings which can be delivered from the Business Transformation programme will be closely monitored and projections will continue to be refined to provide the most up-to-date assessment.

The Corporate Management Team has given priority to identify additional options to address the remaining gap and these will be presented to the Business Transformation Steering Group in the first instance before being brought to Council for consideration.

## **6 Reserves**

The uncommitted element of the General Fund Reserve at 31 March 2012 is reported on today's agenda and is £2.817 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 is £1.183 million less than this. There may also be further one-off costs associated with the business transformation programme which would further reduce the general reserve.

The impact of this is that it would not be prudent to plan to utilise reserves to address any of the predicted budget gap for 2013/14.

## **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 made 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.
- Outstanding employment tribunal claims.
- Extreme weather events (or other 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 changes.

The budget process and the business transformation programme and the actions being taken by Corporate Management Team mitigates a number of these risks by improving forward planning, and the early identification of future saving proposals.

### **7.3 Policy**

#### **Strategy**

This report links to the Corporate Strategy 6a "to ensure a sustainable strategy for the delivery of council services".

#### **Consultation**

It was not felt relevant to undertake consultation for this report.

### **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.

### **Sustainability**

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

## **7.4 IT Implications**

There are no IT implications arising from this report.

## **8 Summary**

The budget shortfall before Business Transformation saving is £5.006 million in 2013/14 rising to £9.280 million in 2014/15.

After incorporating the proposed changes to fees and charges and the deliverable savings there would remain a budget shortfall of approximately £4.075 million in 2013/14.

Over the remainder of the 2013/14 budget planning cycle savings which can be delivered from the business transformation programme will be closely monitored and projections will continue to be refined to provide the most up-to-date assessment.

The Corporate Management Team is giving priority to identify additional options to address the remaining gap and these will be presented to the Business Transformation Steering Group in the first instance before being brought to Council for consideration.

## **9 Recommendation**

It is recommended that Council:

- (a) Confirm its intention to deliver on the commitments attached to the grant settlement as set out in section 2 of this report, and authorise the Council Leader give to give such a commitment to The Cabinet Secretary.
- (b) Note that the current projections are a budget shortfall of £5.006 million for 2013/14 rising to £9.280 million in 2014/15;
- (c) Note that the best estimate of savings currently deliverable in 2013/14 for the business transformation programme are £0.652 million.
- (d) Note that the Corporate Management Team is giving priority to identify additional options to address the remaining gap and these

will be presented to the Business Transformation Steering Group in the first instance before being brought to Council for consideration.

- (e) Note that work on refining the cost of existing services and the impact of options to bridge the predicted budget gap are ongoing and that a further report will be presented to Council on 6 November 2012.

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