

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

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

- An update on the local government finance settlement;
- The latest budget projections for the three financial years 2014/15 to 2016/17 together with the assumptions which underpin these projections;
- An update on the savings targets attached to the Council Transformation Programme;
- Final proposals to address the budget shortfall for 2014/15; and
- An update on reserves.

2 Scottish Government Grant Settlement

The finance circular setting out individual Council allocations for 2014/15 is expected to be published by Scottish Government on the 11 December 2013. The most recent information from COSLA indicates that Scottish Government does not intend to publish indicative allocations for 2015/16 at this time. A verbal update on the settlement will be provided to Council on the 17 December 2013.

In the meantime the grant projections set out in table 1 remains as reported to Council on 5 November 2013.

3 Council Tax

The position remains as previously reported to Council.

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

4 Cost of Services

Table 1 summarises the final 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. Since the last report a further £0.160 million has been provided for increased inflationary pressures in respect of energy costs.
- A provision for increased national insurance costs as a result of the Public Services Pensions Act 2013. Initial estimates are an increased cost for the Council from 2016/17 of £2 million per annum.
- No other changes to salary structures or employee terms and conditions.
- Pension deficit funding remaining at current levels.
- An additional £0.460 million per annum from 2014/15 in respect of the additional costs arising from welfare reform as reported to Council on 14 May 2013.
- Borrowing costs reflect the latest projection of anticipated capital expenditure and interest rate projections. This gives rise to a reduction of £0.700 million in the borrowing costs in 2014/15 from the provision made in previous projections.
- 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.
- An additional provision of £0.210 million per annum from 2014/15 to reflect the current cost of homelessness.
- A provision for increasing school roles of £0.650 million in 2014/15, with a further £0.406 million per year in 2015/16 and 2016/17, amounting to £1.462 million by 2016/17.

The budget projections have been updated to reflect the latest information available and in particular the reported under spend in the budget for residential school and close support placement for children (MARG) has been reflected in the projections, reducing the budget shortfall by £0.500 million per annum.

The budget projections set out in table 1 reflect the impact of the new leadership structure approved by Council on 3 December 2013.

It has also proved necessary to refine the financial implications of the operational savings endorsed by Special Council on 24 September 2013. These reduce the previous estimate of £0.910 million to £0.816 million, a reduction of £0.077 million in financial discipline and £0.017 million in respect of changes in the staffing establishment.

The base budget shortfall reflecting these changes is detailed in table 1.

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

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Cost of Services	187.4	190.3	195.0	202.7
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	2.5	6.7	15.3

The changes from the last update on 5 November 2013 are attributable to the following key elements:-

Table 2: Analysis of Change 5 November - 17 December 2013

	2014/15 £m	2015/16 £m	2016/17 £m
Budget Shortfall 05 November	4.000	7.900	16.600
- Energy Costs	0.160	0.160	0.160
- Homelessness	0.210	0.210	0.210
- School Rolls	0.180	0.180	0.180
- Loan Charges	(0.700)	0	0
- MARG	(0.500)	(0.500)	(0.500)
- New Leadership Structure	(0.144)	(0.229)	(0.366)
- Operational Savings	(0.816)	(0.988)	(0.988)
- Other Base Budget revisions	0.150	0	0
Budget Shortfall 17 December	2.540	6.733	15.296

5 Fees and Charges

A specific report on the review of fees and charges is on today's agenda. The recommendations if agreed would contribute to £0.070 million to the budget shortfall.

6 Roads Maintenance

In light of the financial pressures on the revenue budget the Corporate Management Team recommends that £0.050 million of the Roads Maintenance budget be incorporated into the General Services Capital Plan from 2014/15 onwards.

7 2014/15 Budget

The updated position on Transformation Programme savings is as follows:-

Table 3: Transformation Programme 17 December 2013

	£m
Service Reviews	0.381
Partnership Working	0.089
EWiM	0.165
Procurement	0.455
Integrate Service Support/Review of Structures	0.750
Maximising Attendance	0.155
Transformation Savings	1.995

7.1 Service Reviews

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

Table 4: Service Review Savings - 17 December 2013

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

7.2 Partnership Working

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

7.3 EWiM

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

7.4 Integrated Service Support/Review of Structures

In addition to the savings from the Integrated Service Support workstream, savings are also anticipated from a review of structures following the appointment of the new Heads of Service.

7.5 Maximising Attendance

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

7.6 Further Savings

The Strategic Leadership Group have identified further operational staffing savings of £0.039 million as set out in appendix 1. The Strategic Leadership Group submitted savings proposals to the Business Transformation Group (BTSG) on 3 December 2013. These

proposals are as set out in appendix 2 for Council consideration. In summary they total:-

Table 5: Savings Proposals 2014/15

	£m
Non staffing	0.221
Staffing	0.306
	<u>0.527</u>

The proposed staffing establishment changes will be subject to consultation in accordance with the Council's Human Resources policies.

7.7 Remaining Budget Shortfall 2014/15

After incorporating the above savings there would be a small budget surplus in 2014/15 as follows:

Table 6: Budget Surplus 17 December 2013

	£m
Base budget shortfall	2.540
Less:	
Fees and Charges	(0.070)
Roads Maintenance	(0.050)
Further Operational Savings	(0.039)
Savings Proposals	(0.527)
Transformation Programme Savings	(1.995)
Budget Surplus	<u>(0.141)</u>

The budget surplus represents 0.08% of the cost of services and this would be applied to reinstate reserves. A final budget for 2014/15 incorporating a full assessment of the grant settlement will be presented to Council on 4 February 2014.

8 2015/16 and 2016/17 Budgets

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

Table 6 – 2015/16 & 2016/17 - 17 December 2013

	2015/16 £m	2016/17 £m
Base budget shortfall	6.733	15.296
Fees and Charges	(0.070)	(0.070)
Roads Maintenance	(0.050)	(0.050)
Further Operational Savings	(0.039)	(0.039)
Savings Proposals	(0.527)	(0.527)
Transformation Programme Savings	(1.995)	(1.995)
	<u>4.052</u>	<u>12.615</u>

The gap between projected service expenditure and the available income is predicted to rise by £4 million in 2015/16 and again by a further £8.6 million in 2016/17, a cumulative shortfall of £12.6 million by March 2017.

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

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

An outline of each was reported on 24 September 2013.

Again the later year's programme will continue to be developed under the direction of the Business Transformation Steering Group.

9 Reserves

The projected uncommitted General Reserve at 31 March 2014 is £7.529 million and subject to the recommendations set out in this report being approved will increase by £0.141 million in 2014/15.

A prudent level of uncommitted reserves is seen to be 2% of net expenditure which equates to approximately £4 million. The General Reserve is £3.670 million greater than this and so provides flexibility to meet unforeseen cost pressures, potential service overspends and provides capacity to deliver transformational change.

10 Report Implications

10.1 Resources

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

10.2 Risk

Within any financial year's budget there are a number of inherent assumptions in arriving at figures and budget provisions, and therefore risks that may be faced if costs change or new pressures emerge. The following key risks and issues are highlighted in the context of the budget:

- Impact of economic climate on range of factors including: inflation, interest rates, employment, tax and income levels, service demands;
- Outstanding pay award settlements;
- Decision by Scottish Government on future years grant settlements and grant distribution;

- Extreme weather events (or other unforeseen events) and provision for immediate response as well as longer-term implications;
- Cost pressures exceeding budget estimates;
- Non-delivery or late delivery of planned savings, including those arising from reductions in the staffing establishment;
- Impact of Welfare Reform and Pension changes;
- The Replacement of Newbattle Community High School.

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

10.3 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

10.4 Impact on Performance and Outcomes

The decisions taken to balance the budget have fundamental implications for service performance and outcomes. The revenue budget projections indicate that in 2016/17 the Council will have available in the region of £187.4 million for the provision of services and the pursuit of the priorities set out in the Single Midlothian Plan.

10.5 Adopting a Preventative Approach

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

10.6 Involving Communities and Other Stakeholders

The proposed changes in the staffing establishment will be subject to consultation in accordance with the Council's Human Resources policies.

10.7 Ensuring Equalities

There are no equality implications arising directly from this report. Each of the savings proposals set out in appendix 2 has been individually assessed and an overarching EQIA is attached as appendix 3, covering the revenue budget, capital plan and service plans.

10.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

10.9 IT Issues

There are no IT implications arising from this report.

11 Summary

- The proposals in this report address the projected budget shortfall for 2014/15 and provide for a small reinstatement of reserves.
- A final budget for 2014/15 reflecting the grant settlement will be presented to Council on 4 February 2014.

The gap between projected service expenditure and the available income is predicted to rise by further £4.0 million in 2015/16 and again by a further £8.6 million in 2016/17, a cumulative shortfall of £12.6 million by March 2017.

12 Recommendations

It is recommended that Council:

- (a) Consider and approve the savings proposals set out in appendix 2;
- (b) Approve a further £0.050 million per annum for roads maintenance in the General Services Capital Plan, rather than in the revenue budget;
- (c) Receive a final service by service budget statement for 2014/15 on 4 February 2014, reflecting the grant settlement; and
- (d) Note that the gap between projected service expenditure and the available income is predicted to rise by a further £4.0 million in 2015/16 and again by a further £8.6 million in 2016/17, a cumulative shortfall of £12.6 million by March 2017.

6 December 2013

Report Contact:

Gary Fairley, Head of Finance and Human Resources

Tel No: 0131 271 3110

gary.fairley@midlothian.gov.uk

2014/15

Revisions to the staffing establishment

	FTE	£
Health & Social Care		
Adult & Community Care	2.5	39,039
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TOTAL	2.5	39,039
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Appendix 3

To follow