

Medium Term Financial Strategy

Report by Dr Grace Vickers, Chief Executive and Gary Fairley, Head of Finance & Integrated Service Support (Section 95 Officer)

1 Purpose of Report

The purpose of this report is to present the outcomes of the Working With You, For You public consultation which informs the Medium Term Financial Strategy and asks Council to approve the recommendations as set out in the report.

This report sets out:-

- The outcome of the *Working With You, For You* public consultation;
- Four key strategic themes;
- Key drivers for change;
- The Medium Term Financial Strategy covering the next three financial years;
- The principal planning assumptions, the net cost of services, resource allocation measures, the resultant budget gaps for each of the years; a sensitivity analysis reflecting the potential impact of changes in the principal planning assumptions;
- Timetable and Governance arrangements;

In delivering services, it is important to recognise that people are our most important asset. Our people have the potential to have a positive impact every day and can deliver life-changing impacts for our communities. Therefore to maximise that positive impact it is imperative that we work as *One Council* by removing any institutional barriers and eliminate any silo working to enable the organisation to implement simple solutions which make a big difference. This means placing our citizens and communities at the centre of our daily work; growing our own talent and empowering our staff, thereby enabling Midlothian to fulfil its potential as a Great Place to Grow.

2 Background

As the fastest growing local authority in Scotland, Midlothian Council will invest over £210 million to deliver local services in 2020/21 and £215 million by 2022/23. However, with a rapidly growing population and greater demand for services, the Council has recognised the need for a strategic step change in the form of the development and agreement of a Medium Term Financial Strategy (MTFS) which sets out budget projections for the next three financial years together with the proposed resource allocation measures that will enable the Council to balance revenue budgets for each financial year.

The Council is ambitious for the future of Midlothian and our Vision is a Great Place to Grow. The Community Planning Partnership has identified three key priorities:

- Reducing inequalities in learning outcomes
- Reducing inequalities in health outcomes
- Reducing inequalities in economic circumstances

The Midlothian Community Planning Partnership continues to prioritise the available resources towards the delivery of the partnerships key priorities. We will also continue to build on our successes by our investing in a major Capital building programme which will see record investment in much needed housing and schools to meet the requirements of our fast-growing population.

The development of the Medium Term Financial Strategy is an important step-change and one which will provide greater certainty for the local communities we serve and our employees. Throughout the Working With You, For You public consultation we have listened to people and know they are disillusioned with the negative budget discussions of old. As a result, this year, we have made the step change and present a strategic budget – one which will invest in Midlothian to help it fulfil its potential to be a great place to grow. Developing a MTFS will also provide sufficient time to implement the changes needed to deliver change in our services and changes in how resources are allocated. This is of particular importance as the Council has experienced some slippage in delivering savings in previous financial years. Securing a MTFS means that we will not need to consider savings each and every year at February Council meetings but instead the organisation will have a medium term plan the delivery of which will secure continued financial sustainability and which also means that we will not need to draw on our reserves to maintain service provision.

This is consistent with best practice as shared by the Chartered Institute of Public Finance and Accountancy (CIPFA) who highlight that financial planning sits at the heart of good public financial management. Alongside budget preparation, performance management and stakeholder reporting, the ability to look strategically beyond the current budget period is a crucial process to support an organisation's resilience and long-term financial sustainability.

3. Medium Term Financial Strategy

3.1. Outcome of the Working With You, For You Public Consultation

In April 2019, the Council launched the Working With You, For You public consultation and further details of this can be found in section 4 of the Medium Term Financial Strategy.

Looking forward, we asked people what they wanted Midlothian to be like in 2040 and they told us that the following were key priorities:

A sense of belonging

- Pride in communities, working in partnership, transparency in decision making and accessibility in service provision.

A balanced infrastructure

- Manageable housing numbers, vibrant towns, protected green spaces, a clean, carbon neutral environment and improved community transport.

Learning and working together

- High quality education and training, jobs close to where people live, a main provider of local food production, maximising technological solutions.

Intergenerational opportunities

- Reimagined older people services, being able to grow old in the one community, with support and good access to health and social care.

We also had a range of talking tables to discuss the Medium Term Financial Strategy and the collated feedback formed 4 main themes:

Theme 1: One Council - Working with You, For You

We are committed to deliver a one council strategy which aims to reduce silo working within services, increase cross party working at a political level and use holistic approaches which place individuals and communities at the heart of our work. As a Council, we will aim to get it right first time for our communities. We are committed to listening and acting on the views of our communities and letting them know how outcomes have been improved. Our aim is to provide services at the most local level whilst reducing our management costs. Working together in partnership with our communities requires us to be supportive, honest, collaborative and flexible, and to secure added value from initiatives such as community asset transfer and participatory budgeting.

Theme 2: Preventative and Sustainable

Communities told us strongly that they want to live in a clean, carbon neutral environment with protected green spaces and improved environmentally friendly community transport options. We will continue to invest in preventative approaches to reduce the long-term consequences of inequality, e.g. homelessness, and promote positive outcomes for all. Specifically, we will review our carbon management strategy to reduce the Council's carbon footprint, and set targets to become a paperless council. Working with our communities, staff and partners, our aim is to 'reduce, reuse and recycle' - reducing litter, cutting energy costs, and further developing the co-delivery of property, land and countryside management

Theme 3: Efficient and Modern

Midlothian Council needs to adapt to change by doing things differently to get improved results and increasing financial sustainability by addressing inefficiencies. Managing with reduced resources and identifying opportunities to address performance will require a transformational approach to the way in which the Council delivers all services, while ensuring equity in delivery methods and processes. We can achieve this by becoming a cashless council, further

automating processes, continuing to secure cost-effective customer first digital solutions, sharing common functions with other public bodies, strengthening business partnerships, reducing demand and achieving efficiency targets. We will also simplify processes, and review reporting mechanisms, balanced with effective scrutiny, increased pace and challenge. Increasing our income is a fundamental component of our financial strategy to meet the cost of services and reduce the need for future service reductions. We will maximise our resources and services to generate income, including providing an enhanced wedding offer, catering services and increased use of our other assets.

Theme 4: Innovative and Ambitious

We are ambitious for Midlothian and want to make sure it is a great place to grow, now and in the future. To do this, we need to look inward, outward and to the future to generate those new ideas and to drive further improvement. We can achieve this by investing in our staff and creating joint learning together sessions, adopting the approach of the 21st Century Public Servant and accessing entrepreneurial skill sets. We are committed to driving continuous improvement, challenging each other to be better than our previous best. Practical areas for shared partnership innovation with unique local solutions.

3.2 How will we make the necessary culture shift to deliver the Medium Term Financial Strategy?

In August 2018 we adopted Kotter’s 8 stage change process:

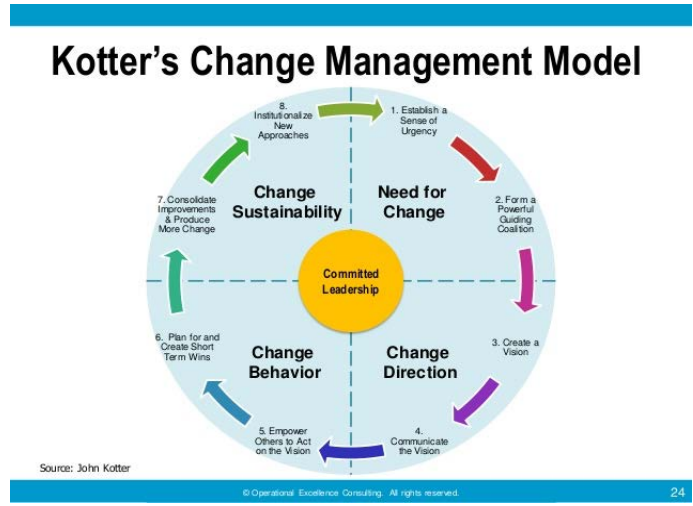


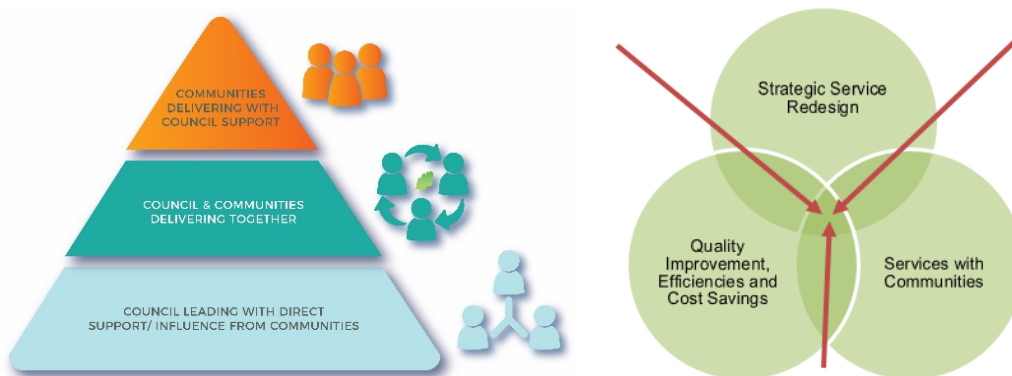
Fig 1: Kotter’s 8 step change process

In addition, we will adopt a Service Dominant Logic which means that we will place our citizens and communities at the heart of our daily work. We have listened to the views of our stakeholders and in response to the feedback received during the *Working With You, For You* consultation present below the necessary culture shift which will be required as we implement the medium term financial strategy:



Fig 2: key drivers for change

We will connect with our communities by further developing practical initiatives within the triangle framework these will have most impact when work undertaken is targeted at the centre of the venn diagram below:



3.3 How do we align funding to deliver this?

Appendix 1 to this report sets out the first iteration of a Medium Term Financial Strategy for Midlothian covering the next three financial years. It aims to provide a clear and concise overview in one place of future sustainability given the acute service demand pressures which the Council is facing and also outlines the important decisions which will need to be made in order make significant headway towards addressing the budget gaps which will need to be bridged though to 2022/23.

The comprehensive strategy sets out how the Council will shift towards addressing the medium term financial challenge and at this point recommends the Council approve resource allocation measures which will address the projected budget gap in full for 2020/21 and significantly reduce the gap for future years.

We have taken each of the four themes outlined in the medium term strategy in the form of a “you said, we did” summary which can be found in section 4 of the Medium Term Financial Strategy and have aligned the budget measures to each of

the four themes. The full table of measures can be found in appendix 2 to the Medium Term Financial Strategy. These proposals are summarised against each of the four themes as follows:

Table 1: Summary of proposals by theme – 25 June 2019

	2020/21	2021/22	2022/23
	£m	£m	£m
Budget Gaps	4.636	10.935	18.844
Working With You, For You	0.540	1.173	1.554
Preventative and Sustainable	0.240	0.315	0.645
Efficient and Modern	3.287	5.790	6.423
Innovative and Ambitious	0.763	1.689	1.911
	4.830	8.967	10.533
Budget Gaps after Resource Allocation measures	(0.194)	1.968	8.311

The budget gaps reflect the position reported to Council on 12 February 2019 when it set its 2019/20 budget and the decisions taken by Council at that meeting. Work will be progressed to review and refine the projections based on the latest information available, in particular school rolls, care demographics.

This report recommends that Council:

- Approve the resource allocation measures summarised in table 1 and as set out in appendix 2 to the Medium Term Financial Strategy totalling £10.533 million;
- Instruct officers to fully develop (where necessary) at pace and also proceed to implementation at pace;
- Delegate to the cross party Business Transformation Steering Group the next phase of the development of the Medium Term Financial Strategy, to identify measures to address the remaining budget gaps for 2021/22 and 2022/23 with further proposals reported back to Council on 1 October 2019.

4. Principal Planning Assumptions

The principal planning assumptions are included in section 7 of the Medium Term Financial Strategy and table 2 summarises the position in terms of expenditure, income and the resultant budget gaps. These are underpinned by three key assumptions:-

- The prospects for Scottish Government grant funding;
- Pay inflation;
- Council Tax increases.

4.1 Scottish Government Grant Settlement

The Scottish Government's grant settlement is one of the most critical aspects of the financial projections contained in the Medium Term Financial Strategy.

There are a number of factors which will influence the level of grant support Council might expect for 2020/21 and beyond. Among these will be a range of economic factors which will influence the resources Scottish Government has at its disposal, whether from the UK Government block grant or through tax revenues directly controlled by Scottish Government. The other main factors will be the taxation and spending priorities of the Scottish Government and the negotiations with other parties in the Scottish Parliament to support the passage of the budget bill.

The final grant settlement for the current financial year represented a cut in core funding at a national level of approximately 1.5%. The projections for Scottish Government grant through to 2022/23 continue to be based on a central planning assumption of a 2% per annum cash reduction in core funding at a national level for the reasons set out in last year's series of financial strategy reports. The lower scenario 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. The budget projections are also predicated on the current settlement conditions continuing. Government grant prospects were discussed at the Business Transformation Steering Group on 20 May 2019 and arising from that there was unanimous endorsement of the central planning assumption of a 2% reduction.

Government published its second Medium Term Financial Strategy on 30 May 2019. This provided little in the way of additional insight into the government's taxation and spending plans and at this time indicates that the outlook for public sector finance, and in particular local government funding will continue to be challenging. Accordingly at this time it is considered prudent to continue with the central planning assumption. However as in previous years Council should note that the impact of Scottish Government's tax and spending priorities and the resultant funding package for Local Government will only become fully apparent when the Scottish Government's 2020/21 budget, and three year local government settlement is published in December 2019.

As part of its 2019/20 budget the Government agreed to bring forward a three year funding settlement for local government from 2020/21 budget onwards; and to develop a rules based framework for local government funding in partnership with COSLA that would be introduced for the next Parliament. The Cabinet Secretary reiterate this commitment in presenting the second Medium Term Financial Strategy to Parliament. As such it is expected that alongside publication of the Government's draft budget for 2020/21 Councils can also expect details of the proposed grant settlement for 2020/21 together with indicative allocations for 2021/22 and 2022/23.

It is stressed that the grant settlement figures used in the Medium Term Financial Strategy are 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 severity of the challenge ahead, based on the central scenario for the term of the Council and the extent to which service provision will have to be transformed.

4.2 Pay Inflation

Pay agreements are in place through to March 2021 for all of the bargaining group which make up the Council's workforce and the budget gaps reflect these agreements.

In terms of Government's public sector pay policy the second Medium Term Financial Strategy states that Government remains committed to providing fair and affordable pay rises for public sector employees and that a sustainable approach to public sector pay is crucial given the number of public sector workers it applies to and the scale of associated spending. While the strategy illustrates the cumulative additional cost of various increases to the 2019-20 public sector pay bill (excluding local authority pay costs), unlike the first Medium Term Financial Strategy it does not set out a central pay policy.

Accordingly given the economic outlook and recent pay award trends the central planning assumption used in the budget projections for 2021/22 and 2022/23 are an inflationary increase of 3% per annum. The alternative scenarios use 2% and 4%.

Other inflationary uplifts are either derived from pay inflation or from projections of the Consumer Price Index.

4.3 Council Tax

The budget projections are based on the current Band D Council Tax of £1,344 and reflects the additional income from an increase in the number of properties.

The 2019/20 grant settlement conditions continued to limit the flexibility Councils have to increase Council Tax giving Council's the flexibility to increase the Council Tax by 3% in real terms, which equated to a 4.79% increase for 2019/20.

At its meeting on 20 May 2019 the Business Transformation Group (BTSG) considered future year's Council Tax policy. On the basis that Government is expected to continue to limit the flexibility Councils have and in light of the projected budget gaps BTSG endorsed a strategy of applying the maximum flexibility assumed to be 4.79% per annum.

A 4.79% per annum increase would result in Band D Council Tax rising to £1,408 in 2021/22 and to £1,546 by 2022/23. It is expected that any increase above the flexibility set out in the grant settlement 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.

The alternative scenarios include no increase and a 3% increase.

4.4 Projected Net Cost of Services

The projected net cost of services for future years are based on the information used to prepare the 2019/20 budget and reflects the decisions taken by Council when it set the 2019/20 budget on 12 February 2019. Over the coming months these figures will be reviewed and updated and the projections refined based on the latest information available, in particular school rolls, care demographics and also the deliverability of savings incorporated in previous year's budgets.

Table 2 below summarises the position after the 12 February 2019 decisions for each of the three financial years and table 3 provides an analysis of the principle year on year budget changes which include the following key assumptions and cost drivers:

- Pay inflation as set out in section 3.2 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;
- 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 maintaining 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 and incorporates a 4.79% per annum increase.

Table 2: Budget Gaps 2020/21 to 2022/23 after 12 February 2019 decisions– 25 June 2019

	2020/21	2021/22	2022/23
	£m	£m	£m
Net Cost of Services	214.704	223.080	233.191
Less: Council Tax	(54.435)	(58.004)	(61.699)
Less: Scottish Government Grant	(155.633)	(154.141)	(152.648)
Budget Gaps	4.636	10.935	18.844

The budget gap in 2020/21 equates 2.2% of the net cost of services and the projections indicate this could rise to 8% 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 2020/21 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 4.6% for 2020/21 and has the potential to rise to 23% by 2022/23.

Whilst the 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 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 at this time are 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 gaps set out in table 2 arise for the following reasons:

Table 3: Analysis of Budget Gaps – 25 June 2019

	2020/21	2021/22	2022/23
	£m	£m	£m
Opening Gap	0.000	4.636	10.935
Pay Inflation and Salary Progression	5.394	5.368	5.553
Contractual Inflation	0.896	0.910	0.925
Utilities	0.070	0.071	0.073
Demographics: Care	1.040	1.040	1.040
Demographics: School Rolls	2.375	2.375	2.375
Demand pressures: Children	0.025	0.025	0.025
School Estate Investment	0.208	0.008	0.012
Waste Disposal Costs	0.000	0.112	0.129
Non Domestic Rates	0.128	0.131	0.134
Borrowing Costs	(0.123)	(0.007)	0.000
Scottish Government Grant	1.490	1.492	1.493
Council Tax Income - Properties	(1.000)	(1.000)	(1.000)
Council Tax Income – 4.79%	(2.448)	(2.569)	(2.695)
Full year effect of previous savings	(3.541)	(1.593)	(0.200)
Other Movements	0.122	(0.064)	0.045
Closing Gap	4.636	10.935	18.844

4.5 Sensitivity Analysis

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

Two alternative grant settlement scenarios have been modelled. A cash flat settlement and a 4% reduction, both at a national level. Alternative pay awards for 2021/22 and 2022/23 of 2% and 4% have been modelled. In terms of Council Tax policy the alternatives modelled are a zero increase and a 3% increase.

These allow the calculation of a range of variable outcomes relative to the central planning assumptions. There are set out below

- A cash flat grant scenario;
- A more negative scenario (4% grant reduction, 4% pay awards and no Council tax increase);

- A more positive scenario (cash flat grant reduction, 2% pay awards) ;

Table 4: Sensitivity Analysis – 25 June 2019

	2020/21	2021/22	2022/23
	£m	£m	£m
Grant settlement			
Cash flat settlement	(3.104)	(6.210)	(9.317)
4% cash reduction	3.104	6.210	9.317
Pay Inflation			
2% Pay Awards	-	(1.723)	(3.507)
4% Pay Awards	-	1.723	3.507
Council Tax			
Zero increase	2.448	5.017	7.712
3% increase	0.915	1.875	2.881

Central Planning Assumption Gaps	4.636	10.935	18.844
Cash Flat Scenario Gaps	1.532	4.725	9.527
Negative Scenario Gaps	10.188	23.885	39.380
Positive Scenario Gaps	1.532	3.002	6.020

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.

5 Next Steps

5a Further proposals

As indicated at section 3.3 of this report Council is recommended to delegate to the cross party Business Transformation Steering Group the next phase of the development of the Medium Term Financial Strategy, to identify measures to address the remaining budget gaps with further proposals reported back to Council on 1 October 2019.

5b 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 2019/20 the allocation was £42.652 million.

The revised grant settlement for 2019/20 allowed Councils the flexibility to offset their adult social care allocations to Integration Authorities in 2019/20 by 2.2% compared to 2018/19. In effect this set out how the minimum allocation which could be made to an Integration Joint Board would be determined. For Midlothian the minimum, or floor, was £41.302 million and as such the 2019/20 allocation was £1.350 million above this level.

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 and the resultant impact on future years delegated budget would be as follows.

Table 5: IJB indicative allocations – 25 June 2019

	2020/21	2021/22	2022/23
	£m	£m	£m
Previous Year's Allocation	42.652	44.191	46.280
Uplifts:			
Pay and inflation	0.999	1.049	1.100
Demographic Pressures	1.040	1.040	1.040
	44.691	46.280	48.420
Less:			
Proposed revision to IJB Allocation	(0.500)	0	0
Indicative Allocations	44.191	46.280	48.420

The measures set out in the Medium Term Financial Strategy include a proposed revision to the IJB allocation as reflected in table 5 above. Accordingly it is recommended at this time that Council advise the IJB of the updated projections for later years and that in the context of the Council's overall budget position and the development of the Medium Term Financial Strategy that discussions continue with officers of the IJB to secure a sustainable strategy for the delivery of delegated services which can be delivered within the proposed resource allocation.

This ongoing dialogue will inform the development of both the Council's and the IJB's future years Financial Strategy. This approach will support the IJB as it further develops 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.

6 Governance and Timetable

Each element of the Medium Term Financial Strategy will continue to have clear governance in place to ensure the timely delivery of the work stream. All budget proposals continue to be reported through Business Transformation Steering Group and then to Council as appropriate. Responsibility for setting Council Tax, determining budgets and approving savings etc. remains, with Council.

A draft of this report and the appended Medium Term Financial Strategy was presented to BTSG on 10 June 2019 and considered further on 17 June 2019. BTSG agreed to reconvene on 19 June 2019 and accordingly Council will be updated verbally on the recommendations arising from that subsequent meeting.

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 proposed timetable set out in Table 6 would support the determination of the 2020/21 budget and Council Tax levels before the statutory date and specifically do so in the context of an approved Medium Term Financial Strategy.

Table 6: Timetable – Key Events

Date *	Event	Action
26 June 2019	Council	<ul style="list-style-type: none"> • Presentation of first iteration of draft Medium Term Financial Strategy (M TFS). • Approval of the resource allocation measures. • Approval of timetable and approach for the 2020/21 budget.
26 June – 30 September 2019		<ul style="list-style-type: none"> • BTSG to work together to develop and recommend to Council further measures for the MTFS.
1 October 2019	Council	<ul style="list-style-type: none"> • BTSG to recommend to Council further measures for the MTFS. • Approval of further of resource allocation measures.
late December 2019	Grant Settlement	<ul style="list-style-type: none"> • Assessment of grant settlement implications on budget.
17 December 2019	Council	<ul style="list-style-type: none"> • Consideration of update report.
11 February 2020	Council	<ul style="list-style-type: none"> • Consideration of grant settlement report. • Recommendations to set Council Tax and determine a budget for 2020/21.

*. *Interim reports will be presented to Council as necessary.*

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 at the Council meeting on 11 February 2020 members would be required to disclose the fact if this section of the act applies to them and subsequently not vote on any question with respect to the matter.

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 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;
- The budget reductions attached to a number of the high value resource allocation measures set out in the Medium Term Financial Strategy which are at an early stage of development. To mitigate these risks all measures need to be fully developed and at pace, the budget impact fully assessed and implementation plans agreed by early autumn 2019;
- Given the nature of the savings measure incorporated in the Medium Term Financial Strategy 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;
- Actual school rolls exceeding those provided for in the budget;
- Learning Estate Strategy for schools being underfunded to meet statutory functions;
- Not achieving Early Years expansion of 1,140 hours and Scottish Government reclaiming funding;
- 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.
- Ability to continue to meet the expectations of our communities within a period of fiscal constraint.

The Medium Term 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 resource allocation measures, 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 development of a Medium Term Financial Strategy is critical to enable Council to address the 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 2020/21 but which will address the projected medium term challenge. 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.

7.3 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

7.4 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 £215 million for the provision of services and the pursuit of key outcomes as set out in the Single Midlothian Plan.

7.5 Adopting a Preventative Approach

An effective Medium Term Financial Strategy will support the prioritisation of resources to support prevention.

7.6 Involving Communities and Other Stakeholders

A community consultation exercise was carried out during April and May 2019. The consultation plan was co-designed with representatives from the third sector, the local business community and the Midlothian Federation of Community Councils. This consultation was focused on five community engagement workshops, with 115 representatives attending from voluntary organisations, community groups, parent and pupil councils. The workshops were also attended by individual residents, council employees and local business representatives. Separate written submissions were also received from Parent and Pupil Councils, schools, youth groups, equality groups, other local organisations and individuals.

Local people and stakeholders told us strongly that it was important that in the future within communities there was a sense of belonging and a balanced infrastructure with protected clean and green environments. As well as high quality education, vibrant town centres, that we had maximised technological solutions and reimagined older people's services where you could grow older safely in one community with support and good access to health and social care.

As part of the consultation, 614 responses to questions on the Medium Term Financial Strategy were also received from the Midlothian Citizens' Panel (a 63% response rate from the 970 Panel members contacted). Respondents were informed that, based on recent consultations, education is the top priority for most local people. Services for the elderly and vulnerable are also viewed as very important, followed by road improvements. Eighty two percent of Citizens' Panel respondents agreed with these priorities.

The comments and suggestions received during April/ May 2019 were in addition to the 2000+ responses received during the 2019/20 budget consultation held between October 2018 and January 2019.

In addition, there has been and will continue to be engagement with the recognised Trade Unions on the Council's financial position and the development of the Medium Term Financial Strategy.

7.7 Ensuring Equalities

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

The Medium Term Financial Strategy 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 for the resource allocation measures have been published alongside this report on the Committee Management System (CMIS) section of the Council website and an updated overarching EqIA reflecting the draft Medium Term Financial Strategy is also set out in appendix 2. What the EqIAs continue to demonstrate is the Council's undertaking to clearly identify when the most vulnerable may be affected by changes in resource allocations, 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.

7.8 Supporting Sustainable Development

There are no direct sustainability issues arising from this report and we will work to mitigate any sustainability issues which arise as a consequence of the measures set out in the Medium Term Financial Strategy.

7.9 Digital Issues

The adoption of digital solutions is a central strand of the Medium Term Financial Strategy.

8 Summary

This report provides details of:-

- The outcome of the *Working With You, For You* public consultation;
- Four key strategic themes;
- Key drivers for change;
- The Medium Term Financial Strategy covering the next three financial years;
- The principal planning assumptions, the net cost of services, resource allocation measures, the resultant budget gaps for each of the years; a sensitivity analysis reflecting the potential impact of changes in the principal planning assumptions;
- Timetable and Governance arrangements;

9 Recommendations

Council is recommended to:-

- a) Approve the first iteration of the Medium Term Financial Strategy as appended to this report and in doing so;
 - i) Specifically approve the resource allocation measures summarised in table 1 and as set out in appendix 2 to the Medium Term Financial Strategy totalling £10.533 million and ;
 - ii) Instruct officers to fully develop (where necessary) at pace and also proceed to implementation at pace;
- b) Delegate to the cross party Business Transformation Steering Group the next phase of the development of the Medium Term Financial Strategy, to identify measures to address the remaining budget gaps for 2021/22 and 2022/23 with further proposals reported back to Council on 1 October 2019.
- c) Note the position in respect of the Scottish Government Grant Settlement as set out in section 4.1 and note that Business Transformation Group endorsed the central planning assumption of a 2% per annum reduction in grant settlements at a national level;
- d) Note the key assumptions and budget gaps as set out in section 4.4 and endorse the key assumptions on which the budget is based;
- e) Note the continuing uncertainties and the potential impact as outlined in the differing scenarios as set out in section 4.5;
- f) Note that the first iteration of the Medium Term Financial Strategy sets out options which would support delivery of a balanced budget 2020/21 and which contributes to addressing the medium term financial challenge;
- g) Note the requirement to delegate resources to the Midlothian Integrated Joint Board and agree that Council advise the IJB of the updated projections for later years as set out in table 5 and that discussions continue with officers of the IJB to secure a sustainable strategy for the delivery of delegated services which can be delivered within the proposed resource allocation;
- h) Note the governance arrangements out in section 6 and approve the proposed timetable set out in table 6 which provides for a update on the Medium Term Financial Strategy to Council on 1 October 2019;
- i) Note the severity of the financial challenge and also the risks as set out in section 7.2.
- j) Otherwise note the contents of the report.

Date 19 June 2019

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Appendix 1 - Medium Term Financial Strategy
Appendix 2 - Overarching EQIA

Midlothian Council
Working With You, For You

Medium Term Financial Strategy
2020/20 to 2022/23

19 June 2019 (V1)

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Section 1: Introduction

As the fastest growing local authority in Scotland, Midlothian Council will invest over £210 million to deliver local services in 2020/21 and £215 million by 2022/23. However, with a rapidly growing population and greater demand for services, the Council has recognised the need for a strategic step change in the form of the development and agreement of a Medium Term Financial Strategy (MTFS) which sets out the budget projections for the next three financial years together with the proposed resource allocation measures that will enable the Council to align its budget against key priorities and to deliver a balanced revenue budget each year.

In delivering services, it is important to recognise that people are our most important asset. Our people have the potential to have a positive impact every day and can deliver life-changing impacts for our communities. Therefore to maximise that positive impact it is imperative that we work as *One Council* by removing any institutional barriers and eliminate any silo working to enable the organisation to implement simple solutions which make a big difference. This means placing our citizens and communities at the centre of our daily work; growing our own talent and empowering our staff, thereby enabling Midlothian to fulfil its potential as a Great Place to Grow.

The Council is ambitious for the future of Midlothian. The Vision for Midlothian is a Great Place to Grow. The Community Planning Partnership has identified three key priorities:

- Reducing inequalities in learning outcomes
- Reducing inequalities in health outcomes
- Reducing inequalities in economic circumstances

The Midlothian Community Planning Partnership continues to prioritise the available resources towards the delivery of the partnerships key priorities. We will also continue to build on our successes by our investment in a major Capital building programme which will see record investment in much needed housing and schools to meet the requirements of a fast-growing population.

Over the last five years the Council has spent over £1 billion on the provision of services and has also continued to make significant investment in the assets needed to provide services including schools, roads, and Council housing. Throughout the Working with You, For You consultation we have listened to people and know that they are disillusioned with the negative budget discussions of old. As a result, this year, we are presenting a strategic budget - one which will invest in Midlothian to help it fulfil its potential to be a great place to grow.

This Medium Term Financial Strategy focuses on priority areas such as education, health and social care services for the vulnerable. We also recognise the importance of preventative intervention in funding our services – something that has featured strongly in the feedback we received from the shaping our future co consultation events. As such the Medium Term Financial Strategy is an important step-change and one which will 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 change in our services and changes in how resources are allocated which is of particular importance as the Council has experienced some slippage in delivering savings in previous financial years. This also means that we will not need to consider savings each and every year at February Council meetings but instead the organisation will have a medium term plan, the delivery of which will secure continued financial

sustainability and which also means that we will not need to draw on our reserves to maintain service provision.

Section 2: Background

The Chartered Institute of Public Finance and Accountancy (CIPFA) highlight that financial planning sits at the heart of good public financial management. Alongside budget preparation, performance management and stakeholder reporting, the ability to look strategically beyond the current budget period is a crucial process to support an organisation's resilience and long-term financial sustainability.

The continued level of global economic uncertainty, the impact of Brexit, increased demand for services and a reduction in the core Scottish Government Grant settlement to local government is expected to result in continued pressure on public spending. Accordingly it is more important than ever before to ensure that Council has a thorough understanding of its financial outlook and is planning effectively for the future.

CIPFA also consider that despite, or perhaps because of, the continued political, economic and resourcing challenges, taking a longer and more strategic approach to planning will provide a catalyst for future policy and development, while providing the framework against which an organisation's budget should be produced. CIPFA recommends that developing a Medium Term Financial Strategy will help bring together all known factors affecting an organisation's financial position and its financial sustainability into one place. This should be as wide ranging as possible and include all the assets and liabilities on an organisation's balance sheet. It allows the finance team to balance the financial implications of objectives and policies against constraints in resources. This should in turn form the basis for decision making. A good Medium Term Financial Strategy should provide a clear and concise view of future sustainability and the decisions that need to be made in order to address any gaps in long-term financing. It forms the pivotal link to translate the organisation's ambitions and constraints into deliverable options for the future.

This report presents the first draft of a Medium Term Financial Strategy for Midlothian, covering the next three financial years, which aims to provide a clear and concise overview in one place of future sustainability given the acute service demand pressures which the Council is facing and also outlines the important decisions which will need to be made in order to address the projected budget gaps which will need to be bridged through to 2022/23.

The adoption of a three year strategy aligns to the expectation that Scottish Government will bring forward a three year funding settlement for local government from 2020/21 onwards. The Council intends to build on this Medium Term Financial Strategy and develop a longer term financial plan for the revenue budget to complement the existing longer term Capital Strategy and Housing Revenue account plans.

As a consequence of the decisions taken at Council on 12 February 2019, when it set its 2019/20 budget, the budget gaps which remained to be addressed were £4.636 million for 2020/21 rising to £18.844 million by 2022/23.

The Medium Term Financial Strategy is underpinned by the need to transform and redesign services. The Council's Delivering Excellence framework 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 and that provides a means to:-

- Realise service transformation and 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.

Section 3: Ambition and Aims

The Council is ambitious for the future of Midlothian. The Vision for Midlothian is a Great Place to Grow. The Community Planning Partnership has identified three key priorities:

- Reducing inequalities in learning outcomes
- Reducing inequalities in health outcomes
- Reducing inequalities in economic circumstances

The Midlothian Community Planning Partnership continues to prioritise the available resources towards the delivery of the partnerships key priorities. We will also continue to build on our successes by our investment in a major capital building programme which will see record investment in much needed housing and schools to meet the requirements of a fast-growing population.

In delivering services, it is important to recognise that people are our most important asset. Our people have the potential to make a real difference and can deliver life changing impacts for our communities. Therefore, to maximise this, it is imperative that we work as One Council by removing any institutional barriers and eliminate any silo working to enable the organisation to implement simple solutions which make a big difference. This means placing our citizens and communities at the centre of our daily work; growing our own talent and empowering our staff, thereby enabling Midlothian to fulfil its potential as a Great Place to Grow.

Section 4: *Working With You, For You* public consultation

A community consultation exercise was carried out during April and May 2019. The consultation plan was co-designed with representatives from the third sector, the local business community and the Midlothian Federation of Community Councils.

This consultation was focused on five community engagement workshops, with 115 representatives attending from voluntary organisations, community groups, and parent and pupil councils. The workshops were also attended by individual residents, council employees and local business representatives.

Separate written submissions were also received from Parent and Pupil Councils, schools, youth groups, equality groups, other local organisations and individuals.

Citizens' Panel

As part of the consultation, 614 responses to questions on the Medium Term Financial Strategy were also received from the Midlothian Citizens' Panel (a 63% response rate from the 970 Panel members contacted).

Respondents were informed that, based on recent consultations, education is the top priority for most local people. Services for the elderly and vulnerable are also viewed as very important, followed by road improvements. Eighty two percent of Citizens' Panel respondents agreed with these priorities.

Previous consultations

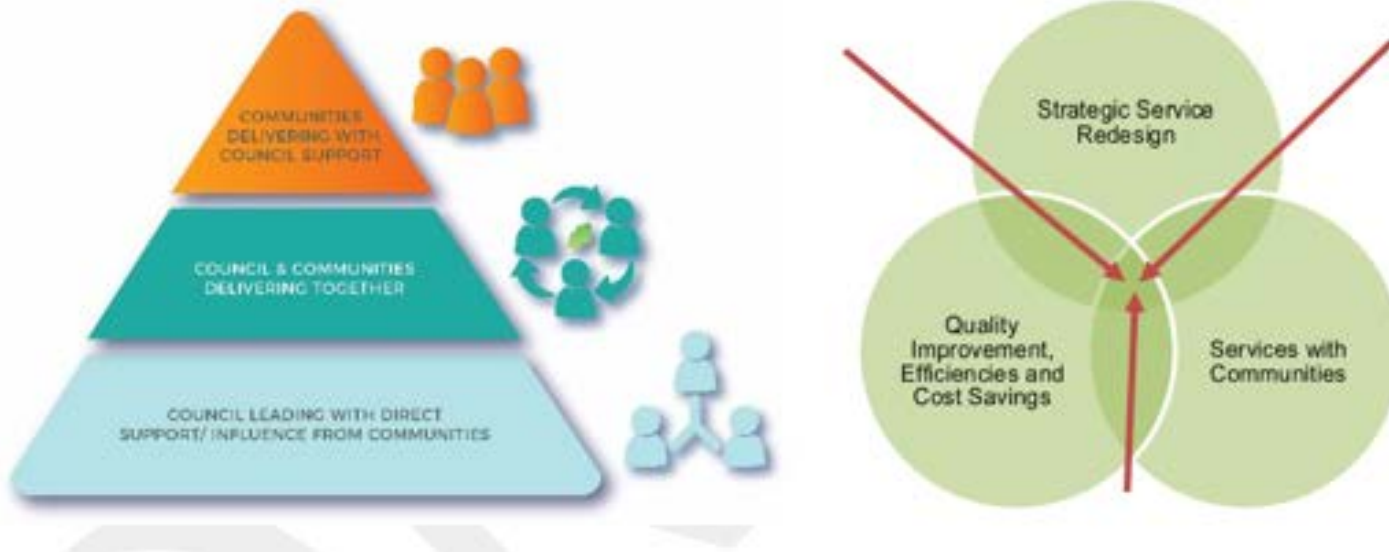
The comments and suggestions received during April/ May 2019 were in addition to the 2000+ responses received during the 2019/20 budget consultation held between October 2018 and January 2019.

Response themes

Feedback was received under 4 key themes:

- One Council – working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious

We will connect with our communities by further developing practical initiatives within the triangle frame work these will have most impact when work undertaken is targeted at the center of the Venn diagram below:



Theme 1: One Council Working With You, For You

We are committed to deliver a one council strategy which aims to reduce silo working within services, increase cross party working at a political level and use holistic approaches which place individuals and communities at the heart of our work. As a Council, we will aim to get it right first time for our communities. We are committed to listening and acting on the views of our communities and letting them know how outcomes have been improved. Our aim is to provide services at the most local level whilst reducing our management costs. Working together in partnership with our communities requires us to be supportive, honest, collaborative and flexible, and to secure added value from initiatives such as community asset transfer and participatory budgeting.

Theme 2: Preventative and Sustainable

Communities told us strongly that they want to live in a clean, carbon neutral environment with protected green spaces and improved environmentally friendly community transport options. We will continue to invest in preventative approaches to reduce the long-term consequences of inequality, e.g. homelessness, and promote positive outcomes for all. Specifically, we will review our carbon management strategy to reduce the Council's carbon footprint, and set targets to become a paperless council. Working with our communities, staff and partners, our aim is to 'reduce, reuse and recycle' - reducing litter, cutting energy costs, and further developing the co-delivery of property, land and countryside management

Theme 3: Efficient and Modern


Midlothian Council needs to adapt to change by doing things differently to get improved results and increasing financial sustainability by addressing inefficiencies. Managing with reduced resources and identifying opportunities to address performance will require a transformational approach to the way in which the Council delivers all services, while ensuring equity in delivery methods and processes. We can achieve this by becoming a cashless council, further automating processes, continuing to secure cost-effective customer first digital solutions, sharing common functions with other public bodies, strengthening business partnerships, reducing demand and achieving efficiency targets. We will also simplify processes, and review reporting mechanisms, balanced with effective scrutiny, increased pace and challenge. Increasing our income is a fundamental component of our financial strategy to meet the cost of services and reduce the need for future service reductions. We will maximise our resources and services to generate income, including providing an enhanced wedding offer, catering services and increased use of our other assets.

Theme 4: Innovative and Ambitious

We are ambitious for Midlothian and want to make sure it is a great place to grow, now and in the future. To do this, we need to look inward, outward and to the future to generate those new ideas and to drive further improvement. We can achieve this by investing in our staff and creating joint learning together sessions, adopting the approach of the 21st Century Public Servant and accessing entrepreneurial skill sets. We are committed to driving continuous improvement, challenging each other to be better than our previous best. Practical areas for shared partnership innovation with unique local solutions include looking at reducing the school week, alternative ways to provide music tuition, housing initiatives, plans for inclusive economic growth and reimagined town centres.

A summary of the feedback received under each of these themes is incorporated in the table below along with a summary of proposed actions and planned projects which respond to the suggestions, comments and concerns received. As part of the consultation, people were also asked to give their thoughts on what they wanted Midlothian to be like in 2040 and how services should be reshaped to meet future ambitions. This feedback is set out below under *Our 2040 Vision*.

How community voice is influencing our plans

What we asked:
Our 2040 Vision: What do you want Midlothian to be like in 2040?
What you told us:
A sense of belonging <ul style="list-style-type: none"> Pride in communities, working in partnership, transparency in decision making and accessibility in service provision.
A balanced infrastructure <ul style="list-style-type: none"> Manageable housing numbers, vibrant towns, protected green spaces, a clean, carbon neutral environment and improved community transport.
Learning and working together <ul style="list-style-type: none"> High quality education and training, jobs close to where people live, a main provider of local food production, maximising technological solutions.
Intergenerational opportunities <ul style="list-style-type: none"> Reimagined older people services, being able to grow old in the one community, with support and good access to health and social care.
 <i>This feedback will be used to help inform future development of the Single Midlothian Plan</i>

What we asked:	
Working with you, for you: how can we work better with our communities?	
What you told us:	What we're planning to do:
Local access, local influence and efficient shared services	<ul style="list-style-type: none"> ➤ Implement the One Council strategy by further reducing silo working and placing our individuals and communities at the heart of our daily work ➤ The Council will reduce management costs and prioritise front line services ➤ Train staff in whole person approaches ➤ Deliver services at the most local level which is cost-effective ➤ Reduce failure demand by getting it right first time – for example: use citizen data to inform improvements and reduce complaints in Waste Services: currently 71.33% (3,710) of complaints are waste related so if we reduce this by 2/3rds it will save over 3,000 hours in employee time at the same time as providing a better service to our citizens
Consistency from the centre but locally designed solutions to meet local needs	
Clear, consistent communication; listening to communities and reviewing proposals to take account of community voice	
A modern, digital approach to consultations, complaints and service requests with a strong focus on feedback	
Increased volunteering opportunities - people have a keen interest in the environment, recycling, energy saving, etc.	
Harness the energy people have in our communities but be careful to maintain balance and build capacity so as not to over burden them	
Make the most of what we have and what we can get - capture	

'best deals' e.g. community benefits, procurement, and developer contributions	<ul style="list-style-type: none"> ➤ Support Community Asset Transfer Programme ➤ Collaborative Participatory Budgeting approaches building on the pilot work in Dalkeith ➤ Build on the good practice of existing cross-party working groups
Consider 'rewards' and recognition for 'doing well' e.g. for 'good' recyclers	
'Pride and place' go hand in hand - early engagement between planners, developers and communities	
Collective prioritisation holistic approach to developing and improving services - possibility of pilot improvement projects, working with communities on a thematic or geographic basis	
Strong leadership, cross party and community focussed	

What we asked:	
Preventative and sustainable: how can we save energy, reduce waste?	
What you told us:	What we're planning to do:
Reuse, reduce and recycle - let's do more and be better at it.	<p>PREVENTATIVE:</p> <ul style="list-style-type: none"> ➤ Invest in preventative approaches in order to reduce long-term costs and reliance on reactive measures ➤ Promote healthy living approaches by moving Sport and Leisure into Health ➤ Reduce Homelessness ➤ Design and Implement the Hub and Spoke model <p>REDUCE, REUSE, RECYCLE:</p> <ul style="list-style-type: none"> ➤ Review our Carbon Management Strategy <p>REDUCE</p> <ul style="list-style-type: none"> ➤ Reduce our carbon footprint by reducing the number of council offices commencing with Jarnac Court and Buccleuch House ➤ Become a paperless council by 2022 ➤ Address pressures for increasing energy costs by embracing green alternatives ➤ Achieving Green Fleet status by 2025 across the Council's fleet services ➤ Growing community walking buses, cycling clubs, etc. in order to move reduce school transport costs across the county
Communities and council working together to find solutions to waste and litter problems	
Improved energy efficiency - turn down heating, introduce more efficient heating systems and SMART buildings	
Influence behaviours to change how people think and act	
Look at alternative farming and local community food production	
'Future proofing' communities when planning and building	
Green, sustainable, safe transport options	
Accessible, sustainable, green, active public spaces	
Meet the needs of those with additional support needs holistically in and beyond school	
Reduce street lighting at night times	
Use our electric vehicles for hire at evenings and weekends	
Preventative approach e.g. better money management skills for individuals and communities	

	<ul style="list-style-type: none"> ➤ Building on our co-operative approaches to land and countryside maintenance ➤ Working with our communities to reduce litter and improve our environment ➤ Reviewing street lighting to deliver the most environmentally friendly option <p>RE-USE</p> <ul style="list-style-type: none"> ➤ Work with our communities to reduce our waste and set up community reuse schemes including support for clothing libraries, community exchange programmes, etc. <p>RECYCLE</p> <ul style="list-style-type: none"> ➤ Work with our communities in order to grow a culture of recycling across Midlothian
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What we asked:	
Efficient and Modern: what can we do differently to improve efficiency?	
What you told us:	What we're planning to do:
Alternative delivery models - e.g. partnerships, music co-operative (music tuition) and shared services	<ul style="list-style-type: none"> ➤ Achieve cashless council status by 2023 ➤ Redesign our services adopting a digital first approach including the implementation of intelligent automation and the use of data analytics to manage and improve services. ➤ Implement 0.5% efficiency savings applied across all services (excluding the allocation to the Midlothian Integrated Joint Board). ➤ Scope out the sharing of common functions with another local authority(s)/public sector ➤ Strengthen Business Partnering by April 2020 ➤ Maximise the use of assets ➤ Income maximisation of cafes ➤ Implement wedding and events strategy ➤ Simplify performance reporting
Utilising digital approaches and AI/Robotics	
Support for cashless council but supporting those who would find these services difficult to access	
Get the most out of resources. People taking individual responsibility e.g. charging for/opting out of some services	
Reduction in the school day - general support but need for effective use of time to meet health and educational needs	
Reduce council management costs	
Think differently about council (school and other) transport - explore other models and consider health benefits, e.g. preventative (Keep Safe and I Am Me scheme) or suggested use of mobility monies	
Single invoicing for residents factor fees, use of trusts, local outreach teams	
Culture change - reducing demand for council services	
Reduce costs and increase footfall at community facilities	

What we asked:	
Innovative and ambitious: how can we generate new ideas and increase income?	
What you told us:	What we're planning to do:
Alternative energy production to help support communities	<ul style="list-style-type: none"> ➤ Invest in our staff by growing our own talent ➤ Implement the 21st Century Public Servant approach ➤ Implement Continuous Improvement model ➤ Use citizen data to inform improvements and reduce complaints in Waste Services: Currently 71.33% (3,710) of complaints are waste related so if we reduce this by 2/3rds it will save employee time at the same time as providing a better service to our citizens ➤ Learn from and share best practice ➤ Income Generation (Entrepreneurial projects) ➤ Housing initiatives ➤ Design the new Economic Development Strategy, maximising inclusive growth ➤ Consider co-operatives for the delivery of creative arts
Tourism and new attractions - e.g. make more of Vogrie	
Innovative income generation - e.g. enhanced wedding services and new, alternative funeral services	
Maximise venue hire income - e.g. hire out offices in the evening; have multi use facilities	
Employ business specialists to drive innovation in key areas	
Invest in commercial properties and create a property company	
Support for the council building its own homes to rent at market rates as well as social housing	
Attract investment and promote Midlothian as great place to set up your business	
Tourism, attractions and town centres	

Section 5: How will we make the necessary culture shift to deliver the medium term financial Strategy?

In August we adopted Kotter's 8 stage change process:



Fig 1: Kotter's 8 step change process

In addition, we will adopt a Service Dominant Logic which means that we will place our citizens and communities at the heart of our daily work. We have listened to the views of our stakeholders and in response to the feedback received during the *Working With You, For You* consultation we have developed a series of key drivers which will help us achieve the necessary culture shift as we move towards the implementation of the medium term financial strategy:



Fig 2: key drivers for change

Section 6: How will we align funding to deliver this?

This is the first iteration of a Medium Term Financial Strategy for Midlothian covering the next three financial years. It aims to provide a clear and concise overview in one place of future sustainability given the acute service demand pressures which the Council is facing and also outlines the important decisions which will need to be made in order make significant headway towards addressing the budget gaps which will need to be bridged through to 2022/23.

The comprehensive strategy sets out how the Council will shift towards addressing the medium term financial challenge and at this point recommends the Council approve resource allocation measures which will address the projected budget gap in full for 2020/21 and significantly reduce the gap for future years. An update will be presented to Council on 1 October 2019 which aims to set out the measures designed to secure balanced budgets through to 2022/23.

We have developed measures which align with each of the four themes outlined in Working with you, for you consultation, a summary of which is shown in the table below. The full table of measures can be found in appendix 2.

Table 1: Summary of total proposals by theme

	2020/21	2021/22	2022/23
	£m	£m	£m
Budget Gaps	4.636	10.935	18.844
Working With You, For You	0.540	1.173	1.554
Preventative and Sustainable	0.240	0.315	0.645
Efficient and Modern	3.287	5.790	6.423
Innovative and Ambitious	0.763	1.689	1.911
	4.830	8.967	10.533
Budget Gaps after Resource Allocation measures	(0.194)	1.968	8.311

As table 1 indicates at this point there is further work to do to identify the changes necessary to secure a balanced Medium Term Financial Strategy for 2021/22 and beyond.

Section 7: Planning Assumptions

The budget gaps and the principal assumptions on which they are based are explained in the covering Financial Strategy report and table 2 outlines the projected budget gaps.

Table 2: Budget Gaps 2020/21 to 2022/23

	2020/21	2021/22	2022/23
	£m	£m	£m
Net Cost of Services	214.704	223.080	233.191
Less: Council Tax	(54.435)	(58.004)	(61.699)
Less: Scottish Government Grant	(155.633)	(154.141)	(152.648)
Budget Gaps	4.636	10.935	18.844

This strategy aims to provide Council with a robust Medium Term Financial Strategy in order to both determine Council Tax and set a balanced budget for 2020/21 (required to do so by 11 March 2020) in the context of the medium term outlook and in accordance with Section 93 of the Local Government Finance Act 1992 (as amended).

Appendix 2 sets out the resource allocation changes by theme with the overall impact summarised in table 1 above.

By outlining all of the resource allocation changes needed over the next three years the Medium Term Financial Strategy will enable the council to plan effectively and direct constrained resources to deliver the priorities in the Single Midlothian Plan. The Council believes that delivery of these priorities will help Midlothian to fulfill its potential as a Great Place to Grow. It will also help to manage the rising demand for Council services, especially in education and social care.

The development of the Medium Term Financial Strategy has included a new approach involving all stakeholders in the design and delivery of the Council's budget and also reflects improved cross-party engagement and collaboration within the Council through the Business Transformation Steering Group.

Arrangements are already in place to ensure that there is regular and detailed scrutiny of service budgets and change programmes at member and senior officer level so that the effectiveness and impact, including equality and socio-economic impact, of all of the changes are understood and corrective action is taken if and when required.

Whilst many of the resource allocation measure will be delivered as part of the Council's normal service improvement within individual services, there is a continued need for appropriate governance, resourcing and scrutiny of the more ambitious and cross-service changes being proposed. This Programme will cover a wide range of projects, and will include recommendations arising from the work undertaken by the Business Transformation Steering Group.

In January 2019, the Council also assigned a member of staff to lead the Services with Communities Transformation Programme which is designed to place the individual citizen and Communities at the heart of what we do. In addition alongside this strategy additional transformation funding will be secured in order to second a Programme Manager for the Entrepreneurial Council workstream to ensure that we maximise the use of our assets in order to fund preventative intervention programmes.

The Council will put in place a focused change management programme that will be agile and flexible enough to provide support to services in delivering the budget proposals, utilising secondments or external advice as appropriate. Each specific project set out under the Change Programme will have in place appropriate Project Board Governance which report to the Business Transformation Board and then onto the Business Transformation Steering Group. The Council will ensure that all colleagues across the Council are aware of the Change Programme, through appropriate communications and regular reports on progress.

Section 8: Best Value

Best Value is about ensuring that there is good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes for the public. The duty of Best Value applies to all public bodies in Scotland. It is a statutory duty for local authorities, such as councils and this duty must be considered in relation to the decision to be taken with respect to the development and delivery of the Medium Term Financial Strategy.

The duty of Best Value in Public Services is as follows:

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance,
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirements, and to contribute to the achievement of sustainable development.

Guidance refreshed in 2016, regroups the Best Value characteristics in a way which both emphasises the connections between the characteristics and assists partnership working between Public Bodies and their partners (including where appropriate Community Planning Partners) as they deliver their outcomes. The five themes are:

- Vision and Leadership;
- Effective Partnerships;
- Governance and Accountability;
- Use of Resources; and
- Performance Management.

The guidance also identifies the two cross-cutting themes which a Best Value organisation should fully embrace across all the activities by which they deliver their outcomes. These cross-cutting themes are:

- Equality; and
- Sustainability.

Whilst all Best Value themes will inform the Medium Term Financial Strategy, following the recent Best Value Assurance Report (BVAR) assessment, a particular focus will be given to the 'Use of Resources' which looks to ensure that a Best Value organisation shows that it is conscious of being publicly funded in everything it does. The Council will show how its effective management of all resources (including staff, assets, information and communications technology (ICT), procurement and knowledge) is contributing to the delivery of outcomes. A theme recognised as an area of strength in the BVAR assessment was that of 'Effective Partnerships' and this existing strength will be a key enabler in the delivery of the Medium Term Financial Strategy.

Section 9: Council Spending Explained

The following charts and table provide an overview of the 2019/20 budget detailing the net expenditure by services together with expenditure and income by type. As can be seen Education represents the single largest service accounting for 45% of net expenditure with employees costs representing 47% over gross spending.

Chart 1: Net Service Expenditure 2019/20

Net Service Expenditure £207.5m

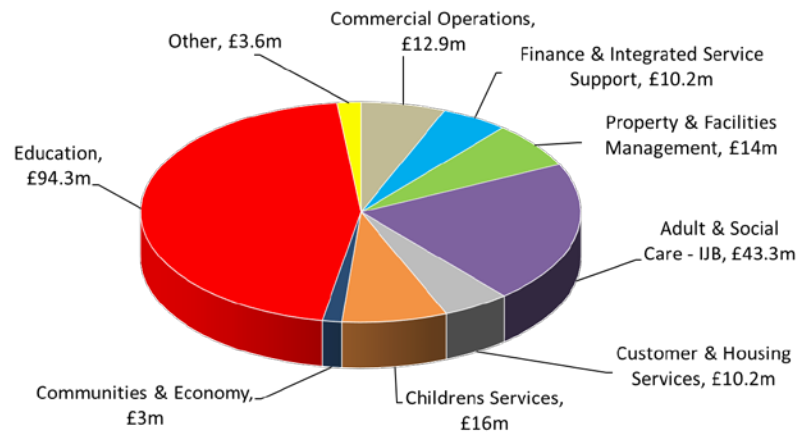
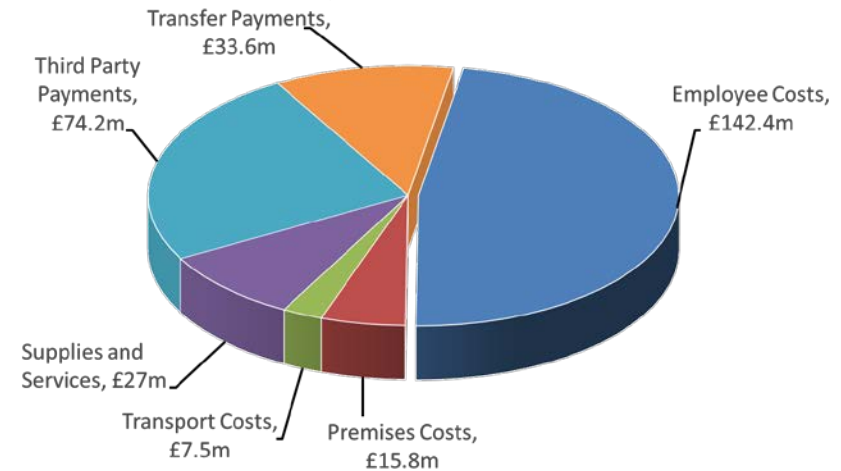


Chart 2: Gross Expenditure 2019/20

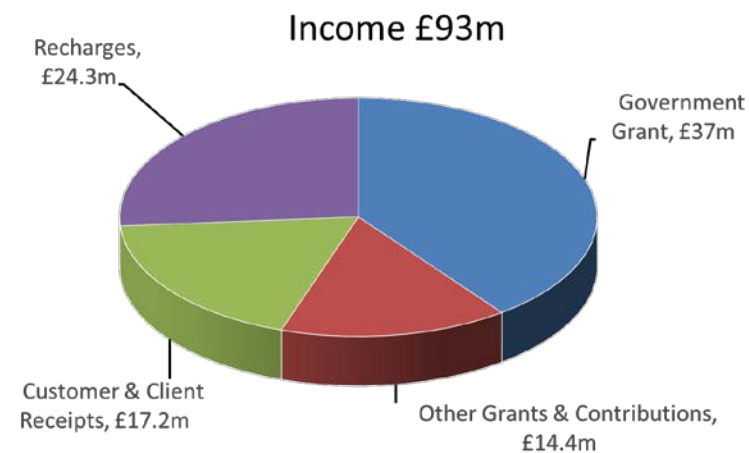
Gross Expenditure £300.5m



Net Service Expenditure for 2019/20 and how it is funded

Chart 4: Service Income 2019/20

	£m
General Fund Services Net Expenditure	207,541,119
Loans Charges	£6,123,494
Investment Income	(406,420)
Centrally Held Savings Targets	(290,865)
Centrally Held Budget Provisions	448,480
Allocations to Housing Revenue Account, Capital Account etc	(5,015,808)
Net Expenditure	208,400,000
Funded by:	
Scottish Government Grant	157,413,000
Council Tax	50,987,000
	208,400,00



Section 10: Funding local services and how our Funding is calculated

The Council has two principal sources of funding the net cost of the services it provides. Council Tax and Scottish Government Grant. In 2019/20 these represent 25% and 75% respectively of the funding of the net cost of services.

Council Tax

For 2019/20 the Council has set a Band D Council tax of £1,344 and this is expected to generate £50.987 million. Over the next three financial years increases in housing in Midlothian will generate additional Council tax receipts estimated at an additional £1m per annum.

In advance of the 1st April each year the Council is required to set a Band D Council tax for the following financial year. Scottish Government has made it a specific requirement of the grant settlement package that Council freeze Council tax or in recent years they have used the grant settlement to limit the flexibility Councils have to increase Council Tax. For 2019/20 Government limited the increase to 3% in real terms which equated to a 4.79% increase.

Given that further cuts in core government funding are expected to continue the Medium Term Financial Strategy includes further increases in Council Tax of 4.79% per annum to provide funding to support local services.

Scottish Government Grant Settlement

The Scottish Government's grant settlement remains one of the most critical aspects of the financial projections in the Medium Term Financial Strategy. Local Government has faced real terms reductions in core funding with the final 2019/20 settlement representing a 1.5% reduction in core funding. Current projections for the next three years indicate an ongoing funding challenge arising from a predicted cut of 2% per annum in core funding at a national level, partly offset by an increased share of the national settlement reflecting the growth in the Midlothian population. The Medium

Term Financial Strategy cover report to Council sets out fuller details of the prospects for Scottish government grant and the factors which will influence it.

The government intend to revert to a three years settlement for local Government which is welcomed and which will provide as greater degree of certainty and also support longer term planning. The three year settlement for 2020/21 to 2022/23 is expected to be published in December 2019 and will thereafter be subject to change as the government's budget bill passes through the parliamentary process.

COSLA, the umbrella body for Scottish Local Government, has and will continue to lobby government and parliament to seek a fair funding settlement for local government.

The Council continues to press Government to recognise the unique financial pressures that arise from such a fast growing population and in particular to recognise that the funding formula and distribution do not adequately support the cost of providing services to a growing population. An example of the challenge is that in the current year the Council has forgone £1.760m funding which is redistributed to support Council's with a reducing population.

Section 11: Net Cost of Services and resulting shortfalls

The projected net cost of services for future years is based on the 2019/20 budget and work will be progressed to review and refine the projections based on the latest information available, in particular school rolls, care demographics and also the deliverability of savings incorporated in previous year's budgets.

The principle year on year budget changes include the following key assumptions and cost drivers:

- Pay inflation based on agreed pay awards and a provision of 3% for future years 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;
- Provision for the Devolved School Management allocation to schools based on the current 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 and incorporates a 4.79% per annum increase.

Table 4 highlights the impact of population growth on the budget with the increase in school rolls alone expected to add £7.125 million to the budget by 2022/23.

Table 4: Analysis of Shortfalls – 25 June 2019

	2020/21	2021/22	2022/23
	£m	£m	£m
Opening Shortfall	0.000	4.636	10.935
Pay Inflation and Salary Progression	5.394	5.368	5.553
Contractual Inflation	0.896	0.910	0.925
Utilities	0.070	0.071	0.073
Demographics: Care	1.040	1.040	1.040
Demographics: School Rolls	2.375	2.375	2.375
Demand pressures: Children	0.025	0.025	0.025
School Estate Investment	0.208	0.008	0.012
Waste Disposal Costs	0.000	0.112	0.129
Non Domestic Rates	0.128	0.131	0.134
Borrowing Costs	(0.123)	(0.007)	0.000
Scottish Government Grant	1.490	1.492	1.493
Council Tax Income - Properties	(1.000)	(1.000)	(1.000)
Council Tax Income – 4.79%	(2.448)	(2.569)	(2.695)
Full year effect of previous savings	(3.541)	(1.593)	(0.200)
Other Movements	0.122	(0.064)	0.045
Budget Gaps	4.636	10.935	18.844

The budget gap in 2020/21 equates 2.2% of the net cost of services and the projections indicate this could rise to 8% by 2022/23. Significant elements of the budget are either fixed or are challenging to change for a number of reasons with these elements of the budget equate to £115 million in 2020/21 and 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 4.6% for 2020/21 and has the potential to rise to 23% by 2022/23.

Section 12: The Midlothian Integration Joint Board

The integration of Health and Social Care means that the Council no longer directly funds or directs those services which have been delegated to the Integration Joint Board (IJB). In Midlothian these are Adult Social Care Services. Both the Council and NHS Lothian have a responsibility to allocate funds to the IJB for the provision of delegated services and it is then for the IJB to determine the services that will be commissioned using those overall funds. The legislation governing integration requires that the funds allocated by both partners to the IJB represent a “fair and adequate” allocation of resources. For 2019/20 the allocation from the Council was £42.652 million.

The budget gaps 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 and the resultant impact on future years delegated budget would represent an increase to £44.691 million in 2020/21 rising to £48.920 million by 2022/23.

Recognising the partnership between the Council, NHS Lothian and the IJB the Medium Term Financial Strategy will be informed by ongoing discussion to secure a sustainable strategy for the delivery of delegated services which can be delivered within the resources available to the Council and NHS Lothian. This ongoing dialogue will inform the development of both the Council’s and the IJB’s future years Financial Strategy.

Section 13: Resource Allocation Measures - How does the Council plan to balance its budget and bridge the remaining budget gaps over the next three financial years?

The Council’s budget has been designed to maintain high quality essential services with a focus on the areas that the public told us mattered to them most, delivered by focusing on four key themes. How the Council intends to address the budget gaps is set out under these themes. This includes the overall approach, the programme for change and the resource allocation changes which support the delivery. Each proposal has been assessed for equality impacts and these are found in the savings templates and EQIA templates available separately.

Section 14: Workforce Planning

The Council approved its first Council wide Workforce Strategy in December 2017 [<Link>](#). The purpose of the strategy is to ensure that the Council continues to have a workforce that is able to deliver positive outcomes for the people of Midlothian. It sets out an approach to supporting, developing and reshaping the workforce now and in the future in response to changes whether as a consequence of national or local issues. It is underpinned by the Council’s values and vision.

In their report ‘Local Government in Scotland: Performance and Challenges 2017’ Audit Scotland reiterated that with reducing budgets and workforce, Councils will find delivering improvements increasingly difficult. It is critical, therefore, that Councils have in place workforce strategies and plans that target effort on priority areas.

The Workforce Strategy is important as it outlines the organisation's approach to articulating how workforce issues will be managed to ensure the Council has the people and skills to manage change and deliver service. In addition to the workforce strategy itself a workforce action plan has been prepared, which sets out the programme of work required to deliver the objectives set out in the workforce strategy. There are also eight service specific workforce plans, which set out the service specific workforce actions. These service plans will be updated to reflect the resource allocation changes which are set out in this Medium Term Financial Strategy and as such they will form part of the cohesive plans for the management of workforce issues across the Council and the delivery of services in line with the Medium Term Financial Strategy.

Section 15: Capital Investment Strategy

In November 2018 the Council approved its first Capital Investment Strategy [<link>](#). This sets out an ambitious investment programme for essential infrastructure, a significant element of which is unavoidable, together with identified sources of funding over the ten year period to March 2028. This is at a higher level than the existing rolling five year Capital Plans which are in place for both General Fund Services and Housing Revenue Account (HRA).

A key component of the Capital Investment Strategy is the Learning Estate Strategy which sets out how the Council will ensure there is adequate and suitable school capacity for the projected pupil numbers. A refresh of the Learning Estate Strategy is currently underway and once complete this will in turn allow an update and prioritisation of the projects set out in the Capital Investment Strategy and a refreshed strategy which identifies the level of prudential borrowing that can be supported to fund investment.

Once the Capital Investment Strategy has been refreshed the existing Capital Plans can in turn be updated to reflect the earlier year's priority projects. Any increase in the level of borrowing to fund investment will in turn impact on the level of resources earmarked in the revenue budget to meet the interest and repayment of that borrowing. This in turn 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 resource allocation changes in the service budgets to compensate.

Section 16: Treasury Management and Investment Strategy

CIPFA defines treasury management as “The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite,

providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital investment plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any loans to third parties, commercial investment initiatives or other non-financial investments will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 were designed, amongst other provisions, to allow Councils to vary loans fund repayments for historic advances. Until very recently Scottish Government and Audit Scotland's view was that the regulations and guidance, as drafted, did not permit Councils to vary pre April 2016 advances. Audit Scotland have now changed their view and this welcomed development removes any barriers to revisiting our existing Loans Fund advances. The opportunity will therefore be taken during 2019 to explore opportunities to vary the exiting advances and to determine if these can be repaid over a longer time period to better reflect the economic consumption of the assets the advances financed. It is still the case that any changes to repayments must be based on prudent principles. At this time it anticipated that any changes arising from the review are likely contribute towards bridging the identified funding gap for the Council's Capital Strategy rather than necessarily reducing the proportion of the revenue budget which is required to finance capital investment.

Accordingly alongside determining its budget for the year ahead the Council will also approve an updated Treasury Management and Investment Strategy, the current strategy being approved on 12 February 2019 [<link>](#).

That strategy identified a capital financing requirement by 2022/23 for both General fund services and HRA of £542 million, an increase of £209m from the position at 31 March 2018. This increase reflects the significant capital investment requirements, particularly in the learning estate and also in additional social housing.

The Treasury Management and Investment Strategy for 2020/21 will be prepared and reported to Council in February 2020 when it finalises the budget for 2020/21.

Section 17: Reserves Strategy

The Council approved its first comprehensive Reserves Strategy on 12 February 2019 [<link>](#). It provides an overview of the financial reserves held by the Council and their purpose and the aim of the strategy is to ensure that the Council reserves position supports financial sustainability and provides clarity on the purpose and maintenance of useable reserves.

At a national level the Accounts Commission, in its Local Government in Scotland: Financial Overview 2017/18 report, highlighted that it is important that councillors are aware how usable reserves are being used each year, especially where the cumulative scale of this is potentially significant to financial sustainability. The report also highlighted that in the previous year's report the Commission had highlighted the risk for some Councils plans to use significant amounts of their reserves to manage funding gaps and that for 2017/18 although overall reserves have continued to reduce, no Council was using its reserves at a level that risks their financial sustainability in the next two to three years.

The Reserves Strategy operated by the Council specifies:-

- The need to maintain an adequate level of General Reserve to provide a contingency for unforeseen or unplanned costs and this is considered to be a minimum of 2% of net expenditure (excluding resources delegated to the IJB). This equates to £3.3 million;
- That where projections indicate that the 2% minimum General Reserve balance will be breached an immediate recovery plan be implemented to recover the position, failing which the next available budget would need to provide for the restatement of reserve position;
- Provides for a capital receipts flexibility scheme be utilised as an alternative source of funding to meet the expected one off costs associated with further service transformation and to meet the costs of severance for employees;

Improved financial performance during 2018/19 has resulted in an improved General Fund reserve position with a total reserve of £8.637 million of which £4.536 million is earmarked for specific purposes leaving an unallocated reserve of £4.104 million, which equates to 2.5% of net expenditure.

Section 18: Governance

Each element of the Medium Term Financial Strategy will continue to have clear governance in place to ensure the timely delivery of the work stream. All budget proposals continue to be reported through Business Transformation Steering Group and then to Council as appropriate. 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 proposed timetable set out in Table 9 would support the determination of the 2020/21 budget and Council Tax levels before the statutory date and specifically do so in the context of an approved Medium Term Financial Strategy.

Section 19: Ensuring Equalities

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

The Medium Term Financial Strategy 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.

Section 20: Summary

The purpose of this Medium Term Financial Strategy is to enable the Council to agree a resource allocation plan for the three financial years 2020/21 to 2022/23. It supports the Council to make decisions that will meet the statutory obligation to set balanced budgets for all years and Council Tax levels for 2020/21.

The development of the strategy has been shaped by the *Working With You, For You* public consultation which took place in earlier part of 2019 and engagement with all stakeholders will continue as the strategy is developed and implemented.

The development of resource allocation measures are supported by robust Equality Impact Assessments and Officers have given due regard to the findings of the equality impact assessments in the development of individual measures. The analysis of the EQIA's will also be considered as part of the process for finalising the proposed three year revenue budget strategy.

Section 21: Recommendations

Recommendations in respect of the first iteration of the Medium Term Financial Strategy are as set out in the report to Council on 25 June 2019.

REVENUE BUDGET 2019/20 SUMMARY

SERVICE FUNCTION	Budget	
	2018/19 £	2019/20 £
Management and Members	1,733,736	1,664,177
Resources		
Commercial Operations	14,007,982	12,905,451
Finance & Integrated Service Support	11,007,818	10,221,587
Property & Facilities Management	12,763,744	14,021,428
Health and Social Care		
Adult and Social Care - Delegated to IJB	39,725,903	42,652,072
Adult and Social Care - Non-Delegated	777,886	686,227
Customer and Housing Services	10,468,034	10,236,304
Education, Communities and Economy		
Childrens Services	15,271,988	15,939,424
Communities and Economy	3,216,748	3,021,699
Education	90,440,177	94,319,873
Joint Boards	550,551	534,441
Non Distributable Costs	1,338,436	1,338,436
GENERAL FUND SERVICES NET EXPENDITURE	201,303,003	207,541,119
Loans Charges	7,060,000	6,123,494
Investment Income	(406,420)	(406,420)
Centrally Held Savings Targets	(1,471,403)	(290,865)
Centrally Held Budget Provisions	0	448,480
Allocations to Housing Revenue Account, Capital Account etc	(4,934,180)	(5,015,808)
NET EXPENDITURE	201,551,000	208,400,000
Utilisation / (Enhancement) of Reserves	(200,000)	0
Council Tax Income	47,319,000	50,987,000
Scottish Government Grant	154,432,000	157,413,000
TOTAL FUNDING	201,551,000	208,400,000

Strand	Service	No.	Proposal	Year 2	Year 3	Year 4	FTE	Notes
				2020/21 £m	2021/22 £m	2022/23 £m		
Efficient and Modern	COUNCIL WIDE	3	Reduce Silo Working: Review Senior Management structure (tier 1/2) and further Increase savings from £250k to £302k	0.052	0.052	0.052	0.00	
Efficient and Modern	RESOURCES	1	Reduce Management costs and protect front line services: review of 3/4 tier Management Structures in Resources Directorate to bring in line with other Directorates	0.270	0.270	0.270	4.00	
Efficient and Modern	COUNCIL WIDE	2	Reduce Management costs and protect front line services: review of 3/4 tier Management Structures Council wide in line with automated and digital approaches	0.250	0.250	0.250	3.50	
Efficient and Modern	COUNCIL WIDE	4	Digital First' and the introduction of a Cashless Council	0.025	0.050	0.050	2.00	
Efficient and Modern	FISS	5	Managed Print Service - Downsize devices at contract renewal	0.000	0.000	0.000	0.00	TBC
Efficient and Modern	CS	6	Reduction of Early Intervention and Prevention services	0.190	0.190	0.190	4.80	
Efficient and Modern	PFM	7	EWiM - Further Office consolidation	0.100	0.100	0.100	0.00	
Efficient and Modern	COUNCIL WIDE	8	Digital solutions	0.075	0.075	0.075	1.00	
Efficient and Modern	COUNCIL WIDE	10	Digital Customers & Service Redesign (Processes - Automation, Data Analytics, Virtual and Agile)	0.300	0.500	0.500	0.00	
Efficient and Modern	EDUCATION	11	Achieve revenue savings from the implementation of the Learning Estate Strategy	0.000	0.375	0.600	10.00	
Efficient and Modern	EDUCATION	12	Review DSM allocation to schools for teachers and absence cover	1.022	1.222	1.630	34.00	
Efficient and Modern	EDUCATION	14	Bring Early Years funding into base budget allocation following the 1140 expansion in 2020	0.000	0.500	0.500	14.00	
Efficient and Modern	EDUCATION	15	Remove the allocation of free P4 Primary School Swimming	0.033	0.053	0.053	0.05	
Efficient and Modern	PFM	16	Review Public Toilets	0.051	0.067	0.067	1.07	
Efficient and Modern	PFM	17	Reduce the Cleaning Service in non PPP Schools by 20%	0.167	0.335	0.335	13.02	
Efficient and Modern	CHS	18	Work with communities in order to encourage CAT of Non-Hub Libraries Services	0.000	0.200	0.200	7.70	
Efficient and Modern	COUNCIL WIDE	19	Efficiency Savings target of 0.5% of net expenditure ex IJB for 2020/21 and a further 0.5% for 2021/22	0.804	1.603	1.603	0.00	FTE TBC
Efficient and Modern Total				3.287	5.790	6.423	95.14	
Innovative and Ambitious	PFM	20	Destination Hillend	0.193	0.335	0.257	0.00	additional fte
Innovative and Ambitious	PFM	21	Building Services Company	0.000	0.000	0.250	0.00	
Innovative and Ambitious	PFM	22	Industrial Estate Expansion	0.000	0.100	0.100	0.00	
Innovative and Ambitious	PFM	23	Income Generation - Professional Consultancy	0.020	0.050	0.050	0.00	
Innovative and Ambitious	PFM	24	Income Generation - Expand Catering/Function Service	0.030	0.060	0.060	0.00	
Innovative and Ambitious	CO	25	Income Generation - Taxi Testing Service	0.000	0.060	0.060	0.00	
Innovative and Ambitious	PFM	26	Income Generation - Vogrie Functions / Indoor Flexible market	0.000	0.050	0.100	0.00	
Innovative and Ambitious	PFM	27	Income Generation Sport & Leisure	0.000	0.300	0.300	0.00	
Innovative and Ambitious	CHS	28	Promotion of Wedding Services	0.020	0.034	0.034	0.00	
Innovative and Ambitious	EDUCATION	29	Deliver Creative Arts in a different way – full cost recovery/redesign	0.000	0.200	0.200	11.00	
Innovative and Ambitious	IJB	30	Reduce planned increase in resources allocated to MIJB	0.500	0.500	0.500	0.00	
Innovative and Ambitious Total		31	Total	0.763	1.689	1.911	11.00	
		32						
One Council: Working with you , for you	P&FM	33	Work with Communities in order to establish more CAT arrangements for the management of halls and pavilions to community groups	0.000	0.100	0.200	0.00	
One Council: Working with you , for you	P&FM	34	Work with Communities in order to establish a sustainable solution/CAT for Gorebridge Leisure Centre	0.000	0.108	0.108	5.00	
One Council: Working with you , for you	P&FM	35	Work with Communities in order to establish a sustainable solution/CAT for Newtongrange Leisure Centre	0.000	0.119	0.119	3.58	
One Council: Working with you , for you	CO	36	Work with Communities in order to establish a sustainable solution/CATfor Buccleuch Bowling Club	0.000	0.025	0.025	1.00	
One Council: Working with you , for you	CO	36a	Reduce failure demand - Waste	0.040	0.040	0.040	2.00	
One Council: Working with you , for you	H&SC	37	Reduce funding to the Midlothian Community Policing Team	0.000	0.281	0.562	0.00	
One Council: Working with you , for you	COUNCIL WIDE	38	Pursue Joint Working Opportunities for all Services: commencing with back-office functions	0.500	0.500	0.500	16.00	
One Council: Working with you , for you Total			Total	0.540	1.173	1.554	27.58	
Preventative and Sustainable	PFM	39	Renewable Sources of Energy	0.000	0.000	0.280	0.00	
Preventative and Sustainable	EDUCATION	40	Grow walking buses and cycling schemes in order to bridge the gap between 2-3 miles transport for Secondary pupils	0.075	0.120	0.120	0.00	
Preventative and Sustainable	EDUCATION	41	Identify alternative transport arrangements for ASL School Transport including Children's Services	0.030	0.060	0.110	0.00	
Preventative and Sustainable	FISS	42	Paperless Council - 30% reduction in print and copy volumes in the first instance	0.090	0.090	0.090	0.00	
Preventative and Sustainable	FISS	43	Paperless Council - 30% reduction in central postage costs in the first instance	0.045	0.045	0.045	0.00	
Preventative and Sustainable Total			Total	0.240	0.315	0.645	0.00	
			Total	4.830	8.967	10.533	133.72	



Overview Equality Impact Assessment (EqIA)

on

Midlothian Council

Medium Term Financial Strategy

2020/21 to 2022/23

19 June 2019

Midlothian



Midlothian Council

Equality Impact Assessment (EqIA) on Medium Term Financial Strategy

2020/21 – 2022/23

Medium Term Financial Strategy Proposals	As set out in grid attached to this EqIA
Directorate and service area	List as detailed above

Overview of Budget Investment through the Financial Strategy	The core objective of the Medium Term Financial Strategy 2020/21 to 2022/23 is that of securing the Council's continued financial sustainability during what is expected to be an ongoing period of financial constraint coupled with continuing service demand pressures and increasing customer expectations. This Medium Term Financial Strategy is an important step-change and one which will provide greater certainty for the local communities we serve and our employees.
Completion Date	18 June 2019
Lead officer	Gary Fairley

Aims and Objectives

The public sector continues to face significant service delivery challenges due to reduced income streams, funding constraints, inflationary cost pressures and additional legislative burdens. Demand for public services in Midlothian continues to increase as a consequence of changes in the size and profile of the county's population with greater numbers of young and older people, those in poor economic situations, and those with disabilities be they physical, sensory, mental health or learning disabilities. The Council must continue to prioritise expenditure on public services which prevent negative outcomes for those within its communities whilst securing maximum benefit from all available resources. Accordingly, it is prudent that significant savings and cuts are made over the coming years and projected budget shortfalls stemmed. This will allow the Council to maintain its financial sustainability and also to ensure that all within its communities, irrespective of protected characteristics, (age, disability, gender re-assignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation) as well as poor socio-economic circumstances, (The Fairer Scotland Duty), are not unlawfully discriminated against, and that equality of opportunity and advancement of good relations is upheld between those who have a protected characteristic and those who do not.

1. Does the proposed budget affect people?

Yes

No

2. What is/are the reason(s) for Council’s proposed budget savings

Savings are part of a process of continual review of service provision as we seek to secure efficiencies and redesign services in response to the financial challenge.

3. Impact

Which of the nine protected characteristics* will the proposed budget savings have an impact upon?

Equality Target Group*	Positive Impact	Negative Impact	Relevant evidence/ information
Age			Overall Grid attached to this appendix.
Disability			
Gender Reassignment			
Marriage & Civil Partnership			
Pregnancy and maternity			
Race			
Religion or Belief			
Sex			
Sexual Orientation			

4. Overall Impact of Financial Strategy proposals

Each budget proposal presented has been subjected to an Equality Impact Assessment. The overall grid (attached to the end of this appendix) details the protected characteristics which are considered to be most likely to be affected in a potentially negative way. The overall grid also includes the new duty regarding poor socio-economic deprivation which Midlothian Council has considered.

In no proposal area has any unlawful negative impact been identified, and where possible reduction/removal of services will be monitored to establish the actual affect to those within our communities.

5. How will the implementation of proposed Medium Term Financial Strategy savings be communicated to those affected by any changes?

Information will be available on the Council's web site and communicated to affected businesses/customers/service users by letter, email, etc. In addition, information documents, as required, can and will be made available in different formats and languages on request. If an individual or group require this information in another language or format, then they should email equalities@midlothian.gov.uk or telephone the Equality, Diversity & Human Rights Officer on 0131 271 3658.

6. How will you monitor the impact of the changes proposed? When is the budget due to be reviewed?

Changes will be monitored through Pentana, the Council's performance management system, discussion groups and forums, fees and charges income, and various other methods detailed in the individual equality impact assessments.

7. Please use the space below to detail any other matters arising from the Equality Impact Assessment (EqIA) process.

Midlothian Council is committed to the ethos of the Equality Act 2010 and has considered this through equality impact assessment of all its policy budget proposals.

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

If available, mitigating actions for each of the proposals have been outlined in the individual equality impact assessments. Where no mitigating actions are possible it is considered that any negative effects are not unlawful and are justifiable on a benchmarking/inflationary basis. 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.

SERV	No.	DESCRIPTION	EQIA Comp?	Age	Disability	Gender re-assignment	Marriage & Civil Partnership	Pregnancy & Maternity	Race	Religion or Belief	Sex	Sexual Orientation	Socio-economic deprivation	Staffing FTE	OVERALL NOTE
															NOTES
RES	1	Reduce Management costs and protect front line services: review of 3/4 tier Management Structures in Resources Directorate to bring in line with other Directorates	Y	√	√	√	√	√	√	√	√	√	√	4	Plus see overall note.
CW	2	Reduce Management costs and protect front line services: review of 3/4 tier Management Structures Council wide in line with automated and digital approaches	Y	√	√	√	√	√	√	√	√	√	√	3.5	Plus see overall note.
CW	4	Digital First' and the introduction of a Cashless Council	Y	√	√								√		Plus see overall note.
CS	6	Reduction of Early Intervention and Prevention services	Y	√	√								√	4.8	Plus see overall note.
CW	8	Digital solutions	Y	√	√								√		Plus see overall note.
CW	10	Digital Customers & Service Redesign (Processes - Automation, Data Analytics, Virtual and Agile)	Y	√	√								√		Plus see overall note.
EDUC	11	Achieve revenue savings from the	Y	√	√					√			√		Plus see overall note.

SERV	No.	DESCRIPTION	EQIA Comp?	Age	Disability	Gender re-assignment	Marriage & Civil Partnership	Pregnancy & Maternity	Race	Religion or Belief	Sex	Sexual Orientation	Socio-economic deprivation	Staffing FTE	OVERALL NOTE
															NOTES
		implementation of the Learning Estate Strategy													
EDUC	12	Review DSM allocation to schools for teachers and absence cover	Y	√	√						√		√	34	Plus see overall note.
EDUC	14	Bring Early Years funding into base budget allocation following the 1140 expansion in 2020	Y	√	√						√		√	14	Plus see overall note.
EDUC	15	Remove the allocation of free P4 Primary School Swimming	Y	√	√								√		Plus see overall note.
PFM	16	Review Public Toilets	Y	√	√			√					√		Plus see overall note.
PFM	17	Reduce the Cleaning Service in non PPP Schools by 20%	Y	√							√		√		Plus see overall note.
CHS	18	Work with communities in order to encourage CAT of Non-Hub Libraries Services	Y	√	√			√			√		√		Plus see overall note.
CW	19	Efficiency Savings target of 0.5% of net expenditure ex IJB for 2020/21 and a further 0.5% for 2021/22	Y	√	√	√	√	√	√	√	√	√	√		Plus see overall note.
PFM	20	Destination Hillend	Y												Positive impact for all.

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															NOTES
PFM	21	Building Services Company	Y	√	√						√		√		Members of staff who may be affected by service proposal/(s) will need to be consulted and appropriate HR policies would be followed with those individuals, All HR policies and procedures are subject to independent EqIA or Integrated Impact Assessment (IIA).
PFM	22	Industrial Estate Expansion	Y	√	√						√		√		Plus see overall note.
PFM	23	Income Generation - Professional Consultancy	Y	√	√						√		√		Plus see overall note.
PFM	24	Income Generation - Expand Catering/Function Service	Y	√	√						√		√		Plus see overall note.
CO	25	Income Generation - Taxi Testing Service	Y												Understood no staffing implications.
PFM	26	Income Generation - Vogrie Functions / Indoor Flexible market	Y	√	√						√		√		Plus see overall note.
PFM	27	Income Generation Sport & Leisure	Y	√	√								√		Plus see overall note.
CHS	28	Promotion of Wedding Services	Y												Understood no staffing implications.
EDUC	29	Deliver Creative Arts in a different way – full cost recovery/redesign	Y	√	√						√		√		Plus see overall note.
PFM	33	Work with Communities in order to establish more CAT arrangements	Y	√							√		√		Plus see overall note.

SERV	No.	DESCRIPTION	EQIA Comp?	Age	Disability	Gender re-assignment	Marriage & Civil Partnership	Pregnancy & Maternity	Race	Religion or Belief	Sex	Sexual Orientation	Socio-economic deprivation	Staffing FTE	OVERALL NOTE
															NOTES
		for the management of halls and pavilions to community groups													
PFM	34	Work with Communities in order to establish a sustainable solution/CAT for Gorebridge Leisure Centre	Y	√	√						√		√		Plus see overall note.
PFM	35	Work with Communities in order to establish a sustainable solution/CAT for Newtongrange Leisure Centre	Y	√	√						√		√		Plus see overall note.
CO	36	Work with Communities in order to establish a sustainable solution/CAT for Buccleuch Bowling Club	Y	√	√						√		√		Plus see overall note.
RES	36a	Reduce Failure Demand - Waste	Y	√									√		Plus see overall note.
HSC	37	Reduce funding to the Midlothian Community Policing Team	Y	√	√	√			√	√	√	√			Plus see overall note.
CW	38	Pursue Joint Working Opportunities for all Services: commencing with back-office	Y	√	√						√		√		Plus see overall note.

SERV	No.	DESCRIPTION	EQIA Comp?	Age	Disability	Gender re-assignment	Marriage & Civil Partnership	Pregnancy & Maternity	Race	Religion or Belief	Sex	Sexual Orientation	Socio-economic deprivation	Staffing FTE	OVERALL NOTE
															NOTES
		functions													
PFM	39	Renewable Sources of Energy	Y												Understand no staffing implications.
EDUC	40	Grow walking buses and cycling schemes in order to bridge the gap between 2-3 miles transport for Secondary pupils	Y	√	√					√			√		Understand no staffing implications.
EDUC	41	Identify alternative transport arrangements for ASL School Transport including Children's Services	Y	√	√								√		Understand no staffing implications.
FISS	42	Paperless Council - 30% reduction in print and copy volumes in the first instance	Y	√							√		√		Plus see overall note.
FISS	43	Paperless Council - 30% reduction in central postage costs in the first instance	Y	√							√		√		Plus see overall note.