

## Medium Term Financial Strategy 2020/21 Budget – Supplementary Report

Report by Gary Fairley, Chief Officer Corporate Solutions

### 1 Purpose of Report

This report updates Council on the Scottish Government Grant Settlement and its impact on the 2020/21 budget and Medium Term Financial Strategy.

### 2 Scottish Government Grant

The Scottish Government's budget, was introduced to parliament on 6 February 2020 by Kate Forbes, Minister for Public Finance and Digital Economy as a £0.5 billion increase as outlined in the Minister's letter to the COSLA President Councillor Evison (appendix 1). The settlement was described by the Minister as *"a real term increase in the overall resources to support local government service of £435.9 million or 4.3%."*

Speaking this afternoon following the Scottish Government's (Thursday) Budget announcement, COSLA's Resources Spokesperson Councillor Macgregor said:

*"On the face of it this looks like a good budget for Local Government with a cash increase of £495 million and whilst we acknowledge this money, the reality behind this figure unfortunately is quite different."*

*"What we are left with when you factor in the Scottish Government commitments of £590 million is a cut to Local Government core budgets of £95 million. This is £95 million in hard cash that will need to be taken out of front line services for communities. We campaigned hard to ensure that this position did not happen it is disappointing our message has not been listened to". "When you add in a £117 million cut to capital funding (which equates to a 17% cash cut), a hit to both communities and growing the economy, you are left with a crisis for Local Government which is a long way from the picture being painted. This is even worse when seen in the context of an increasing Budget for the Scottish Government."*

COSLA President added: *"Local Government's core budget which provides our essential services has been cut as a result of today's budget. A cut of a significant proportion is the Budget Reality that our Communities now face a cut to services, a cut to local jobs, a cut to the work councils do to tackle child poverty and respond to climate change. In addition to the cuts it is also extremely disappointing that we have seen no money for inflation or any other of the significant pressures we face, such as restoration for cuts to our funding in previous years."*

*COSLA will be raising these issues with the Scottish Government and all parties across the Parliament at the earliest opportunity to ensure this picture is rectified as part of the budget scrutiny process.*

*It is our communities and the priorities of tackling child poverty, wellbeing, climate change and inclusive growth that will suffer, Things cannot go on in this manner. I am really concerned that more and more of what Local Government does is directed by the centre. As a result of the Scottish Government commitments that Local Government has to deliver we are no longer able to respond to local priorities”.*

Appendix 1 highlights the range of new commitments included in the overall settlement as summarised below with Midlothian Council’s impact also noted. The resources for these new commitments are either “ring fenced” or are already committed.

### **New Commitments 2020/21**

<b>Children and Young People</b>	<b>National</b>	<b>Midlothian</b>
Early Learning and Childcare	£201m	£4.782m
Teachers’ pay and pensions	£253m	£4.612m
Additional support for Learning	£15m	£0.288m
Others	£1m	£0.018m
Health and Social Care	£100m	£1.700m
Other	£20m	£0.317m
<b>Total of Scottish Government commitments</b>	<b>£590m</b>	<b>£11.717m</b>

The Minister’s letter also highlights that the Council Tax flexibility of a maximum real terms increase of 3% would generate £135 million nationally to support services. In arriving at a real terms increase of £435.9 million, Scottish Government have included the full Council Tax increase. Accordingly, Business Transformation Steering Group recommends that Council adopt this flexibility and apply an increase in Council Tax equivalent to a real terms increase of 3%.

As members will be aware, the central planning assumption agreed by Council was a 2% cash reduction in Scottish Government Grant at a national level and a cash increase in Council Tax of 4.79% (the estimate equivalent 3% real terms increase). As such, the revenue settlement after allowing for additional borrowing to make up the cut in capital grant, is greater than projected for 2020/21.

However the 17% reduction in capital funding will have a significant impact on the capital investment plans and require additional borrowing to mitigate the reduction of £1.7 million in grant in 2020/21 from that currently included in the general services capital plan. Should this reduced level of grant become the baseline for future years it will require a material reduction in the Council’s future investment plans.

The Government has indicated that it will set out its medium term capital investment plans in the summer and the implications for future years will be assessed once these plans are published.

Adjusting for the actual cut in core revenue grant indicates an improvement of £1.2 million in the grant expected from the position set out in the main report. It is important to note that the settlement announced has also enabled a re-evaluation of changes in the element of future years grant support for loan charges. In this respect, members should note that in 2021/22 there will be a significant reduction of £3.2 million in the loan charge element of grant support as the support for historic supported borrowing ends. This should be partly mitigated by the floor arrangement and so will result in a net reduction of £1.4 million in grant.

Council are aware that in approving the Medium Term Financial Strategy in June 2019 there remained a budget gap to address in both 2021/22 and 2022/23. The projected gaps, which were after applying the in principal savings outlined in appendix 2b of the main report were £2.2 million and £8.5 million respectively.

As a consequence of the grant changes, loan charge support changes and the re-evaluation of savings targets as reported in the main report, the 2021/22 remaining gap is now estimated to be in the region of £3.5 million rising to £9.700 million for 2022/23. Member should note that these projections are based on Council applying the maximum Council Tax flexibility of 4.84% in 2020/21.

Given the remaining budget gaps to be addressed in 2021/22 and beyond, against a backdrop of continued cuts in core funding, it is recommended that the impact of the actual grant settlement for 2020/21 is utilised to fund additional capacity to drive transformational change at pace and so provide a means to help reduce the gap in 2021/22 and beyond.

The resultant service budgets for 2020/21 are set out in appendix 3.

### 3 Midlothian Integrated Joint Board

The local government settlement provides £100 million for Health and Social Care as follows:

<b>Health and Social Care</b>	<b>National</b>	<b>Midlothian</b>
Living Wage	£25m	£0.425m
Free Personal care uplift	£2m	£0.034m
Carers Act	£12	£0.204m
School Counselling	£4m	£0.068m
Integrated Authority ring-fenced funding	£57m	£0.969m
<b>Total</b>	<b>£100m</b>	<b>£1.7m</b>

Passing this on to Midlothian Integrated Joint Board in full will result in a budget to be delegated of £45.496 million and Council is asked to approve as the formal offer to the Board.

It is recommended that this offer be considered in the context of the Council's overall financial position, the conditions of the grant settlement as set out in appendix 1, and the budget gaps projected for 2021/22 and beyond. In that respect, it may prove challenging for the Council to be able to continue to fund the Board to this extent on a recurring basis and as such the uplift in 2020/21 for demographic pressures of £1.040 million should not be considered to be recurring funding.

## **4 Report Implications**

### **4.1 Resources**

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

### **4.2 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 as soon as possible;
- 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;

- Unplanned capital investment requirements and associated cost; and
- 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 is required to approve a range of measures which not only achieve a balanced budget for 2020/21 but which will help to 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.

The 17% reduction in capital grant will require additional borrowing in 2020/21 to mitigate the impact. Should this reduced level of grant become the baseline for future years, it will require a material reduction in the Council's future investment plans and would require that all non-time critical capital projects be suspended until the overall capital investment strategy is revaluated.

#### **4.3 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

#### **4.4 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.

#### **4.5 Adopting a Preventative Approach**

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

#### **4.6 Involving Communities and Other Stakeholders**

As reported on 25 June 2019, 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.

The comments and suggestions received during April/May 2019 were in addition to the 2,000 plus responses received during the 2019/20 budget consultation held between October 2018 and January 2019.

Business Transformation Steering Group had agreed to utilise an online summary to facilitate consultation on the finalisation of the Medium Term Financial Strategy, but as reported earlier this will not impact on the 2020/21 budget.

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.

#### **4.7 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 continues 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.

Individual assessments of the resource allocation measures were published on 25 June 2019.

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.

An overarching EQIA has been published on the Committee Management section of the Council's website.

#### **4.8 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 adopted in the Medium Term Financial Strategy.

#### **4.9 Digital Issues**

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

#### **5 Recommendations**

In respect of recommendation d) in the main report Business Transformation Steering Group recommends that Council:

- a) Set a Band D Council Tax of £1,409 for 2020/21 as set out in appendix 2;
- b) Approve the 2020/21 service budgets as set out in appendix 3;
- c) Approve the allocated of £45.496 million to MIJB for 2020/21 in respect of delegated services and in doing so note that the uplift for demographic pressures should not be considered to be recurring funding; and
- d) Note that the 2021/22 remaining gap is now estimated to be in the region of £3.5 million, rising to £9.700 million for 2022/23 and that these projections are based on Council applying the maximum Council Tax flexibility of 4.84% in 2020/21.

**10 February 2020**

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Copy to: The Leaders of all Scottish local authorities

6 February 2020

*Dear Alison*

Today the Scottish Government set out proposed Budget, and tax plans and public sector pay policy for 2020-21, and introduced the associated Budget Bill. Further to the announcement the Scottish Government write now to confirm the details of the local government finance settlement.

Details of the indicative allocations to individual local authorities for 2020-21 are also published today in Local Government Finance Circular 1/2020 which begins the statutory consultation period on the settlement.

In coming to the decision to announce the Scottish Budget before the outcome of the UK Budget is known, the Scottish Government listened carefully to the representations COSLA made on behalf of local government of the damaging impact any further delay would have on the delivery of vital public services and also the practical challenges this would pose around the setting and collection of council tax.

The delay to the UK Budget means that we do not know what total Budget funding will be available to Scotland next year, as we do not yet have confirmation of Barnett consequentials that will flow from changes in UK Departmental expenditure or the updated economic and tax forecasts that are needed to finalise the Block Grant Adjustments that impact on over 30% of our Resource DEL budget. For the purposes of this Budget, the Scottish Government has taken an appropriately cautious approach in estimating the likely outcomes of the UK Budget on 11 March for both revenue and capital budgets, noting that the proposed timetable for the Budget Bill is for parliamentary consideration to conclude on 5 March. If the settlement from the UK government is significantly different from the assumptions the Scottish Government have made, we may need to revisit the allocations contained in this letter.

The Budget announced today prioritises our shared objectives of improving wellbeing, supporting inclusive economic growth, responding to the Global Climate Emergency and





tackling child poverty and remains firmly anchored in the jointly agreed National Performance Framework.

The Scottish Government's budget for 2020-21 is bold and ambitious, delivering on our key commitments. Prioritising these commitments has required fresh consideration of all areas of expenditure, as we continue to deal with the effects of UK Government austerity, with Scotland's discretionary resource budget from the UK Government for 2020-21 still set to be considerably lower in real terms than it was in 2010.

The total revenue funding to be provided through the settlement for 2020-21 will be £10,572.8 million, which includes distributable non-domestic rates incomes of £2,790 million.

The Capital settlement has been set at £763.1 million and this includes the continuing expansion of Early Years provision and the addition of a Heat Networks Early Adopters Challenge Fund.

The total funding which the Scottish Government will provide to local government in 2020 -21 through the settlement in funding for core services is therefore £11,336 million, and includes;

- £201 million revenue and £121.1 million capital to support the expansion in funded Early Learning and Childcare (ELC) entitlement to 1,140 hours by 2020;
- In addition to the £160 million available in 2019-20, a further £100 million to be transferred from the health portfolio to the Local Authorities in-year for investment in health and social care and mental health services that are delegated to Integration Authorities under the Public Bodies (Joint Working) (Scotland) Act 2014. This brings the total transferred from the health portfolio to support health and social care integration to £811 million in 2020-21. The additional £100 million for local government includes a contribution to continued delivery of the real Living Wage (£25 million), uprating of free personal and nursing care payments (£2.2 million), implementation of the Carers Act in line with the Financial Memorandum of the Carers Bill (£11.6 million), along with further support for school counselling services whether or not delegated under the Public Bodies (Joint Working) (Scotland) Act 2014 (£4 million);
- Baselineing of the £90 million added at Stage 1 of the Budget Bill for 2019-20;
- The ongoing £88 million to maintain the pupil:teacher ratio nationally and secure places for all probationers who require one under the teacher induction scheme;
- Provision for the Teachers Pay (£156 million) and Pensions (£97 million);
- £5.3 million for Barclay implementation costs; and
- A new capital £50 million Heat Networks Early Adopters Challenge Fund to support local authorities who are ready to bring forward investment-ready heat networks.

As confirmed last week local authorities will continue to have the flexibility for 2020-21 to increase Council Tax by up to a maximum of 3% in real-terms (4.84% cash). This local discretion will preserve the financial accountability of local government, whilst also potentially generating around £135 million to support services.

The revenue allocation delivers a real-terms increase for local government for 2020-21 compared to 2019-20. Taken together with the additional spending power that comes with the flexibility to increase Council Tax (worth around £135 million next year) the total revenue funding would deliver a real-terms increase in the overall resources to support local government services of £435.9 million or 4.3%.

In 2020-21 integration will bring together, under the direction of Integration Authorities, more than £9.4 billion of expenditure previously managed separately by NHS Boards and Local



Authorities for social care, community health care and some hospital services. Integration Authorities must be empowered and supported by their Local Authority and NHS Board partners to use the totality of these resources, including any targeted investment already committed for specific purposes, to better meet the needs of their local populations.

Individual local authorities will, in return for this settlement, be expected to deliver certain specific commitments.

The funding allocated to Integration Authorities should be additional and not substitutional to each Council's 2019-20 recurring budgets for social care services that are delegated. Similarly, the £4 million for school counselling services must be additional. This means that, when taken together, Local Authority social care budgets for allocation to Integration Authorities and funding for school counselling services must be £100 million greater than 2019-20 recurring budgets.

We will also continue to take forward our ambitious programme of educational reform that will deliver an education system led by communities, schools and teachers. The Scottish Government, in partnership with local authorities, will empower schools to make key decisions over areas such as the curriculum, budgets and staffing while continuing to deepen collaboration across the education sector. In recognising that teachers are central to achieving our ambition of delivering excellence and equity in Scottish education we will continue to commit an overall funding package of £88 million in the local government finance settlement to support both maintaining the pupil teacher ratio at a national level and ensuring that places are provided for all probationers who require one under the teacher induction scheme.

Each local authority area will continue to benefit from Pupil Equity Funding (PEF) which forms part of the overall commitment from the Scottish Government to allocate £750 million through the Attainment Scotland Fund, over the term of the Parliament to tackle the attainment gap. £120 million in Pupil Equity Funding is going directly to headteachers to provide additional support to help close the attainment gap and overcome barriers to learning linked to poverty. PEF is additional to the £62 million Attainment Scotland funding, which is outwith the local government finance settlement. Money from the Attainment Scotland Fund will continue to provide authorities and schools with additional means to provide targeted literacy, numeracy and health and wellbeing support for children and young people in greatest need.

The Heat Networks Early Adopters Challenge Fund will be a competitive fund to provide enabling and financial support to assist the build and installation of exemplar local authority-led heat network projects. The Challenge Fund will offer capital funding up to an intervention rate of 50 per cent and will be available for new and existing heat networks who are able to demonstrate progress towards greenhouse gas emissions reductions and wider socio-economic benefits. There will also be a smaller development funding call within the Challenge Fund to help develop early stage project proposals to become investment-ready in future years. The detailed terms and conditions for the Heat Networks Early Adopters Challenge Fund will be drawn up in consultation with COSLA and we anticipate that it will launch early in the financial year.

The Scottish Government remains committed to a competitive non-domestic rates regime, underlined by the proposals outlined in this Scottish Budget. The poundage in Scotland has been capped below the Consumer Price Index inflationary increase at 49.8 pence, a 1.6 per cent increase. The Scottish Government are also introducing some further support for intermediate sized properties which will ensure around 95 per cent of properties in Scotland now pay a lower poundage than they would in other parts of the United Kingdom. Full details of this and all other reliefs are set out in Local Government Finance Circular 1/2020.

In these unprecedented times with all the uncertainty imposed upon us by the UK Government the Scottish Government believe, taking into account all the circumstances, the allocations set out in this local government finance settlement is the best that could be achieved and continues to provide a fair settlement to enable local authorities to meet our shared priorities of improving wellbeing, supporting inclusive economic growth, responding to the Global Climate Emergency and tackling child poverty.



**KATE FORBES**

## APPENDIX 2

### MIDLOTHIAN COUNCIL

#### Council Tax for Financial Year 2020/21

This statement gives details of the 2020/21 Council Tax payable in respect of a chargeable dwelling in each of the valuation bands specified in Section 74(2) of the Local Government Finance Act 1992 determined in accordance with Section 74(1) of the Act (as amended) **Based on Band D Council Tax of £1,409.**

Band	Range of Values		Band D	Council
	From	To	Proportion	Tax
	£	£		£
A	-	27,000	240/360	939.33
B	27,001	35,000	280/360	1,095.89
C	35,001	45,000	320/360	1,252.44
D	45,001	58,000	360/360	1,409.00
E	58,001	80,000	473/360	1,851.27
F	80,001	106,000	585/360	2,289.63
G	106,001	212,000	705/360	2,759.29
H	212,001	upward	882/360	3,452.05
Z	-	-	-	782.78

## Appendix 3

# MIDLOTHIAN COUNCIL

## REVENUE BUDGET 2020/21 SUMMARY

	2020/21 £
<b>SERVICE FUNCTION</b>	
Management and Members	1,799,964
<b>People and Partnerships</b>	
Children, Young People and Partnerships	19,099,155
Education	98,136,680
Adult Health and Social Care - Delegated to MIJB	45,496,458
Adult Health and Social Care - Non-Delegated	1,560,163
<b>Place</b>	
Place	28,315,742
Corporate Solutions	20,999,819
Joint Boards	572,441
Non Distributable Costs	1,238,436
<b>GENERAL FUND SERVICES NET EXPENDITURE</b>	<hr/> 217,218,859
Loans Charges	5,296,106
Investment Income	(560,736)
Council Wide Savings Targets	(1,323,446)
Centrally Held Budget Provisions	2,017,834
Allocations to Housing Revenue Account, Capital Account etc	(5,140,617)
<b>NET EXPENDITURE</b>	<hr/> <b>217,508,000</b> <hr/>
 Council Tax Income	 54,477,000
Scottish Government Grant	163,031,000
<b>TOTAL FUNDING</b>	<hr/> <b>217,508,000</b> <hr/>