

## **Financial Strategy 2017/18 to 2021/22**

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

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

This report provides Council with an update on the Financial Strategy encompassing the years 2017/18 to 2021/22 and incorporates the results from the Shaping our Future Consultation.

It includes:-

- An update on Scottish Government Grant;
- Updated budget projections for 2017/18 to 2021/22;
- A sensitivity analysis reflecting the potential impact of different pay and grant settlement scenarios;
- An update on the resources to be provided to the Midlothian Integration Joint Board in 2017/18;
- Ratification of the 2017/18 budget contribution to SESplan;
- The results from the Shaping our Future consultation;
- Savings proposals from the Strategic Leadership Group;
- An update on the strands of the change programme;
- An update on reserves.

#### **2 Background**

The core objective of the Financial Strategy 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.

On 8 November 2016 Council was provided with an updated assessment of projected budgets shortfalls through to 2021/22 which, based on the assumptions set out in that report, projected a budget shortfall for 2017/18 of £10.018 million rising to £40.981 million. Encompassing the savings targets for the change programme and assuming a 3% per annum increase in Council Tax resulted in a remaining budget gap to be addressed of £6.027 million for 2017/18 rising to £31.962 million in 2021/22.

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

The UK Government's Autumn Statement for 2016 was published on 23 November 2016 along with the latest Office for Budget Responsibility Economic and Fiscal Outlook. The Barnett formula related consequential from the last UK budget and the Autumn Statement mean that the Scottish block budget will receive extra funds over the next three years compared to what was outlined in last year's draft UK budget 2016-17.

Despite the Barnett consequential there is continued uncertainty as regards the prospects for the 2017/18 Local Government Grant settlement. The main causes of this uncertainty revolve around how Scottish Government might utilise its borrowing powers and new tax powers, the degree of protection offered to the NHS, public sector pay policy and both Council Tax and Non Domestic rates policy.

Publication of the Scottish Government's budget for 2017/18 and the associated grant settlement is expected to be made after this report has been published on the 15 December 2016. Given the impact the grant settlement will have on the projections set out in this report Council will be provided with a verbal update on the settlement and the initial assessment of its implications for the Council's 2017/18 budget. The full implications will be set out in the Financial Strategy report to Council on 7 February 2017 where Council has agreed to determine its 2017/18 budget and Council Tax levels.

Although the grant settlement will only be for 2017/18 it will have an impact on the projections for future years and as such will significantly influence the timing of and the extent to which Council has to reshape and reduce service budgets in order to maintain financial sustainability.

The projections set out in the tables which follow continue to be based on the central planning assumption, adopted on 27 September 2016, of a £1 million reduction per annum (equivalent to a 3.5% real terms reduction) in Government Grant support with specific conditions and direction of resources continuing to be a feature of future years grant settlements.

In advance of the Autumn Statement the indications from commentators were that the prospects for the 2017/18 grant settlement and also that for later years remained challenging. In addition COSLA recently sought information from Councils to assess what the impact of a range of grant reduction scenarios might be including that of a 5% cash reduction. These both serve to reinforce the degree of the uncertainty at the time of writing this report. To demonstrate the potential impact of a more severe cut in grant the sensitivity analysis set out in section 6 below also incorporates a scenario based on a 5% cash reduction.

It is stressed that the grant figures set out in table 1 below are projections.

The budget shortfalls set out in table 1 are based on the current Band D Council Tax of £1,210 and reflect the additional income from an increase in the number of properties together with the anticipated income generated by the reform of Council Tax as set out in the Financial Strategy report on 27 September 2016.

As previously reported the additional income arising from reform is expected to be removed from the general grant provided to Councils. The majority of which will be used to fund an Attainment Fund of £100 million nationally, to be distributed directly to Schools based on free school meals eligibility.

As previously reported and based on “*A plan for Scotland 2016 -17, Government’s Programme of Government*” it is expected that Scottish Government will include conditions in the 2017/18 grant settlement, continuing over the term of the current Parliament, to cap the annual increase for Council Tax at 3%. For Midlothian a 3% increase is estimated to generate £1.254 million for 2017/18 rising to £1.334 million by 2021/22 and would result in Band D Council Tax rising to £1,246 in 2017/18 and to £1,403 by 2021/22. Given the grant prospects set out in section 3 of this report the Financial Strategy incorporates a 3% increase per annum to address the projected budget shortfalls.

Government have also indicated their intention to abolish the Council Tax discount for second homes. Proposals in this respect are considered elsewhere on today’s agenda and contribute to addressing the projected budget gaps.

## 5 Cost of Services

The assessment of the projected cost of services for 2017/18 to 2021/22 set out in this report reflects the latest information available.

The projected cost of services for 2017/18 has increase from that set out in the update provided to the Business Transformation Steering Group on 28 November 2016. The increase is attributable to waste disposal costs and additional pressures identified for Through Care as detailed in table 3 below. These changes increase the projected budget shortfall for 2017/18 to £10.933 million, an increase of £0.915 from the shortfall previously reported.

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

- Pay inflation of 1% per annum. The Local Government Workers Trade Unions have submitted a one year pay claim for 2017/18 of a flat £1,000 per annum across all grades. For Midlothian this equates to 4.5% and an indicative cost of £3.5 million, £2.700 million more than reflected in table 2. The claim is unaffordable in the current financial climate and COSLA is formulating it’s response;
- The cost of the Review of Pay and Grading and subsequent incremental pay progression;
- The impact of Pension Reform and anticipated changes in the Council’s contribution towards employee pensions costs;

- That the Apprenticeship Levy of 0.5% of the pay bill equating to £0.500 million, is compensated by additional grant or other funding to offset its impact. Doubt still remains as to whether Councils will receive funding support to offset this;
- Contractual inflation linked to existing contractual conditions, many of which mirror pay inflation assumptions;
- An initial provision for 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;
- The additional cost of delivering the statutory 25 hours of teacher contact each week in primary schools;
- Borrowing costs related to 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.

Work will continue through the remainder of the budget cycle to review and update the projections with a final budget for 2017/18 presented to Council on 7 February 2017.

The projected budget shortfalls reflecting the assumptions set out in sections 3 to 5 are therefore as follows:-

**Table 1: Budget Shortfalls 2017/18 to 2021/22– 20 December 2016**

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cost of Services	203.346	210.783	218.988	226.686	234.259
Less: Council Tax	(43.450)	(44.100)	(44.750)	(45.400)	(46.050)
Less: Scottish Government Grant	(148.816)	(147.816)	(146.816)	(145.816)	(144.816)
<b>Budget Shortfall</b>	<b>11.080</b>	<b>18.867</b>	<b>27.422</b>	<b>35.470</b>	<b>43.393</b>

The budget shortfall in 2017/18 equates to 5.4% of the net cost of services and is projected to rise to 18.5% by 2021/22.

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 teacher numbers and teacher pupil ratio; and
- Growing demand for services through demographic pressures.

These elements of the budget equate to £112 million in 2017/18 and are projected to rise to £140 million by 2021/22. Consequently the budget shortfall expressed as a percentage of the remainder of the budget equates to 12% for 2017/18 potentially rising to 46% for 2021/22.

Whilst the projected cost of service provision, Council Tax and Scottish Government grant has been projected forward until 2021/22 these are very much indicative projections especially so for the later years, and will undoubtedly change. The projections are based on the continuation of the existing service delivery and funding arrangements for Local Government both of which Scottish Government has indicated its intention to review during the term of the current Parliament.

However the projections do provide Council with an assessment of the key factors which influence income and expenditure and the overall impact of these on the Council's financial position for future years. Critically they highlight the extent of the challenge ahead for the term of the next Council and the extent to which service provision will have to be transformed.

It is stressed that the cost of services set out in table 1 above and the analysis set out in table 2 are projections based on an analysis of a range of information sources. The projections and planning assumptions on which they are based will be updated and reported to Council as new information becomes available with a final budget for 2017/18 presented to Council on 7 February 2017.

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

**Table 2: Analysis of Shortfalls – 20 December 2016**

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Opening Shortfall / (surplus)	<b>2.668</b>	<b>11.080</b>	<b>18.867</b>	<b>27.422</b>	<b>35.470</b>
Pay Inflation and Progression	2.350	1.893	2.344	2.297	2.451
Pensions Reform	0.350	0.000	0.000	0.000	0.000
Pension Contributions	0.000	0.450	0.450	0.450	0.000
Contractual Inflation	0.465	0.547	0.637	0.571	0.652
Demographics: Care	1.120	1.040	1.040	1.040	1.040
Demographics: School Rolls	2.098	2.260	2.770	2.798	3.083
Demographics: Thorough Care	0.600	0.000	0.000	0.000	0.000
25 Hours in Primary Schools	0.160	0.090	0.000	0.000	0.000
Demand pressures: Children	0.000	0.324	0.024	0.024	0.024
School Estate Investment	0.311	0.381	1.126	0.033	0.036
Waste Disposal Costs	0.320	0.213	(0.285)	0.125	0.125
Non Domestic Rates	0.128	0.132	0.135	0.138	1.142
Borrowing Costs	0.997	(0.003)	(0.089)	0.123	(0.007)
Scottish Government Grant					
- Council Tax Reform	1.700	0.000	0.000	0.000	0.000
- Reduction	1.000	1.000	1.000	1.000	1.000
Council Tax Income	(2.850)	(0.650)	(0.650)	(0.650)	(0.650)
Other Movements	(0.337)	0.110	0.053	0.099	(0.973)
<b>Totals</b>	<b>11.080</b>	<b>18.867</b>	<b>27.422</b>	<b>35.470</b>	<b>43.393</b>

The principal movement from the figures set out in the 8 November 2016 report are as follows.

**Table 3: Movement from 27 September 2016 – 20 December 2016**

	2017/18	2018/19	2019/20	2020/21	2021/22
--	---------	---------	---------	---------	---------

	£m	£m	£m	£m	£m
<b>Shortfalls 8 Nov 2016</b>	<b>10.018</b>	<b>17.355</b>	<b>25.460</b>	<b>33.058</b>	<b>40.981</b>
Pension Contributions	0.000	0.450	0.900	1.350	1.350
Demographics: Thorough Care	0.600	0.600	0.600	0.600	0.600
Waste Disposal Costs	0.271	0.271	0.271	0.271	0.271
Other Movements	0.191	0.191	0.191	0.191	0.191
<b>Shortfalls 20 Dec 2016</b>	<b>11.080</b>	<b>18.867</b>	<b>27.422</b>	<b>35.470</b>	<b>43.393</b>

## 6 Sensitivity Analysis

Given the level of uncertainty associated with the 2017/18 grant settlement and outstanding pay awards table 4 provides a sensitivity analysis reflecting the potential impact of different scenarios/outcomes for these two key aspects of the budget.

Scenario 1, a more optimistic scenario which continues to assume a 1% pay award in each of the years but with cash flat grant settlement. Otherwise all other assumptions remain as set out in section 3.

Scenario 2, a more pessimistic scenario which assumes a 4.5% pay award for Local Government staff and 2% for Teachers in 2017/18 reducing to 2% for all staff in later years. It continues to assume a £1 million reduction in government grant.

Scenario 3, reflecting a challenging grant settlement, it continues to assume a 1% pay award in each of the years together with a £5 million reduction in government grant in 2017/18 and £2 million reduction thereafter.

**Table 4: Sensitivity Analysis – 20 December 2016**

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
<b>Scenario 1</b>					
Central Assumption	11.080	18.867	27.422	35.470	43.393
Cash Flat Government Grant	(1.000)	(2.000)	(3.000)	(4.000)	(5.000)
<b>Amended Shortfall</b>	<b>10.080</b>	<b>16.867</b>	<b>24.422</b>	<b>31.470</b>	<b>38.393</b>
<b>Scenario 2</b>					
Central Assumption	11.080	18.867	27.422	35.470	43.393
Revised Pay Award Assumption	3.600	5.500	7.400	9.300	11.200
<b>Amended Shortfall</b>	<b>14.680</b>	<b>24.367</b>	<b>34.822</b>	<b>44.770</b>	<b>54.593</b>

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
<b>Scenario 3</b>					
Central Assumption	11.080	18.867	27.422	35.470	43.393
Revised Government					

Grant	4.000	5.000	6.000	7.000	8.000
<b>Amended Shortfall</b>	<b>15.080</b>	<b>23.867</b>	<b>33.422</b>	<b>42.470</b>	<b>51.393</b>

As the scenarios demonstrate any changes, particularly from the central planning assumption for government grant will have a dramatic effect on the projected budget shortfalls.

## **7 Midlothian Integration Joint Board**

The indicative allocation has increased since that reported on 8 November 2016, reflecting the additional costs identified for Thorough Care of £0.600 million. This gives rise to an indicative allocation to the Integrated Joint Board (IJB) for 2017/18 at this time of £37.526 million. The savings proposals set out in section 10 will have no material impact on this allocation.

The Chief Officer and Chief Financial Officer of the IJB are supporting the IJB to develop its 2017/18 Financial Plan and the Directions it will issue to the Council and NHS Lothian within the context of the indicative allocations from the Council and NHS Lothian.

## **8 Ratification of SESPlan Contribution**

The Council is one of the six constituent Councils that comprise the Strategic Development Planning Authority for Edinburgh and South East Scotland.

Since its inception in 2007 all member Councils have made an annual contribution to fund the operation of SESplan. Under the terms of the SESplan constitution and financial rules, each Council has to ratify by the end of the calendar year the budget decision of the SESplan Joint Committee including the funding contributions for the following financial year. On 28th November 2016 the Joint Committee agreed that member council contributions for 2017/18 would remain unchanged at £46,550.

The Joint Committee also agreed to review the level of council contributions in March 2017, but confirmed that the product of that review would not increase the sum agreed on 28th November 2016. Accordingly, Council is asked to ratify a budget contribution of £46,550 to SESplan for the financial year 2017/18, as well as the SESplan Joint Committee budget report and draft minute of 28th November 2016, copies of which have been placed in the Members' Library.

## **9 Shaping our Future**

The 'Shaping our Future' public consultation carried out during 2016 provided an opportunity to gauge public opinion on potential service changes in response to the projected budget position. The savings proposals from the Strategic Leadership Group set out in this report have taken cognisance of the consultation, whilst

recognising its limitations in terms of the scale of the response and its reliability as a measure of public views.

Launched in February 2016, the consultation has comprised the following phases:

Feb/March	Public information campaign on budget challenges and early consultation on service priorities
April/ May	Citizens' Panel consulted on Shaping our Future priority areas/ possible savings
May/ Aug	Consultation with local groups/ group discussions, including residents groups, voluntary groups, Federation of Community Councils and Neighbourhood Planning groups
Oct – Nov	Launch of 'Choices for Change' consultation paper and public survey on possible service changes/ savings

The Council received 1,713 individual and group responses during the different phases of the Shaping our Future consultation. This includes 609 responses to the Citizens' Panel Survey and 486 responses to the 'Choices for Change' consultation in the latter part of the year, which set out a number of service related proposals. A summary of the findings from the consultation is set out in Appendix 1.

The 'Choices for Change' consultation indicated that roads and street lighting were seen as a particular area of concern, whilst education was seen as a key priority area, alongside preventative work and early intervention in health and social care and children's services to reduce future year costs

A number of questions on 'Shaping our Future' were included in the Spring 2016 Citizens' Panel questionnaire.

The top 3 ways in which Panel respondents indicated that they would like to achieve savings through transforming how services are delivered and by finding new and better ways of working are as follows:

- "Merge services or functions to save on administration and management costs"
- "Increase savings from the joint approach to procurement of goods and services"
- "Better use of properties, including co-locating services, disposing of properties which are in poor condition, transferring management/ ownership of community spaces/buildings to community groups"

The issues that respondents are least likely to select as a priority are:

- "Buy more services from the private or voluntary sectors"
- "Make appropriate use of temporary or interim job positions"

Just over three quarters (77%) of respondents said that they "would accept the Council closing some operational properties to protect and develop others." A further 74% said that they "would accept additional charges for some services if this would protect essential services." Just over half (58%) said that they "would be willing to pay more Council tax to help protect public services in Midlothian".



More detailed information about the public consultation work, including comments received from residents and local groups has been made available in the Members' Library.

## **10 Change Programme**

The strands of work that are necessary to address the projected budget shortfalls represent a change programme, encompassing:-

- The Delivering Excellence programme;
- The delivery of savings approved in 2016/17 and the continued control over expenditure in the current year;
- The Transformation Programme;
- The EWiM programme;
- An updated Capital Strategy and Reserves Strategy;
- Operational savings encompassing financial discipline measures;
- The development of further savings options for 2017/18 and beyond.

### **10.1 Delivering Excellence**

The 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.

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

- Realise savings of the scale and magnitude required and to continue to deliver high quality services by engaging staff, partners, stakeholders and citizens to determine the nature of service delivery, the level of service standards and the method of delivering these services;
- To perform successfully in this environment, the Council will require to forward plan for the period beyond known financial settlements, to prioritise the services to be delivered and to clearly identify those services which will no longer be funded or indeed provided or may be provided through alternative mechanisms or approaches; and
- To ensure that there is achievement of the outcomes and priorities of the Council and Community Planning Partners.

The savings proposals set out in sections 10.5 and 10.6 below have emerged from the focussed Delivering Excellence activity which has taken place over the earlier part of the year. In addition to identifying savings proposals to reduce the 2017/18 budget gap it has also identified key transformational activities which it is anticipated can generate savings in future years. These are summarised in table 5, or where they relate to the existing transformation programme they have been reflected in table 6 included in section 10.2 – Transformation Programme.

As each strand is developed proposals will be presented to The Business Transformation Steering Group for their consideration and direction and then to Council.

**Table 5: Delivering Excellence – Emerging Projects – 20 December 2016**

	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m
Asset Management	0.078	0.500	2.650	2.650
Waste Services	0.400	0.400	0.400	0.400
Destination Hillend	0.000	1.000	1.000	1.000
Others	0.070	0.284	0.284	0.284
<b>Totals</b>	<b>0.548</b>	<b>2.184</b>	<b>4.334</b>	<b>4.334</b>

## 10.2 Transformation Programme

The existing Transformation Programme has been and continues to be central to the delivery of sustainable change and delivery of the Council's Financial Strategy. It remains a major focus with a continued drive towards delivering on the agreed outcomes and targets. The future year's savings targets incorporated in the Financial Strategy are derived from those set out in the Council Transformation Programme update reports to Business Transformation Steering Group (BTSG) revised to incorporate the transformational activity as outlined in section 10.1 and are set out in table 6 below.

**Table 6: Council Transformation Programme Additional Savings – 20 December 2016**

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Children's Services	0.532	0.806	0.867	0.867	0.867
Services to Communities	0.200	1.050	1.050	1.050	1.050
Education	0.329	0.755	0.790	0.790	0.790
Customer Service	0.175	0.175	0.175	0.175	0.175
Health & Social Care	1.555	2.555	2.555	2.555	2.555
<b>Totals</b>	<b>2.791</b>	<b>5.341</b>	<b>5.437</b>	<b>5.437</b>	<b>5.437</b>

The savings targets set out in table 6 exclude those already reflected in the 2016/17 approved budget and are predicated on the outcomes of the reviews and any subsequent decisions taken by Council and so remain indicative.

## 10.3 Asset Management

The position remains as reported on 28 June 2016.

## 10.4 Capital Strategy and Reserves Strategy

The position remains as reported on 8 November 2016.

## 10.5 Operational Savings

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

In addition appendix 2 summarises further operational savings which have been identified by the Strategic Leadership Group. These total £2.021 million in 2017/18 rising to £3.139 million by 2019/20.

## **10.6 Savings Options**

Taking cognisance of the extent of the projected savings required for 2017/18 and the continued challenge for later years the Chief Executive instructed each Director to bring forward as a minimum savings options of £5 million, £15 million in total, for consideration by the Strategic Leadership Group in September 2016.

On 25 October 2016 a working draft of the options developed by the Strategic Leadership Group, and which amounted to approximately £16 million, was provided to the Leader of the Council, Councillor Johnstone, the Leader of the Labour Group, Councillor Milligan and also Councillor Baxter. A copy was also subsequently provided to Councillor de Vink.

In addition to the future years savings targets set out in section 10.1 and 10.2 and the operational savings set out in section 10.5 the Strategic Leadership Group presented its savings proposals to Business Transformation Steering Group on 28 November 2016 as set out in Appendix 3a and 3b. These total £2.406 million in 2017/18 rising to £4.678 million by 2021/22. Business Transformation Steering Group noted that the proposals would be presented to Council on 20 December 2016 for consideration in accordance with the timetable agreed by Council on 28 June 2016.

## **10.7 Fees and Charges**

In addition to the specific proposals in respect of fees and charges included in the savings options set out in 10.6 the Strategic Leadership Group's proposals include an inflationary increase for a wider range of fees and charges and also proposals for a number of new fees and charges as detailed in appendix 4. These are estimated to generate an addition £0.100 million in 2017/18. An assessment of inflationary increases for later years would potentially generate a further £0.200 million by 2021/22.

## **10.8 Summary of Financial Strategy**

The updated projections incorporating the impact of the various strands of the Financial Strategy and assuming a 3% per annum increases in Council Tax are set out in table 7 below. The position also reflects the proposals in respect of Council Tax on second homes elsewhere on today's agenda. The change programme set out above reduces the remaining budget gap for 2017/18 to £2.115 million.

Subject to the impact of the grant settlement and any further movements in the 2017/18 budget this remaining gap would require to be met by the utilisation of reserves.

**Table 7: Financial Strategy 2017/18 to 2021/22 – 20 December 2016**

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Budget Shortfall Table 1	11.080	18.867	27.422	35.470	43.393
<b>Less: Change Programme</b>					
Delivering Excellence 10.1	-	(0.548)	(2.184)	(4.334)	(4.334)
Transformation Programme 10.2	(2.791)	(5.341)	(5.437)	(5.437)	(5.437)
Asset Management 10.3	0.000	0.000	(0.288)	(0.288)	(0.288)
Operational Savings 10.5	(2.021)	(3.029)	(3.139)	(3.139)	(3.139)
Savings Options 10.6	(2.406)	(2.960)	(3.208)	(4.078)	(4.678)
Fees and Charges 10.7	(0.100)	(0.180)	(0.240)	(0.280)	(0.300)
<b>Other Proposals</b>					
Council Tax Increase	(1.254)	(2.528)	(3.823)	(5.138)	(6.472)
Council Tax on Second Homes	(0.300)	(0.250)	(0.200)	(0.200)	(0.200)
<b>Remaining Budget Gap</b>	<b>2.208</b>	<b>4.031</b>	<b>8.903</b>	<b>12.576</b>	<b>18.545</b>

As part of the development and consideration of the proposals recommended by the Strategic Leadership Group all Heads of Service have provided assurance to me, as Section 95 Officer, that the savings proposals which will be incorporated in 2017/18 are achievable. It is stressed however that ultimately the achievement of savings will be dependent on decisions taken by Council.

## **11 Governance and Timetable**

Each element of the Financial Strategy continues to have clear governance in place to ensure the timely delivery of the work stream, with proposals being reported through Business Transformation Steering Group and then to Council as appropriate.

Members are reminded that Council has a duty as set out in Section 93 of the Local Government Finance Act 1992 (as amended) to set its Council Tax and a balanced budget for the following financial year commencing 1 April by 11 March.

Accordingly the budget timetable, agreed by Council on 28 June 2016, provides for consideration of savings options at today's meeting. The timetable also provides for a further report to Council on 7 February 2017 setting out the final budget position for 2017/18 and will include recommendations in respect of Council Tax and balancing the budget for 2017/18.

Furthermore members are also reminded that in terms of Section 112 of the Local Government Finance Act 1992 (as amended) it is an offence to participate in any vote in respect of setting Council Tax where the member has unpaid Council Tax.

Members are required to disclose the fact this section of the act applies to them and not vote on any question with respect to the matter.

## 12 Focussing Resources to Key Priorities

The Financial Strategy is designed to ensure that available resources are as far as possible targeted on delivery of improved outcomes, particularly against the key priorities of:-

- Reducing the gap in learning outcomes.
- Reducing the gap in health outcomes.
- Reducing the gap in economic circumstances.

The Midlothian Community Planning Partnership continues to prioritise the available resources towards the delivery of the partnerships key priorities and the Financial Strategy sets out for partners the parameters the Council is working within and provides a means to better facilitate the sharing of budget and resource planning information.

The Change programme, incorporating the Delivering Excellence framework and Transformation Programme, is central to ensuring that resources are directed towards the priorities set out in the Midlothian Single Plan. The development activity for the 2017/18 budget has ensured that as far as possible the resultant budget, reflecting the savings outlined in section 10, will be focussed on delivery of the Council's key priorities.

## 13 Reserves

The projected position for General Fund Reserves remains as reported on 8 November 2016 as set out in table 8 below.

As indicated in section 10 based on the position pre grant settlement the recommendations in this report, if approved, would leave a remaining budget gap of £2.208 million in 2017/18. In the absence of any further changes this would fall to be met by the utilisation of reserves which would reduce the contingency level of General Fund Reserve to £7.137 million which would equate to 3.7% of projected net expenditure for 2017/18.

**Table 8: Available General Fund Reserve 31 March 2017 – 20 November 2016**

	<b>£million</b>
<b>General Fund Balance at 31 March 2017</b>	<b>13.672</b>
<i>Earmarked for specific purposes</i>	
Approved contingency level of General Fund Reserve ( <i>note</i> )	(8.000)
Earmarked for Council Transformation ( <i>note</i> )	(4.300)
Borders Rail Economic Development	

Opportunities	(0.027)
<b>Available General Reserve at 31 March 2017</b>	<b>1.345</b>

***Note** – On 27 September 2016 Council approved the level of contingency reserve and earmarked a further £4.000 million for Transformation but reserved the right to revisit these decisions again during the 2017/18 budget setting cycle given the continued uncertainty in respect of the grant settlement.*

## **14 Report Implications**

### **14.1 Resources**

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

### **14.2 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;
- Given the nature of the savings options incorporated in the budget proposals the increase risk of non-delivery or late delivery of planned savings, including those arising from reductions in the staffing establishment;
- Outstanding pay award settlements and the implications of the National Living Wage for external service providers;
- 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 exceeding budget estimates;
- The impact of Universal Credit, and potential pension changes;
- Council's ability to secure a share of the funds collected by the Apprenticeship Levy to offset the cost to the Council;
- The costs of implementation of national policies varying from the resources provided by Government; and
- Unplanned capital investment requirements and associated cost.

The Financial Strategy aims to mitigate a number of these risks by setting out the key assumptions on which forward plans are based, and through the Change Programme activities, setting out the early identification of future saving proposals.

### **14.3 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

#### **14.4 Impact on Performance and Outcomes**

The Financial Strategy is central to the way Council allocates and uses its available resources and as such has fundamental implications for service performance and outcomes. The budget projections indicate that in 2021/22 the Council will have available in the region of £191 million for the provision of services and the pursuit of key outcomes as set out in the Single Midlothian Plan.

#### **14.5 Adopting a Preventative Approach**

Whilst the proposals in this report do not directly impact on the adoption of a preventative approach, an effective Financial Strategy in turn allows resources to be prioritised to support prevention.

#### **14.6 Involving Communities and Other Stakeholders**

Shaping our Future, the consultation strand of the Delivering Excellence framework, has been a key aspect of informing the community and other stakeholders of the financial and service challenges and included consultation on a range of options as the change programme developed.

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

#### **14.7 Ensuring Equalities**

Whilst the financial strategy and the supporting proposals have been developed within the context of ensuring that resources are directed towards key priorities, Midlothian Council is committed to the ethos of the Equality Act 2010 and has considered the interests of the most vulnerable in our communities through equality impact assessment for all the budget proposals.

EQIAs have been prepared and published on the Council website for each of the savings proposals set out in appendix 3. An overarching EQIA encompassing the revenue budget for 2017/18 as set out in table 7 is attached as appendix 5. This will be updated for the 7 February 2017 report when Council will be asked to determine its 2017/18 budget and Council Tax.

#### **14.8 Supporting Sustainable Development**

There are no direct sustainability issues arising from this report.

#### **14.9 IT Issues**

There are no direct IT implications arising from this report.

### **15 Summary**

The report provides:-

- An update on Scottish Government Grant;
- Updated budget projections for 2017/18 to 2021/22;
- A sensitivity analysis reflecting the potential impact of different pay and grant settlement scenarios;
- An update on the resources to be provided to the Midlothian Integration Joint Board in 2017/18;
- For ratification of the 2017/18 budget contribution to SESplan;

- The results from the Shaping our Future consultation;
- Savings proposals from the Strategic Leadership Group;
- An update on the other strands of the change programme;
- An update on reserves.

## 16 Recommendations

Council is recommended to:-

- Note that a verbal update in respect of the Scottish Government Grant Settlement, due on 15 December 2016, will be provided to Council;
- Note the updated projected cost of services, key assumptions and resultant budget shortfalls as set out in section 3;
- Note the continuing uncertainties and the potential impact as outlined in the differing scenarios as set out in section 6;
- Ratify a budget contribution of £46,550 to SESplan for the financial year 2017/18, as well as the SESplan Joint Committee budget report and draft minute of 28th November 2016, copies of which have been placed in the Members' Library;
- Note the results of the Shaping our Future consultation as summarised in section 9 and detailed in appendix 1;
- Note the addition of savings targets for Delivering Excellence activity of £0.548 million in 2018/19 rising to £4.334 million in 2021/22 as set out in table 5 and the revised Transformation Programme savings targets of £2.791 million in 2017/18 rising to £5.437 million in 2021/22 as set out in table 6;
- Note the operational savings set out in section 10.5 and detailed in appendix 2 of £2.021 million in 2017/18 rising to £3.139 million in 2021/22;
- Consider the Strategic Leadership Group's savings proposals as set out in section 10.6 and detailed in appendix 3a and 3b of £2.406 million in 2017/18 rising to £4.678 million in 2021/22;
- Consider the proposed increases to fees and charges and proposed new fees and charges as set out in section 10.7 and detailed in Appendix 4 which generate an additional £0.100 million for 2017/18;
- In considering recommendations h) and i) also consider the contents of the draft EQIA set out in appendix 5;
- Note that based on the assumptions detail in the report and subject to approval of the proposals in respect of Council Tax on second homes and recommendations h) and i) above the Strategic Leadership Group proposals reduce the remaining budget gap for 2017/18 to £2.208 million;



- l) Note that a further report will be presented to Council on 7 February 2017 to enable Council to determine a budget for 2017/18, including any utilisation of reserves, and to set Council Tax levels for the year commencing on 1 April 2017.
- m) Otherwise note the contents of the report.

**Date** 12 December 2016

**Report Contact:**

Gary Fairley Tel No 0131 271 3110

[gary.fairley@midlothian.gov.uk](mailto:gary.fairley@midlothian.gov.uk)