

Financial Strategy 2016/17 to 2020/21- Update

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

1 Purpose of Report

This report provides Council with an update on the Financial Strategy 2016/17 to 2020/21 following publication of the UK Government's Spending Review on 25 November 2015.

2 Background

The core objective of the Financial Strategy is to secure the Council's continued financial sustainability during what is expected to be an ongoing period of financial constraint coupled with increasing service demands and increasing customer expectations.

A report setting out the Financial Strategy for 2016/17 to 2020/21 was considered by Council on 22 September 2015 and the following recommendations approved.

- a) Note the position in respect of the Scottish Government Grant Settlement as set out in section 2 and endorse the central planning assumption of "cash flat" settlements;*
- b) Note the projected cost of services, key assumptions and resultant budget shortfalls as set out in section 3 and endorse the key assumptions on which the budget projections are based;*
- c) Note the impact of the Spending Review timetable and that as a consequence Council is recommended to finalise the 2016/17 budget and set Council Tax early in 2016 once grant settlement figures are published;*
- d) Note that budget projections make no provision for a Council Tax increase.*
- e) Note the role the Delivering Excellence and Transformation Programme have means to identify options to address future years budget shortfalls;*
- f) Note latest projections for the Transformation Programme and relevant impact of the Financial Strategy as set out in tables 3 and 4;*
- g) Note that the projections indicate that a balanced budget is achievable for 2016/17 utilising reserves as previously agreed, but that there remains a projected budget gap of £23.344 million by 2020/21.*

3 Scottish Government Grant Settlement

As previously reported the most critical aspect of the projections set out in the Financial Strategy is the level of grant support Council can expect to secure from the Scottish Government.

Since the report to Council on 22 September 2015 the timetable for the Scottish Government's budget has become clearer. Scottish Government is expected to adopt a one year budget and grant settlement for 2016/17 and publish details of both on 16 December 2015. It is also currently anticipated that a three year budget and grant settlement will be adopted for 2017/18 to 2019/20, with details emerging in the autumn of 2016.

The Scottish Budget follows the UK Government's Spending Review published on 25 November 2015. This detailed the resources Scottish Government will receive for the period 2016/17 to 2019/20 as set out in table 1.

Table 1: Scottish Government share of UK Budget – 25 November 2015

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Scottish Budget	30,667	30,867	30,967	31,167

Source; H M Treasury Spending Review and Autumn Statement 2015, Table 2.18

In the lead up to the UK Government's Spending Review there were a number of comments made within the Scottish local government finance community which suggested that 2016/17 could see a particularly challenging settlement emerging for Councils with grant reductions of over 3% mooted. In addition there are suggestions that resources for care pressures may be increasingly channelled through Health Boards directly to the Integrated Joint Boards.

Arising from a report on the Spending Review to the COSLA Leaders meeting on 27 November 2015, Leaders agree the following motion;

"The level of gap in the Local Government Settlement currently advised to Local Government by Scottish Government is unacceptable. The Deputy First Minister must do all that he can to close the gap.

Dialogue with Scottish Government should continue to explore the terms of any settlement and the steps which may be taken by Scottish Government and local government to attenuate the severe funding pressures to which Councils are subject, noting Scottish Government's account of its funding pressures.

Local Government reaffirms its demand for a sanction free settlement which includes the removal of the council tax freeze and teacher numbers".

COSLA Group Leaders and the President and Vice President have asked for a meeting with Government Ministers after 8 December 2015 with a Special Leaders meeting arranged for the afternoon of 16 December 2015.

The projections set out in the Financial Strategy report on 22 September 2015 report were predicated on the overall resources from Scottish Government to Councils remaining constant in cash terms (other than for additional sums for new legislative burdens). There is therefore a considerable risk that the settlement will provide less resource than previously predicted and as such the remaining budget gap for 2016/17 could be significantly higher than the £1.852 million reported on 22 September 2015.

To put the risk associated with the Grant Settlement into context, a 3% cash reduction in the revenue support grant element (i.e. excluding non domestic rates and loan charge support) would equate to a reduction in grant of approximately £3.300 million for 2016/17. All other things being equal this would increase the remaining budget gap for 2016/17 to over £5 million.

4 Council Tax

Whilst recognising the COSLA Leaders motion, the budget projections continue to be based on the expectation that the Council Tax freeze will continue for the life of the current Scottish Parliament. The prospect for later years is very much dependant on the next Scottish Government's response to the findings and recommendations of The Commission on Local Tax Reform.

5 Cost of Services

Work is continuing to complete the review of the base budget for 2016/17. The final base budget and updated projections for 2017/18 to 2020/21 will be incorporated in the Financial Strategy report to Council on 9 February 2016.

There are two national issues which have emerged since the September report which have a detrimental impact on the budget. Firstly the UK Government's Spending Review introduced an apprenticeship levy for large employers, equating to 0.5% of their payroll. Depending on the details of how the levy will operate it could have the potential to add a further £0.500 million per annum to the budget from 2017/18.

Secondly Scottish Government has decided to amend the Education Bill currently before Parliament to allow them to regulate for every primary school pupil to benefit from a minimum of 25 hours with teachers per week. Initial indications are that this will add a further £0.300 million to the budget in 2016/17 rising to £0.450 million thereafter.

6 Financial Strategy

6.1 Delivering Excellence

The Delivering Excellence framework approved by Council on 23 June 2015 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. The framework focuses on reshaping service delivery as the most

sustainable way to address the financial and service challenges and maintain financial sustainability.

The framework sets out an approach that provides the means to:

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

Actions which contribute to the Financial Strategy will be developed through the framework.

6.2 Transformation Programme

The position remains as previously reported.

6.3 Asset Management

The position remains as previously reported.

6.4 Procurement

The Contract Delivery Plan report elsewhere on today's agenda highlights the challenge associated with savings from second and third generation contracts. Accordingly no separate procurement savings targets are incorporated in the Financial Strategy.

6.5 Efficiency and Financial Discipline

In view of the emerging position with the grant settlement for 2016/17 the Chief Executive has asked each Director to bring forward savings options for consideration by the Senior Leadership Group early in January 2016.

6.6 Summary of Financial Strategy

The Financial Strategy Report to Council on 22 September 2015 reported a remaining budget gap for 2016/17 of £1.852 million, rising to £23.344 million in 2020/21 as set out in table 2 below.

Table 2: Financial Strategy 2016/17 to 2020/21 – 15 December 2015

	2016/17	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m	£m
Remaining Budget Gap	1.852	7.117	12.649	18.032	23.344

As set out in section three there is a considerable risk that the settlement will provide less resources than currently predicted and as such the remaining budget gap for 2016/17 could be significantly higher. The remaining budget gap will also be impacted on by the costs associated with the Apprenticeship Levy and the requirement to provide 25 hours of teacher time.

7 Governance and Timeline

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. Accordingly Council agreed on 22 September 2015 to determine its 2016/17 budget and to set a Council Tax for 2016/17 at its meeting on 9 February 2016.

8 Focussing Resources to Key Priorities

The Financial Strategy is designed to ensure that available resources are as far as possible targeted on delivery of improved outcomes, particularly against the key priorities of Early Years, Positive Destinations and Economic Growth. The Midlothian Community Planning Partnership continues to work to prioritise the available resources towards the delivery of the partnerships key priorities.

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 Delivering Excellence framework has a key role in ensuring that resources are directed towards the priorities set out in the Midlothian Single Plan.

9 Reserves

The projected reserves position as at 31 March 2016 remains as previously reported.

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 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:

- Decision by Scottish Government on future years grant settlements and grant distribution;
- Policy decisions by both UK and Scottish Governments and the resources provided to support these;
- Non-delivery or late delivery of planned savings, including those arising from reductions in the staffing establishment;
- Future years pay award settlements and the implications of the proposed National Living Wage;
- Impact of economic climate on range of factors including: inflation, interest rates, employment, tax and income levels, service demands;
- Cost pressures exceeding budget estimates;
- Impact of Welfare Reform and pension changes;
- The costs of implementation of national policies varying from the resources provided by government; and
- 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 Delivering Excellence determining future saving proposals.

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 Financial Strategy is central to the way Council allocates and uses its limited resources and as such has fundamental implications for service performance and outcomes. The budget projections indicate that in 2020/21 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.

10.5 Adopting a Preventative Approach

Whilst the proposals 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.

10.6 Involving Communities and Other Stakeholders

The Delivering Excellence framework approved by Council incorporated proposals for engagement and consultation on the service and financial challenges Council faces and the options which will emerge to address these.

In addition, there continues to be engagement with the recognised Trade Unions on the Council's financial position and service challenges.

10.7 Ensuring Equalities

There are no equality implications arising directly from this report. As part of the development of budget and service proposals Equality Impact Assessments will be prepared, evaluated and utilised to inform decisions.

An overarching equality impact assessment encompassing the revenue budget for 2016/17 will be prepared and incorporated in the report considered by Council when it sets the 2016/17 budget and Council Tax.

10.8 Supporting Sustainable Development

There are no direct sustainability issues arising from this report.

10.9 IT Issues

There are no direct IT implications arising from this report.

11 Summary

The report provides Council with an update on the Financial Strategy 2016/17 to 2020/21 following publication of the UK Government's Spending Review on 25 November 2015.

12 Recommendations

Council is recommended to:-

- 1) Note that Scottish Government will publish its 2016/17 budget together with Local Government Grant Settlement figures on 16 December 2015.
- 2) Note that a further report will be presented to Council on 9 February 2016 to allow Council to determine its 2016/17 budget and set Council Tax.
- 3) Otherwise note the report.

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