

## Medium Term Financial Strategy - Update

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

#### 1 Purpose of Report

The purpose of this report is to update Council on the Medium Term Financial Strategy and specifically the progress with recommendations since the last report on 25 June 2019.

#### 2 Background

On 25 June 2019, on a recommendation from the Business Transformation Steering Group, Council approved the following amendment:

- a) *Approve the first iteration of the Medium Term Financial Strategy as appended to the report and in doing so;*
  - i) *Specifically approve the resource allocation measures in respect of 2020/21 numbered 1 to 10, 12, 16, 17, 19, 20, 23, 24, 28, 30, 36a, 38, 39 and 41 to 43 in appendix 2 to the Medium Term Financial Strategy totalling £7.088 million;*
  - ii) *Agree in principle, subject to further engagement with communities, on the detail of the remaining resource allocation measures summarised in table 1 and as set out in appendix 2;*
  - iii) *Remit to the next meeting of BTSG to review and report back on the provision of music tuition;*
  - iv) *Instruct the Chief Executive to report back to Council on 1 October 2019 on remaining resource allocation measures;*
  - v) *Note all 6 of the elected members on the BTSG will participate in further engagement activity and;*
  - vi) *Instruct officers to fully develop (where necessary) at pace and also proceed to implementation at pace the approved measures;*
- 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 the Council advise the MIJB of the updated projections for later years as set out in table 5 and that discussions continue with officers of the MIJB 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 set 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 and;*
- j) *Otherwise note the content of the report.*

At the time of writing, the Business Transformation Steering Group has met on four occasions since 25 June 2019 and will meet again on 30 September 2019 prior to Council. This report provides an update from these Business Transformation Steering Group meetings on:

- Proposals for further engagement with communities;
- A report back on music tuition;
- The position with the resource allocation measures approved in principle only;
- Progress with development and implementation of the approved measures; and
- Progress to date by Business Transformation Steering Group on the Medium Term Financial Strategy, specifically to identify measures to address the remaining budget gaps.

It also provides Council with an update on Scottish Government grant settlement and other key assumptions.

### **3 Update from Business Transformation Steering Group**

#### **3.1 Further Engagement with Communities**

On 19 August 2019 having heard from the Strategic Service Redesign Manager of the views of the Political Groups, Business Transformation Steering Group agreed to proceed with an online survey for the next phase of consultation but also make provision for residents who could not complete this online.

#### **3.2 Music Tuition**

On 19 August 2019 Business Transformation Steering Group considered an update on Music Tuition noting that the service will have a projected overspend of £225,000 and that a 'twin track' approach had been adopted for the music tuition program in line with the budget decision. Firstly to create a working group of parents, young people, staff and community members to explore increased uptake, sponsorship, fundraising and instrument donations. Secondly to find ways to reduce the projected overspend.

It was agreed that as the Education budget was reporting a net underspend that music tuition staff would not require to undergo a formal service review but the service would be closely monitored and that the Strategic Service Redesign Manager would continue to work with parents to look at different ways in delivering and promoting the service.

#### **3.3 Implementation Progress**

Work is ongoing, overseen by the Business Transformation Board, to develop and implement the approved resource allocation measures. At the BTB meeting on 28 August 2019 the service dashboards included progress updates for the Medium Term Financial Strategy measures which indicate the majority and at an early stage. At this point there is no change to the measures or the savings attached to them. The Business Transformation Board will provide a means to ensure proposals are fully developed and implemented at pace.

#### **3.4 Measures to Address the Remaining Budget Gap**

A number of the proposed resource allocation measures set out as part of the 25 June 2019 report were agreed in principle only. This report asks Council, on the recommendation of BTSG, to move the in principle decisions as shown in appendix 1 to full approval in order to enable officers to commence implementation.

Furthermore BTSG recommends that the remaining in principle decision, excluding the delivery of creative arts in a different way (in view of section 3.2) and free primary 4 swimming, as detailed in appendix 2 be subject of further consultation with communities.

Reflecting the BTSG recommendation the summary position would be as follows.

**Table 1: Summary of Resource Allocation Measures including BTSG recommendation – 1 October 2019**

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Budget Gaps	<b>4.636</b>	<b>10.935</b>	<b>18.844</b>
<b>Approved 25/06/2019</b>			
Working With You, For You	0.540	0.540	0.540
Preventative and Sustainable	0.165	0.195	0.525
Efficient and Modern	3.306	4.714	5.122
Innovative and Ambitious	0.763	0.979	0.901
<b>Total</b>	<b>4.774</b>	<b>6.428</b>	<b>7.088</b>
<b>Recommendation 01/10/2019 (Appendix 1)</b>			
Working With You, For You	0.000	0.100	0.200
Preventative and Sustainable	0.000	0.000	0.000
Efficient and Modern	0.000	1.075	1.300
Innovative and Ambitious	0.000	0.510	0.810
<b>Total</b>	<b>0.000</b>	<b>1.685</b>	<b>2.310</b>
<b>Agreed in Principle (Appendix 2)</b>			
Working With You, For You	0.000	0.533	0.814
Preventative and Sustainable	0.075	0.120	0.120
Efficient and Modern	0.000	0.000	0.000
Innovative and Ambitious	0.000	0.000	0.000
<b>Total</b>	<b>0.075</b>	<b>0.653</b>	<b>0.934</b>
<b>Remaining Budget Gaps</b>	<b>(0.213)</b>	<b>2.169</b>	<b>8.512</b>

The new budget gap of £8.512 million for 2022/23 equates to 4% of projected net expenditure for 2022/23.

The Business Transformation Steering Group is continuing its consideration of resource allocation measures to address the remaining budget gap. At the time of writing it has received an overview of saving measures implements across Scotland for 2017/18 and 2018/19 together with examples from English Councils.

In their Annual Report for 2018/19 EY, the Council's appointed Auditor, in respect of financial sustainability, noting the following:

*"In July 2019, the Accounts Commission drew attention to the significant cumulative funding gap the Council had identified in the three years to 2022/23. The Council has made significant progress to address the financial*

*pressures, including the approval of a Medium Term Financial Strategy in June 2019. The remaining projected budget gap to 2022/23 has reduced from almost £19 million to £8.3 million.*

*Any failure to deliver savings in 2019/20 will result in the Council breaching the minimum level set out within it's Reserves Strategy. Collective political leadership is vital. All 18 elected members must work consistently together to agree and implement the additional savings required to underpin the Council's long term financial sustainability."*

Noting that Business Transformation Steering Group meets again 30 September 2019 a verbal update and or recommendations from that meeting will be provided to Council on 1 October 2019.

## **4 Principal Planning Assumptions**

### **4.1 Scottish Government Grant Settlement**

On 4 September 2019 the Chancellor of the Exchequer set out UK departmental spending plans for 2020/21. The plans indicate a £13.8 billion real terms growth in day to day departmental spending compared to the current year.

The Barnett consequential to Scottish Government amount to a £1.1 billion increase in resource departmental expenditure limits, which equates to 2.1% real terms growth.

The UK government's spending round report states that *"the settlements ensure that the devolved administrations have the means to grow the economy, spend more on public services and support people across Scotland, Wales and Northern Ireland"*.

On the face of it the UK settlement should provide the Scottish Government with increased spending power for 2020/21 and in turn give some flexibility to fund for a more beneficial settlement to local government. However other aspects of the Scottish budget will likely somewhat dampen any improvement in the relative position for local government.

Revisions to Scottish and UK income tax revenues lead to a negative reconciliation of £0.2 billion in relation to 2017/18 and this is applied in 2020/21 so reducing the Scottish budget by £0.2 billion.

Scottish Government has already committed to passing the Barnett consequential of extra NHS funding to the Scottish NHS. This accounts to £0.6 billion of the Barnett consequential.

For 2020/21 the Scottish Government has significant new commitments, which for local government alone amount to £0.5 billion <sup>(i)</sup> with further commitments set out in the Scottish Government programme for Scotland.

The Cabinet Secretary for Finance, Economy and Fair Work has stated that *“the UK spending round has failed to provide the certainty needed to prepare for the future of the Scottish budget.... Until we have a full UK budget we will not have the certainty we need to prepare for the future of the Scottish budget”*.

In summary the Barnett consequential of the UK spending round 2019 will boost the resources available to Scottish Government and despite the existing additional spending commitments there is the opportunity for the 2020/21 local government core settlement to be better than the current central planning assumption.

However given the continued uncertainty I would recommend that it is prudent to continue to plan on the basis of the central planning assumption with the opportunity to revisit the 2020/21 resource allocation measures once the actual settlement is known towards the end of this calendar year.

(i) [COSLA response: Local Government and Committee Council September 2019.](#)

## **4.2 Projected Net Cost of Services**

At this point there is no change in the projections from those reported on 25 June 2019. Work continues to review and update projections based on the latest information available in particular school rolls, care demographics and the deliverability of previous year's savings.

Details of the net cost of services are set out in Appendix 2.

## **4.3 Sensitivity Analysis**

Given the level of uncertainty for future year grant settlements, pay awards and Council Tax policy table 2 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 budget gap after approved resource allocation measures. 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 2: Sensitivity Analysis – 1 October 2019**

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

Central Planning Assumption after BTSG Recommendation	<b>(0.213)</b>	<b>2.169</b>	<b>8.512</b>
Cash Flat Scenario Gaps	(3.317)	(4.041)	(0.805)
Negative Scenario Gaps	5.339	15.119	29.048
Positive Scenario Gaps	(3.317)	(5.764)	(4.312)

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**

This report asks Council, on the recommendation of BTSG, to move the in principle decisions as shown in appendix 1 to full approval in order to enable officers to commence implementation and that the remaining in principle decision as detailed in appendix 2 be subject of further consultation with communities.

Council is also asked to reaffirm delegation to the cross party Business Transformation Steering Group the next phase of the development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23. In doing so Council is asked to also recommend that further proposals from BTSG are reported back to Council on no later than 17 December 2019.

## 5b Midlothian Integration Joint Board

The position remains as reported on 25 June 2019. The Midlothian Integrated Joint Board (IJB) has still to consider the update projections and meantime dialogue continues with the Chief Officer and Chief Financial Officer of the IJB.

## 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.

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 3 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 3: Timetable – Key Events**

Date *	Event	Action
1 October 2019	Council	<ul style="list-style-type: none"><li>• BTSG to recommend to Council further measures for the MTFS.</li><li>• Approval of further of resource allocation measures.</li></ul>
late December 2019	Grant Settlement	<ul style="list-style-type: none"><li>• Assessment of grant settlement implications on budget.</li></ul>
17 December 2019	Council	<ul style="list-style-type: none"><li>• Consideration of update report.</li><li>• Report back from BTSG.</li></ul>
11 February 2020	Council	<ul style="list-style-type: none"><li>• Consideration of grant settlement report.</li><li>• Recommendations to set Council Tax and determine a budget for 2020/21.</li></ul>

*\*. 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;
- 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 will require to approve a range of measures which not only achieves a balanced budget for 2020/21 but which will addressed 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**

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 2000+ responses received during the 2019/20 budget consultation held between October 2018 and January 2019.

Business Transformation Steering Group has agreed to utilise an online summary to facilitate consultation on the finalisation of the Medium Term Financial Strategy.

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.

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.

## **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 an update on the Medium Term Financial Strategy.

## **9 Recommendations**

BTSG recommends Council to:-

- a) Note the work undertaken by Business Transformation Steering Group between 25 June 2019 – 16 September 2019;

- b) To move the in principle decisions as shown in appendix 1 to full approval in order to enable officers to commence implementation;
- c) That the remaining in principle decision as detailed in appendix 2 be subject of further consultation with communities;
- d) To reaffirm delegation to the cross party Business Transformation Steering Group the next phase of the development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23 and in doing so Council is asked to also recommend that further proposals from BTSG are reported back to Council on no later than 17 December 2019; and
- e) Otherwise note the update.

**19 September 2019**

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Appendix 1 - BTSG RECOMMENDATION TO APPROVE MEASURES AGREED IN PRINCIPLE ONLY

Appendix 2 - BTSG RECOMMENDATION FOR FURTHER CONSULTATION

Appendix 3 - NET COST OF SERVICES

## MTFS - BTSG RECOMMENDATION TO APPROVE MEASURES AGREED IN PRINCIPLE ONLY - 01 10 2019

Strand	Service	No. Proposal	Year 2 2020/21 £m	Year 3 2021/22 £m	Year 4 2022/23 £m	FTE
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	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	CHS	18 Work with communities in order to encourage CAT of Non-Hub Libraries Services	0.000	0.200	0.200	7.70
<b>Efficient and Modern Total</b>			<b>0.000</b>	<b>1.075</b>	<b>1.300</b>	<b>31.700</b>
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	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
<b>Innovative and Ambitious Total</b>			<b>0.000</b>	<b>0.510</b>	<b>0.810</b>	<b>0.00</b>
One Council: Working with you , for you	P&FM	32				
		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
<b>One Council: Working with you , for you Total</b>			<b>0.000</b>	<b>0.100</b>	<b>0.200</b>	<b>0.00</b>
<b>Total</b>			<b>0.000</b>	<b>1.685</b>	<b>2.310</b>	<b>31.70</b>

MTFS - BTSG RECOMMENDATION FOR FURTHER CONSULTATION - 01 10 2019						
Strand	Service	No. Proposal	Year 2 2020/21 £m	Year 3 2021/22 £m	Year 4 2022/23 £m	FTE
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	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 Total			0.000	0.533	0.814	9.58
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 Total			0.075	0.120	0.120	0.00
Total			0.075	0.653	0.934	9.58

## Appendix 3 - Net cost of services

**Table A: Budget Gaps 2020/21 to 2022/23 after 12 February 2019 decisions – 1 October 2019**

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
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)
<b>Budget Gaps</b>	<b>4.636</b>	<b>10.935</b>	<b>18.844</b>

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 A arise for the following reasons:

**Table B: Analysis of Budget Gaps – 1 October 2019**

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Opening Gap	<b>0.000</b>	<b>4.636</b>	<b>10.935</b>
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
<b>Closing Gap</b>	<b>4.636</b>	<b>10.935</b>	<b>18.844</b>

Reflecting the BTSG recommendation outlined in this report, the summary position would be as follows:

**Table C: Summary of Resource Allocation Measures including BTSG recommendation – 1 October 2019**

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
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Efficient and Modern	3.306	4.714	5.122
Innovative and Ambitious	0.763	0.979	0.901
<b>Total</b>	<b>4.774</b>	<b>6.428</b>	<b>7.088</b>
<b>Recommendation 01/10/2019 (Appendix 1)</b>			
Working With You, For You	0.000	0.100	0.200
Preventative and Sustainable	0.000	0.000	0.000
Efficient and Modern	0.000	1.075	1.300
Innovative and Ambitious	0.000	0.510	0.810
<b>Total</b>	<b>0.000</b>	<b>1.685</b>	<b>2.310</b>
<b>Agreed in Principle (Appendix 2)</b>			
Working With You, For You	0.000	0.533	0.814
Preventative and Sustainable	0.075	0.120	0.120
Efficient and Modern	0.000	0.000	0.000
Innovative and Ambitious	0.000	0.000	0.000
<b>Total</b>	<b>0.075</b>	<b>0.653</b>	<b>0.934</b>
<b>Remaining Budget Gaps</b>	<b>(0.213)</b>	<b>2.169</b>	<b>8.512</b>