

## **Financial Strategy 2019/20 (including projections to 2022/23)**

### **Report by Gary Fairley, Head of Finance and Integrated Service Support**

#### **1 Purpose of Report**

This report provides Council with a further update on the Financial Strategy. It sets out measures to enable Council to determine Council Tax and set a balanced budget for 2019/20 at today's meeting (required to do so by 11 March 2019) in accordance with Section 93 of the Local Government Finance Act 1992 (as amended). It also includes projections for future years to 2022/23. This report sets out:-

- An update on the 2019/20 Scottish Government Grant settlement and future years grants prospects;
- Final budget projections for 2019/20 and updated projections for 2020/21 to 2022/23;
- A sensitivity analysis reflecting the potential impact of different pay and grant settlement scenarios;
- An update on the arrangements for the delegation of resources to the Midlothian Integration Joint Board;
- An update on the Change Programme and its impact on the projected budget shortfalls;
- Governance arrangements;
- An update on General Fund Reserves.

On the afternoon of 31 January 2019 Derek MacKay MSP, the Scottish Government's Cabinet Secretary for Finance, Economy and Fair Work confirmed a package of further measures covering local taxation and local government finance. A copy of the letter setting out these measures is included as appendix 13 to this report. Section 3 below gives an initial assessment of the impact for 2019/20.

#### **2 Background**

The core objective of the Financial Strategy is to secure the Council's financial sustainability during an ongoing period of financial constraint coupled with acute service demand pressures and increasing customer expectations.

The Financial Strategy is not only about balancing the budget, it provides a means to ensure as far as possible that the limited resources available to the Council are 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, within the constraints of the budget settlements, 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 Financial Strategy and associated Change Programme are central to ensuring that the resources available to the Council and partners are directed towards the priorities set out in the Midlothian Single Plan.

The last Financial Strategy report was presented to Council on 18 December 2018 and provided an updated assessment of projections through to 2022/23. The report set out projected budget shortfalls of £9.591 million for 2019/20 rising to £39.797 by 2022/23. After the Change Programme and Council Tax increases the projected remaining budget gaps were £5.808 million for 2019/20 rising to £23.324 million by 2022/23.

This report focuses on 2019/20 in recognition of the requirement to determine Council Tax and set a balanced budget for the year ahead. However with a rapidly growing population and greater demand for services, this report also calls for a strategic step change in our financial planning, in the form of a proposal to bring forward to Council before the summer recess a Medium Term Financial Strategy (MTFS) which contains the measures necessary to secure balanced budgets covering the four years 2020/21 to 2023/24. Clearly the extent of the measures necessary to secure financial balance will be heavily dependent on the level of grant support expected to be available from Government, the extent to which these are ring fenced and the conditions attached to future years settlements.

This is an important step-change and one which will aim to provide greater certainty for the local communities we serve, as well as greater certainty for our employees. It will also provide sufficient time to implement the changes needed to deliver savings programmes, particularly as Council has experienced some slippage in delivering these savings in the current financial year. This also means that Council will not need to consider a full programme of savings each and every year at February Council but instead will have a medium term plan to deliver financial sustainability which also means that the risk of needing to draw on limited reserves to meet ongoing spending pressures is reduced.

### **3 Scottish Government Grant Settlement**

The Scottish Government's grant settlement remains one of the most critical aspects of the financial projections in this report.

The package of further measures announced on 31 January 2019 covering local taxation and local government finance are set out in the letter from the Cabinet Secretary to Councillor Alison Evison, COSLA President which is attached to this report as appendix 13. This package of measures has secured the necessary support for the Government's budget bill to progress through the three parliamentary stages.

The letter includes details of the following changes to the 2019/20 local government grant settlement:-

- An increase in the core resource local government settlement of £90 million, of which Midlothian will receive £1.493 million;
- Greater flexibility on Council Tax with the flexibility to increase the Council up to 4.79% next year. The increase from the previous 3% maximum would raise an additional £0.871 million.

In addition Scottish Government has indicated that Council should now only have to make provision in their budgets to meet a smaller share of the increase in teachers' pension contributions with Government funding now expected to cover 79% of the increase. For Midlothian this change equates to £0.290 million.

Taken together the increase in core resources and clarification on teachers' pension funding reduce the budget shortfall set out in the Council report by £1.783 million to £9.739 million.

However members should note that the revised grant settlement still represents a cut in core funding (at a national level of approximately 1.5%) and after applying the full 4.79% Council Tax increase still requires the Council to make budget savings totalling at least £7.408 million to achieve a balanced budget.

A fuller assessment of the changes announced on 31 January 2019 will be provided to elected members in advance of the Council meeting and also published as a supplement to this report on the Council website.

The Cabinet Secretary for Finance, Economy and Fair Work set out the Scottish Government's budget for 2019/20 on 12 December 2018 with Finance Circular 8/2018, setting out individual Council grant allocations, subsequently published on 18 December 2018.

The total revenue funding provided nationally through the settlement for 2019/20 is £9,987 million and includes:-

- Baseline from 2019/20 of the full £170 million additional revenue investment announced at stage 1 of the Budget Bill for 2018/19;
- An additional £210 million to support the expansion in funded Early Learning and Childcare (ELC) entitlement to 1,140 hours by 2020;
- A further £40 million to support the expansion of Free Personal and Nursing Care for under 65's;
- £120 million to be transferred from the health portfolio to the Local Authorities in year for investment in integration, including the delivery of the Living Wage and uprating free personal care, and includes £12 million for school counselling services;
- The ongoing £88 million to maintain the pupil teacher ratio nationally and secure places for all probationers who require one under the teacher induction scheme;
- An indicative allocation of £3.3 million for Barclay implementation costs;
- £3 million for free sanitary products in public places.

Whilst the total revenue funding was presented as a slight increase of £163 million to the 2018/19 funding once the £400 million of new commitments included in the

settlement, much of which is ring-fenced, is taken into account the reality of the settlement for Local Government is a cut to core budget of £237 million or 2.4%. The settlement also comes with the expectation that Local Government will deliver certain specific commitments;-

- For 2019/20 there is a continued flexibility to increase Council Tax by up to a maximum of 3%;
- The total additional funding of £160 million allocated the Health and Social Care and Mental Health is to be additional to each Council's 2018/19 recurrent spending on social care and not substitutional;
- Maintaining the teacher pupil ratio at a national level and ensuring places for probationers.

The parliamentary process for the Scottish Government's Budget Bill provides for the stage 1 budget debate on 31 January, stage 2 on 6 February and the final stage 3 on 21 February 2019. As a member of a minority Government the Cabinet Secretary will need to secure the support of other MSP's in parliament to secure agreement of the budget. Given the timescales for this I will update Council as necessary if there are any changes which impact on the Council's position for 2019/20.

At 2.4% the cut to core funding is greater than the 2% central planning assumption set out in previous financial strategy reports which results in a worsening of the budget shortfalls from those previously reported.

Finance Circular 8/2018 sets out a total revenue allocation for Midlothian for 2019/20 of £162.730 million of which ring fenced grants account for £10.372 million giving a general grant of £152.358 million. Once the estimated share of non distributed funding and an estimate of funding for teachers pensions is taken account of the general grant for 2019/20 is estimated to be £155.630 million.

In terms of the later years on the basis of the information available from Government and independent sources the grant projections set out later in this report for these years continue to be based on a central planning assumption of a 2% per annum cash reduction at a national level. The lower scenario set out in section 6 assumes a cash reduction of 4% per annum with the upper scenario a cash flat position. The position at a national level is partly offset by the impact of the relative growth in the Midlothian population.

It is stressed that the grant settlement figures for 2019/20 are provisional ahead of the passage of the Budget Bill and will not be confirmed until the Local Government Finance (Scotland) Order 2019 is presented to the Scottish Parliament, which is scheduled for the end of February 2019.

The grant for 2020/21 to 2022/23 set out in table 1 remain 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 continuing severity of the challenge ahead, based on the Government's central scenario set out in their Medium Term Financial Strategy, for the term of the Council and the extent to which service provision will have to be transformed. As can be seen from the measures presented to achieve a balanced budget for 2019/20 a continued

shortfall in core grant funding will significantly impact on the ability to deliver non statutory services and result in an marked reduction in the level to which the Council can sustain statutory service provision.

#### **4 Council Tax**

The budget shortfalls set out in table 1 are based on the current Band D Council Tax of £1,283 and reflects the additional income from an increase in the number of properties.

The budget projections reflect the grant conditions which continue to limit the flexibility to increase Council Tax by up to 3%. For Midlothian a 3% per annum increase is estimated to generate £1.460 million for 2019/20 rising to £1.688 million in 2022/23 and would result in Band D Council Tax rising to £1,321 in 2019/20 and to £1,444 by 2022/23. An increase of over 3% would breach the terms of the grant settlement package and indications are that this would result in a less favourable settlement although the extent of any reduction is unknown.

Given the cut in core grant funding as set out in section 3 and the service pressures, particularly the acute demographic cost pressures in Education and Health and Social Care, set out in section 5 of this report, the Financial Strategy incorporates the full 3% increase for each year to increase the resources available to support these services and so contribute to reducing the projected budget shortfalls and Council is recommended to set a Band D Council tax of £1,321 for 2019/20 as set out in Appendix 1.

#### **5 Cost of Services**

The projected cost of services for future years is derived from the 2018/19 budget and the significant work undertaken to review the projections in light of the latest information available. In particular school rolls, care demographics and also the deliverability of savings incorporated in previous year's budgets with table 3 below setting out the principal movements from 18 December 2018.

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

- Pay inflation based on the current offers in respect of the 2018/19 pay settlement and an increase in the provision made for 2019/20 onwards (representing the three year offer through to 2020/21) of a flat 3% for each year for all staff groups together with the cost of incremental pay progression;
- Changes in the Council's contribution towards employee pensions costs advised by Lothian Pension Fund and SPPA with the assumption that the increase of 5.2% in teachers' pension contributions from 2019/20, confirmed in the UK budget (£2.400 million per annum), which is now expected to be only partially (two thirds) offset by additional government funding (see further details below);
- Provision for the Devolved School Management allocation to schools based on the DSM scheme and indicative pupil numbers;
- Contractual inflation linked to existing contractual conditions, many of which mirror pay inflation assumptions;
- A provision for the 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 the approved 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.

In respect of additional grant funding to offset the increase in teachers' pension costs the Treasury had previously indicated that there would be no additional funding provided to Government departments for the element of the increase (one third) which was set out in the UK's 2016 budget. As such there would be no Barnett consequentials. In terms of the remainder the UK Treasury is currently undertaking an analysis of the impact of the change in the valuation, with a view to providing funding to ease the impact. However there is currently no confirmation as to the amount of funding although it has been clarified that Barnett consequentials will flow to the Devolved Administrations. COSLA officers also advise there are no consequentials included for this funding in the UK Autumn 2018 Budget and that this will be part of the UK Spring 2019 Budget. Accordingly government funding support to offset the increase does not form part of the Scottish Budget at this stage which causes significant uncertainty in setting the Council's budget for 2019/20. The budget projections now assume that only two thirds of the cost will be fully funded for 2019/20 and beyond.

The resultant projected service budgets through to 2022/23 reflecting the assumptions are set out in sections 3 to 5. These identify budget shortfalls as follows:-

**Table 1: Budget Shortfalls 2019/120 to 2022/23 – 12 February 2019**

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cost of Services	215.808	225.588	234.228	244.539
Less: Council Tax	(48.656)	(49.656)	(50.656)	(51.656)
Less: Scottish Government Grant	(155.630)	(154.140)	(152.648)	(151.155)
<b>Budget Shortfalls</b>	<b>11.522</b>	<b>21.792</b>	<b>30.924</b>	<b>41.728</b>

Net expenditure on services is projected to increase by 6% in 2019/20 and by 20% by 2022/23 with a significant element of this required to support a growth population, particularly for 0-15 year olds and over 65's. The resultant budget shortfall in 2019/20 equates 5.4% of the net cost of services and the projections indicate this could rise to 17% by 2022/23.

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 £115 million in 2019/20 and are projected to rise to £150 million by 2022/23. Consequently the budget shortfall expressed as a percentage of the remainder of the budget equates to 11% for 2019/20 and has the potential to rise to 45% by 2022/23.

Whilst the projected cost of service provision, Council Tax and Scottish Government grant has been projected forward to 2022/23 these are very much indicative projections based on the assumptions set out in sections 3 to 5 and will inevitably change over the period. The projections and planning assumptions on which they are based will be updated and reported to Council as new information becomes available.

The main purpose of the projections for later years 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 severity of the challenge ahead for the term of Council and the extent to which service provision will have to continue to be significantly transformed and or reduced.

Members should note that the projections are based on the continuation of the existing service delivery and funding arrangements for Local Government.

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

**Table 2: Analysis of Shortfalls – 12 February 2019**

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Opening Shortfall	<b>(0.200)</b>	<b>11.522</b>	<b>21.792</b>	<b>30.924</b>
Pay Inflation and Salary Progression	5.820	5.394	5.368	5.553
Teachers' Pension increase	2.397	0.000	0.000	0.000
Contractual Inflation	0.997	0.896	0.910	0.925
Utilities	0.227	0.070	0.071	0.073
Demographics: Care	1.040	1.040	1.040	1.040
Demographics: School Rolls	2.194	2.375	2.375	2.375
ASN Increase	0.373	0.000	0.000	0.000
Demand pressures: Children	0.640	0.025	0.025	0.025
School Estate Investment	0.323	0.208	0.008	0.012
Waste Disposal Costs	(0.193)	0.000	0.112	0.129
Non Domestic Rates	0.452	0.128	0.131	0.134
Borrowing Costs	(0.937)	(0.123)	(0.007)	0.000
Scottish Government Grant	1.953	1.490	1.492	1.493
Scottish Government Grant – Teachers pension increase	(1.597)	0.000	0.000	0.000
Council Tax Income	(1.337)	(1.000)	(1.000)	(1.000)
Full year effect of 2018/19 savings	(1.180)	(0.355)	(1.329)	(0.000)
Other Movements	0.550	0.122	(0.064)	0.045
<b>Totals</b>	<b>11.522</b>	<b>21.792</b>	<b>30.924</b>	<b>41.728</b>

The principal movement from the figures set out in the 18 December 2018 report are as follows.

**Table 3: Movement from 18 December 2018 to 12 February 2019**

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
<b>Shortfall 18 December 2018</b>	<b>9.591</b>	<b>19.861</b>	<b>28.993</b>	<b>39.797</b>
Scottish Government Grant	0.464	0.464	0.464	0.464
Non Domestic Rates	0.120	0.120	0.120	0.120
Scottish Government Grant – Teachers pension increase	0.800	0.800	0.800	0.800
Pay Inflation	0.461	0.461	0.461	0.461
Other	0.086	0.086	0.086	0.086
<b>Shortfall 12 February 2019</b>	<b>11.522</b>	<b>21.792</b>	<b>30.924</b>	<b>41.728</b>

## 6 Sensitivity Analysis

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

**Upper Scenario.** This is a more optimistic scenario which assumes a 2% pay award for 2021/22 onwards across the board and cash flat grant settlements at a national level. All other assumptions remain as set out in section 3.

**Cash Flat Grant Settlement Scenario.** This scenario assumes cash flat grant settlements at a national level. All other assumptions remain as set out in section 3.

**Lower Scenario.** Is a more pessimistic scenario which assumes a 4% pay award beyond 2020/21 and reducing grant income based on a 4% cash reduction per annum at a national level for all years as set out in section 3.

**Table 4: Sensitivity Analysis – 12 February 2019**

	2020/21	2021/22	2022/23
	£m	£m	£m
<b>Upper Scenario</b>			
Central Assumption	<b>21.792</b>	<b>30.924</b>	<b>41.728</b>
2% Pay Awards	-	(1.723)	(3.507)
Cash flat settlement	(3.104)	(6.210)	(9.317)
<b>Amended Shortfall</b>	<b>18.688</b>	<b>22.991</b>	<b>28.904</b>

<b>Cash Flat Scenario</b>			
Central Assumption	<b>21.792</b>	<b>30.924</b>	<b>41.728</b>
Cash flat settlement	(3.104)	(6.210)	(9.317)
<b>Amended Shortfall</b>	<b>18.688</b>	<b>24.714</b>	<b>32.411</b>



<b>Lower Scenario</b>			
Central Assumption	<b>21.792</b>	<b>30.924</b>	<b>41.728</b>
4% Pay Awards	-	1.723	3.507
4% cash reduction in Grant	3.104	6.210	9.317
<b>Amended Shortfall</b>	<b>24.896</b>	<b>38.857</b>	<b>54.552</b>

These scenarios 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

As part of the budget setting process the Council has to determine an allocation of resources to the Midlothian Integrated Joint Board (IJB) and in turn the IJB will need to consider if this represents a “fair and adequate” allocation of resources. For 2018/19 the allocation was £39.750 million.

The projected budget shortfalls set out earlier incorporate a provision for pay awards, inflationary uplifts and a sum for demographic cost pressures in respect of services delegated to the IJB. They are also predicated on the full share of the additional £160 million allocated to Health and Social Care and Mental Health being allocated to the IJB which equates to £2.426 million. The inflationary uplift for the IJB includes a provision of £0.168 million for the National Care Homes Contract uplift in 2019/20. As this also forms part of the commitments which are funded by the new monies allocation it can be removed from the inflationary uplift sums.

Following discussion at the Midlothian IJB and directly with the officers of the IJB, it was agreed that work would be undertaken to determine whether the IJB could manage with a reduction in their allocation in support of the Council’s overall challenging financial position whilst still delivering on the agreed outcomes within the Strategic Commissioning Plan. Therefore, opportunities have been identified that supports delivery of transformational savings as well as opportunities for additional income to be brought in to the IJB from outwith Council budgets. Accordingly the allocation for 2019/20 is reduced by £0.806 million. £0.056 million of this is predicated on Council agreeing to the increase in Telecare charges set out later in this report. In addition and reflecting the severity of the grant settlement a further efficiency target equating to 1.25% or £0.540 million has been reflected in the proposed allocation to the IJB.

The proposed allocation for 2019/20, which includes the aforementioned Scottish Government funded policy commitments on Living Wage, Carers Act, mental health and free personal care for under 65’s, represents an increase of 7.3% over 2018/19, which together with indicative allocations for future years is estimated to be as follows:-

**Table 5: IJB allocations – 12 February 2019**

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Previous Year's Allocation	39.750	42.652	44.691	46.780
<b>Uplifts:</b>				
Pay and inflation	0.950	0.999	1.049	1.100
Demographic Pressures	1.040	1.040	1.040	1.040
Share of £160 million new monies	2.426	0	0	0
	<b>44.166</b>	<b>44.691</b>	<b>46.780</b>	<b>48.920</b>
<b>Less:</b>				
Reduction in IJB Allocation	(0.974)	0	0	0
Efficiency Target (1.25%)	(0.540)	0	0	0
<b>Proposed/Indicative Allocations</b>	<b>42.652</b>	<b>44.691</b>	<b>46.780</b>	<b>48.920</b>

These updated projections have been shared with the Chair and Officers of the IJB and they have indicated that they would discuss with the IJB whether the allocation for 2019/20 represents a “fair and adequate” allocation of resources in the context of the Council’s overall budget position. The IJB next meets on 14 February 2019 and will formally consider the proposed allocation at that meeting.

This approach supports the IJB as it takes forward its own Financial Strategy within the context of the financial pressures and the available allocations anticipated to be available from both the Council and NHS Lothian.

## **8 Change Programme**

### **8.1 Change Programme**

The Change Programme 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. It focuses on reshaping service delivery as the most sustainable way to address the financial and service challenges and maintain financial sustainability and that provides a means to:-

- Realise service transformation and savings of the scale and magnitude required and to continue to deliver high quality statutory 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.

Against the backdrop of the cut in core funding, the Strategic Leadership Group has developed a range of measures for members’ consideration, aimed at securing a

balanced budget for 2019/20. This has been done within the constraints of the resources available and the statutory framework within which the Council operates.

A draft set of measures, which has focussed on the removal of a significant proportion of non-statutory services, from the Strategic Leadership Group to allow members to secure a balanced budget against the backdrop of the cut in funding for core services was presented to the Business Transformation Steering Group on 30 January 2019. BTSG members noted the measures and noted that they would form part of the final measures presented to Council on 12 February 2019. Both SLG and BTSG recognise the severity of the measures put forward, but in the absence of additional core funding or other options to generate revenue these represent the measures, however challenging, that are necessary to deliver a balanced budget.

These measures will fundamentally change how and what services are delivered by the Council with the cessation of a range of non statutory services and a necessary limitation in the extent to which statutory services can be provided.

The Change Programme presented today, as set out in Appendix 10, remains the same as that presented to BTSG.

## 8.2 Transformation Programme

The savings targets associated with the existing Transformation Programme are set out in table 6 below and detailed in appendix 2.

**Table 6: Transformation Programme Savings (Cumulative) – 12 February 2019**

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Entrepreneurial Council	0.098	0.343	0.418	0.418
Shared Service	0.000	0.025	0.025	0.025
Digital First	0.050	0.150	0.150	0.150
Integrated Service Support	0.500	0.500	0.500	0.500
Workforce	0.482	0.632	0.722	0.722
<b>Totals</b>	<b>1.130</b>	<b>1.650</b>	<b>1.815</b>	<b>1.815</b>

The proposals presented to Council on 13 February 2018 include additions to the Transformation Programme the current estimated impact of these is summarised in table 7 and detailed in appendix 3. Whilst these savings were not incorporated in the future years budget gaps approved by Council in February 2018 they still remain relevant and will need to continue to be part of the solution to address the budget challenge.

**Table 7: Additions to Transformation Programme (Cumulative) – 12 February 2019**

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Entrepreneurial Council	0.020	1.375	3.610	3.710
Enterprising with Communities	0.000	0.100	1.100	1.100
Shared Services	0.000	1.035	2.035	2.035
Digital Led Transformation	0.000	0.000	0.500	0.500
<b>Additions to Programme</b>	<b>0.020</b>	<b>2.510</b>	<b>7.245</b>	<b>7.345</b>

### 8.3 Capital Strategy

The projected future year's budgets include a provision for the loan charges which reflects the General Services Capital Plan and is governed by the Treasury Management and Investment Strategy.

An increase in the affordable borrowing from that set out in the Capital Strategy, or changes from the proposed Treasury Management and Investment Strategy, would inevitably lead to an increase in the projected budget shortfalls for later years. In the absence of any other funding support, this will in turn require further reductions in the service budgets.

### 8.4 Resource Allocation Changes - Operational

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

The Strategic Leadership Group has identified further opportunities to reduce costs and so realign service budgets. The current impact is summarised below with further information set out in appendix 4.

**Table 8: Operational Savings (Cumulative) – 12 February 2019**

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Operational Savings	1.025	1.061	1.015	1.015
<b>Operational Savings</b>	<b>1.025</b>	<b>1.061</b>	<b>1.015</b>	<b>1.015</b>

### 8.5 Resource Allocation Changes - Policy

The budget projections set out in tables 1 and 2 already reflect the deliverable policy related resource allocation changes approved in previous year's budgets.

In view of the challenging grant settlement from Scottish Government the Strategic Leadership Group has identified a range of measures to support Council in fulfilling its statutory obligation to set a balanced budget for 2019/20. These reduce expenditure and so realign service budgets within the context of the grant

settlement constrains and ring fencing of funds. The impact is summarised below with further information set out in appendix 5.

**Table 9: Policy Savings Measures (Cumulative) – 12 February 2019**

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Policy Savings	3.798	6.215	6.182	6.182
<b>Policy Savings</b>	<b>3.798</b>	<b>6.215</b>	<b>6.182</b>	<b>6.182</b>

## 8.6 Service Efficiency Targets

Recognising that the challenging financial settlement requires strict ongoing financial discipline and cost control it is necessary to set all services, with the exception of Children’s Services, a 1.35% efficiency target. This equates to £1.970 million for 2019/20 and would be allocated across services as detailed in appendix 6. In order to ensure the delivery of these targets it is recommended that authority is delegated to the Chief Executive, in consultation with the Leaders of the three Political Groups, to progress any non-operational measures necessary to achieve these efficiency targets.

## 8.7 Resource Allocation Changes Bottom-up/Cross Cutting Service Reviews

On 26 June 2018 Council agreed the arrangements for the reviews together with proposals for the first three phases.

Proposals which arose from the review of Land and Countryside total £0.205 million for 2019/20. In addition taking cognisance of the financial challenge a savings target of £0.250 million is proposed for in the Sport and Leisure Review for 2019/20 which is in addition to the specific policy proposals included in section 8.5.

Further details are set out in Appendix 7.

## 8.8 Resource Allocation Changes – Fees and Charges

An initial estimate has been made of the impact of a minimum increase of 3% per annum (which reflects pay inflation) across all fees and charges which the Council determines unless higher increases are agreed for specific services. The impact of which is set out below.

In addition, to generate an additional £0.056 million to support the delivery of Health and Social Care Services delivered by the Midlothian Integration Joint Board, a higher increase (equating to 70p per week) is proposed for telecare charges.

**Table 10: Fees & Charges – 12 February 2019**

	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m
General Increase 3%	0.150	0.300	0.450	0.600
<b>Total Fees &amp; Charges</b>	<b>0.150</b>	<b>0.300</b>	<b>0.450</b>	<b>0.600</b>

## 8.9 Summary of Financial Strategy

The updated projections incorporating the impact of the various strands of the Financial Strategy set out above and a 3% per annum increases in Council Tax are set out in table 11 below.

**Table 11: Financial Strategy 2019/20 to 2022/23 – 12 February 2019**

Cumulative	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
<b>Budget Shortfall Table 1</b>	<b>11.522</b>	<b>21.792</b>	<b>30.924</b>	<b>41.728</b>
<b>Less: Change Programme</b>				
IJB Allocation Table 5	(0.974)	(0.974)	(0.974)	(0.974)
IJB efficiency target	(0.540)	(0.540)	(0.540)	(0.540)
<b>Transformation Programme 8.2</b>				
- Existing Programme	(1.130)	(1.650)	(1.815)	(1.815)
- Additions to Programme	(0.020)	(2.510)	(7.245)	(7.345)
<b>Less: Resource Allocation Changes</b>				
- Operational 8.4	(1.025)	(1.061)	(1.015)	(1.015)
- Policy 8.5	(3.798)	(6.215)	(6.182)	(6.182)
- Efficiency Targets 8.6	(1.970)	(1.970)	(1.970)	(1.970)
- Bottom Up/Cross Cutting Reviews 8.7	(0.455)	(0.540)	(0.540)	(0.540)
- Fees and Charges General 8.8	(0.150)	(0.300)	(0.450)	(0.600)
Council Tax Increase of 3%	(1.460)	(2.993)	(4.602)	(6.290)
<b>Remaining Budget Gap</b>	<b>-</b>	<b>3.039</b>	<b>5.591</b>	<b>14.457</b>
<b>Upper Scenario</b>	<b>-</b>	<b>(0.065)</b>	<b>(2.342)</b>	<b>1.588</b>
<b>Cash Flat Scenario</b>	<b>-</b>	<b>(0.065)</b>	<b>(0.619)</b>	<b>5.095</b>
<b>Lower Scenario</b>	<b>-</b>	<b>6.143</b>	<b>13.524</b>	<b>27.236</b>

The projections for later years will be continually updated to take cognisance of the prospects for future years grant and pay settlements and demographic changes recognising the critical impact these issues have on the Financial Strategy and the projected budget position.

The savings associated with the measures set out in the Change Programme have been verified based on the information provided by Heads of Service and by reference to the assumptions on which the measures are based. In bringing forward measures for their Services, Directors and Heads of Service have assessed the risk associated with the delivery and the timing of delivery of the changes. Once measures are approved the responsibility and accountability for delivery rests with officers across the three Directorates. Robust monitoring arrangements will be in place in order to check progress with the delivery of the measures approved. Members should note that Heads of Service are currently developing plans for the

1.35% efficiency targets and the measures that will inform the delivery of the £0.250 million target attached to the bottom up review of Sport and Leisure. Accordingly members should note that at this time there is a higher level of risk currently attached to the £1.970 million and £0.250 million.

It is stressed however that ultimately the achievement of savings will be dependent on decisions taken by Council.

## **9 Governance and Timetable**

Each element of the Financial Strategy continues to have governance in place to ensure the timely delivery of the work stream. All resource allocation measures from SLG have been reported through Business Transformation Steering Group. Responsibility for setting Council Tax, determining budgets and approving savings etc. remains, with Council.

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. The timetable approved by Council supported the delivery of the Financial Strategy and specifically the determination of the 2019/20 budget and Council Tax levels at today's meeting.

Members should also note that in terms of Section 112 of the Local Government Finance Act 1992 (as amended) it is an offence for members to participate in any vote in respect of setting Council Tax where the member has unpaid Council Tax. Accordingly members present will be required to disclose at the start of today's meeting the fact if this section of the act applies to them and subsequently not vote on any question with respect to the matter.

## **10 Reserves Update**

The third quarter Financial Monitoring reports are presented elsewhere on today's agenda as is a proposed Reserve Strategy.

## **11 Report Implications**

### **11.1 Resources**

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

### **11.2 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;

- Not achieving Early Years expansion of 1,140 hours and Scottish Government reclaiming funding;
- Given the nature of the savings options incorporated in the budget measures 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;
- The uncertainty regarding Government funding to meet the increased cost of teachers pensions;
- Actual school rolls exceeding those provided for in the budget;
- Learning Estate Strategy for schools being underfunded to meet statutory functions;
- 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;
- Potential liabilities arising from historic child abuse; 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 measures.

The projections set out in this report highlight the severity of the challenge ahead for the term of this Council and the extent to which service provision will have to be significantly transformed and or reduced.

The work to bring forward and implement a comprehensive Change Programme is critical to enable Council to address the projected budget gaps and in securing financial sustainability.

The severity of the challenge is such that Council will require to approve a range of measures which not only achieves a balanced budget for 2019/20 but which will also contribute to reducing future years budget shortfalls. The risk of not doing so would be the potential elimination of available reserves and so severely limiting the Council's ability to deal with unforeseen or unplanned events.

### 11.3 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



#### **11.4 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 2022/23 the Council will have available in the region of £200 million for the provision of services and the pursuit of key outcomes as set out in the Single Midlothian Plan.

#### **11.5 Adopting a Preventative Approach**

Whilst the measures 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.

#### **11.6 Involving Communities and Other Stakeholders**

Shaping our Future consultation was launched in November 2018. This had a focus on informing the community and other stakeholders of the financial and service challenges and provides a means to consult on the allocation of resources.

A suite of information was prepared and published on the Council website to support engagement activity. Initial engagement sessions took place in early December with representatives from Community Councils and the Voluntary Sector with further sessions with Headteachers and Service Managers in late January.

This engagement activity ran until late January and the feedback from this activity together with the feedback from previous budget consultations is intended to help to inform 2019/20 budget decisions. Given the continuing financial challenge engagement activity continues.

An overview of feedback from the engagement activity is set out in appendix 11. A draft of this overview together with a detailed report was prepared and made available to all members on 30 January 2019 and the draft overview report was also on the agenda for the Business Transformation Steering Group on 30 January 2019.

In addition, there has been and continues to be engagement with the recognised Trade Unions on the Council's financial position and service challenges. Officers have met regularly with Trade Union colleagues to consult with them on the financial outlook and budget measures. It is expected that the Trade Unions will also seek a further update at the Joint Consultative Group meeting on 5 February 2019.

#### **11.7 Ensuring Equalities**

The Financial Strategy and the resource allocation measures which will support financial sustainability have, as far as the constraint on resources allows, being developed within the context of the Midlothian Single Plan, ensuring as far as possible that resources are directed towards the key priorities of reducing the gap in learning, health and economic circumstance outcomes.

The Financial Strategy measures will continue as far as is possible to reflect Midlothian Council's commitment to the ethos of the Equality Act 2010 with careful consideration of the interests of the most vulnerable in our communities through the preparation of equality impact assessments (EqIA) for all measures.

Copies of the individual assessments have been published alongside this report on the Committee Management System (CMIS) section of the Council website and an updated overarching EqIA is also set out in appendix 12. What the EqIAs continue to demonstrate is the Council's undertaking to clearly identify when the most vulnerable may be affected by budget measures, and to work to develop where possible mitigating actions to reduce any further negative impacts where it is possible to do so with the resources at the Council's disposal. The mitigating actions will form part of the implementation of changes when approved.

In addition, these actions underline the Council's commitment in its Midlothian Equality Plan 2017 – 2021 to tackle inequality and promote inclusion within the limitations of the resources available. These actions also will allow the Council to plan and deliver services which meet the needs of our diverse communities and respond to the changes ahead.

### **11.8 Supporting Sustainable Development**

There are no direct sustainability issues arising from this report.

### **11.9 Digital Issues**

There are no direct digital implications arising from this report.

## **12 Summary**

This report provides:-

- An update on the 2019/20 Scottish Government Grant settlement and future years grants prospects;
- Final budget projections for 2019/20 and updated projections for 2020/21 to 2022/23;
- A sensitivity analysis reflecting the potential impact of different pay and grant settlement scenarios;
- An update on the arrangements for the delegation of resources to the Midlothian Integration Joint Board;
- An update on the Change Programme impact on the projected budget shortfalls;
- Governance arrangements;
- An update on General Fund Reserves.

## **13 Recommendations**

Council is recommended to:-

- a) Note the position in respect of the Scottish Government Grant Settlement for 2019/20 as set out in section 3;
- b) Note the current projected cost of services, key assumptions and resultant budget shortfalls as set out in section 5 and endorse the key assumptions on which the budget projections are based;
- c) Note that given the level of available contingent reserves it is not considered prudent for Council to meet additional spending pressures from the contingent reserve or to use the contingent reserve as part of the strategy to secure a balanced budget for 2019/20;

- d) In line with the provisions of the Grant Settlement package set a Band D Council Tax of £1,321 for 2019/20 as set out in appendix 1;
- e) Note the continuing uncertainties and the potential impact as outlined in the differing scenarios as set out in section 6;
- f) Approve the allocation of £42.652 million to the Midlothian Integrated Joint Board for 2019/20 in respect of delegated services and approve the increase to telecare charges;
- g) Consider the Change Programme measures as set out in section 8 and:-
  - I. Approve the savings measures associated with the additions to the Transformation Programme as set out in appendix 3;
  - II. Note the operational savings summarised in appendix 4;
  - III. Approve the policy savings measures as set out in appendix 5;
  - IV. Approve a 1.35% efficiency target for all services, with the exception Children's Services as detailed in appendix 6 and delegate authority to the Chief Executive, in consultation with the leaders of the three Political Groups to progress any non-operational measures necessary to achieve these efficiency targets;
  - V. Approve the Bottom Up Review savings as detailed in Appendix 7;
- h) Note the additional income anticipated from fees and charges as set out in section 8.7 and approve the general uplift of 3% together with the resultant detailed charges set out in appendix 8;
- i) Subject to any amendments for the decisions taken at items d), f) and g) I , III, IV and V approve the resultant 2019/20 service budget as set out in appendix 9;
- j) In considering the recommendations also consider the contents of the overview of feedback from engagement activity set out in appendix 11 and the overarching EQIA set out in appendix 12;
- k) Note the acute financial pressures for future years and also the risks as set out in section 11.2;
- l) Recognising the impact of a rapidly growing population and greater demand for services, this report also calls for a strategic step change in our financial planning, in the form of a proposal to bring forward to Council before the summer recess a Medium Term Financial Strategy (MTFS) which contains a planned and balanced budgets covering the four years 2020/21 to 2023/24;
- m) Otherwise note the contents of the report.

**Date** 31 January 2019

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- Appendix 1 - Council Tax
- Appendix 2 – Existing Transformation Programme
- Appendix 3 - Additions to Transformation Programme
- Appendix 4 - Operational savings
- Appendix 5 - Policy Measures
- Appendix 6 – Efficiency Targets
- Appendix 7 – BUR
- Appendix 8 - Fees and Charges
- Appendix 9 - Proposed 2019/20 Service Budgets
- Appendix 10 - Change Programme
- Appendix 11 - Engagement Feedback
- Appendix 12 - Overarching EQIA
- Appendix 13 - Letter setting out changes to the Local Government settlement

## MIDLOTHIAN COUNCIL

## Council Tax for Financial Year 2019/20

This statement gives details of the 2019/20 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 £1,321.**

Band	Range of Values		Band D Proportion	Council Tax £
	From £	To £		
A	-	27,000	240/360	880.66
B	27,001	35,000	280/360	1,027.44
C	35,001	45,000	320/360	1,174.22
D	45,001	58,000	360/360	1,321.00
E	58,001	80,000	473/360	1,735.64
F	80,001	106,000	585/360	2,146.62
G	106,001	212,000	705/360	2,586.95
H	212,001	upward	882/360	3,236.44

## REVENUE BUDGET 2019/20 SUMMARY

Service Function	Budget 2019/20 £
Management and Members	1,776,587
<u>Education Communities and Economy</u>	
Children's Services	15,795,457
Communities and Economy	3,024,584
Education	94,011,873
<u>Health and Social Care</u>	
Adult Social Care - IJB	42,652,073
Adult Social Care – Non IJB	405,798
Customer and Housing Services	10,167,866
<u>Resources</u>	
Commercial Operations	12,129,025
Finance and Integrated Service Support	10,199,484
Properties and Facilities Management	13,127,792
Lothian Valuation Joint Board	545,551
Centrally Held Budget Provisions	(129,792)
Non Distributable Costs	1,338,436
<b>GENERAL FUND SERVICES NET EXPENDITURE</b>	<b>205,044,734</b>
Loan Charges	6,123,494
Investment Income	(406,420)
Allocations to HRA, Capital Account etc.	(5,015,808)
<b>NET EXPENDITURE</b>	<b>205,746,000</b>
(Enhancement ) /Utilisation of Reserves	0
Scottish Government Grant	155,630,000
Council Tax	50,116,000
<b>TOTAL FUNDING</b>	<b>205,746,000</b>