

## **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 (MTFS) and more specifically the position in respect of the Scottish Government Grant settlement for 2020/21.

#### **2 Background**

Council last considered an update on the Medium Term Financial Strategy on 1 October 2019 where it unanimously agreed the following recommendations:

- (a) *Note the work undertaken by the Business Transformation Steering Group between 25 June and 16 September 2019;*
- (b) *Move the in principle decisions as shown in Appendix 1 to the report to full approval in order to enable officers to commence implementation;*
- (c) *The remaining in principle decisions as detailed in Appendix 2 to the report be subject to further consultation with communities;*
- (d) *Reaffirm delegation to the cross party BTSG the next phase of development of the Medium Term Financial Strategy, namely, to identify measures to address the remaining budget gaps to 2021-22 and 2022-23 and recommended further proposals from BTSG are reported back after the Scottish Government grant settlement is published and;*
- (e) *Otherwise note the update report.*

This report provides an update from the Business Transformation Steering Group (BTSG) together 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 1 October 2019, Council agreed that the remaining in principle decisions as detailed in table 1 below be subject to further consultation with communities. In respect of further consultation, BTSG had already agreed to proceed with an online survey for this and to also make provision for residents who could not complete this online.

**Table 1: Remaining in principle decisions - 1 October 2019**

<b>Proposal</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>
<b>One Council: Working with you, for you</b>	<b>0.000</b>	<b>0.533</b>	<b>0.814</b>
<b>Preventative and Sustainable</b>	<b>0.075</b>	<b>0.120</b>	<b>0.120</b>

The calling of the United Kingdom general election for 12 December 2019 has prohibited further consultation being progressed during 2019. Recognising that the Council will in due course receive proposals to address the remaining budget gaps from BTSG after the Scottish Government grant settlement is published and noting the revised timing of the grant settlement outlined later in this report, BTSG recommends that consultation on the measures outlined in Table 1 is combined with consultation on any further proposals in due course.

In respect of the Preventative and Sustainable theme in Table 1 above, the £0.075 million relates to the proposal 'Grow walking buses and cycling schemes' and would not be available to contribute to the 2020/21 budget. However, members should note that work is underway to review the way in which the home to school transport services is operated within the existing policy framework and any savings identified will be reflected in the 2020/21 budget.

### **3.2 Implementation Progress**

Work is ongoing, overseen by the Business Transformation Board, to develop and implement the approved resource allocation measures. Service dashboards presented to BTB included progress updates for the Medium Term Financial Strategy measures which indicate the majority remain at an early stage of development.

The separate report elsewhere on today's agenda in respect of the redevelopment of Jarnac Court and the position with Midlothian Ski Centre, Hillend as reported in the General Services Capital Plan update to the last meeting of Council, indicate that the savings and additional income assumptions which are currently incorporated in the Medium Term Financial Strategy for 2020/21 for these projects are unlikely to be achieved and so need to be reassessed as part of the process to finalise the 2020/21 budget. Members should note that in respect of Jarnac Court the 2018/19 budget included an approved saving target of £0.260 million, rising to £0.560 million in 2020/21. In respect of Hillend the 2020/21 the Medium Term Financial Strategy incorporates a net increase in income of £0.193 million.

The Chief Executive, at the Business Transformation Board, has reinforced the need for officers to develop delivery plans for all of the measures approved by Council which underpin the Medium Term Financial Strategy and in particular those that impact on the 2020/21 budget. The expectation is that as a minimum delivery plans for the 2020/21 measures will be in place before the Council sets the budget. The Business Transformation Board

continues to provide a means to ensure measures are fully developed and implemented at pace. The Medium Term Financial Strategy will be updated to reflect the delivery plans and where shortfalls are identified mitigating actions will be developed.

Reflecting the changes in 3.1 above the summary position would be as follows.

**Table 2: Summary of Resource Allocation Measures – 17 December 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>Approved 01/10/19</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</b>			
Working With You, For You	0.000	0.533	0.814
Preventative and Sustainable	0.000	0.075	0.120
<b>Total</b>	<b>0.000</b>	<b>0.608</b>	<b>0.934</b>
<b>Remaining Budget Gaps</b>	<b>(0.138)</b>	<b>2.214</b>	<b>8.512</b>

*Note that these figures still incorporate the savings and additional income for Jarnac Court and Hillend as referenced earlier.*

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

## **4 Principal Planning Assumptions**

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

Because of the United Kingdom general election the Government's budget scheduled for 6 November 2019 was cancelled. As a consequence the Scottish Government's Cabinet Secretary for Finance, Economy and Fair Work, in consultation with the Convener of the Finance and Constitution

Committee, has postponed presentation of the Scottish Government's budget bill which was originally planned for 12 December 2019.

The Cabinet Secretary has indicated that it would be better to consider any new UK Government tax policy announcements and the Office of Budget Responsibilities new tax, social security and economic forecasts before he brings forward a new Scottish Budget. The latest exchange of correspondence between the Cabinet Secretary and the Convener of the Finance and Constitution Committee is attached as appendix 1 which indicates there will be no Scottish budget before Christmas. Council should note the reference to "*a bespoke process for scrutiny of the 2020/21 Scottish Budget dependent on the timing of the UK budget*". This recognises that there may need to be a significantly shortened period for parliament to consider the three stages involved in passing the budget bill.

The effect of this is a delay in publication of the 2020/21 local government grant settlement and each Council's individual grant figures. My current assessment is that at best the Scottish Government draft budget will be presented to Parliament in mid to late January with the proposed grant settlement following shortly thereafter. The final position is unlikely to be confirmed until the Scottish budget is passed which might be mid to late - February 2020. This best case being predicated on there being a UK budget immediately after the UK Parliament returns after the Christmas recess. However, delays in a UK budget will inevitably delay the publication of a Scottish budget bill and draft grant settlements.

Considering the worst case, a further delay to both UK and Scottish government budgets. The Fiscal Framework between UK and Scottish Governments sets out how the block grant will be funded as the provisions of the Scotland Act 2016 are implemented, what borrowing powers Scotland will have and the fiscal rules governing Scottish Government deficit and debt. It includes provisions setting out how the Scottish Block Grant would be calculated for situations where a UK autumn statement (budget) has not occurred at least three months in advance of the start of the financial year.

In addition if a Scottish budget is not in place before the start of the financial year then Councils would receive a monthly grant settlement equal to one twelfth of the current grant settlement. However, it should also be noted that setting of the non-domestic rate poundage needs to be before the start of the financial year, and is unusually determined at stage 2 of the budget bill.

Work is ongoing to gain a fuller understanding of the parliamentary and inter government procedures and how these would apply in what is an unprecedented period. I will update Council on any developments in the intervening period but at this point I recommend that Council does not determine its 2020/21 budget or set Council Tax levels until after publication and agreement of the Scottish Budget, Government Grant support and importantly any continuing or new grant conditions.

Having received an update on the position on 25 November 2019 BTSG endorsed a recommendation to Council that provision be made for a special meeting(s) of Council sometime between the 12 February 2020 and 11 March

2020 where members can fulfil their statutory responsibilities in respect of the budget. It is recommended to remit the arrangements to the Executive Director Place, in consultation with the Provost.

Turning now to the prospects for the 2020/21 grant settlement. The position remains broadly as outlined on 1 October 2019. In summary the Barnett consequential of the UK spending round 2019 will boost the resources and despite the existing additional spending commitments and prior years block grant reconciliations there is the opportunity for the 2020/21 local government core settlement to be better than the current central planning assumption.

The recently published Scottish Budget report 2019 (*see Background Paper 1*) from the Fraser of Allander Institute [FAI](#) provides an independent and up to date, factual analysis of where Scotland's economy is placed together with a view on its fiscal outlook ahead of the 2002/21 budget and as such provides a helpful insight into the Scottish budget and prospects for the local government settlement.

As indicated in the last report, 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.

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

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. The 2020/21 budget presented to Council in the new calendar year will reflect the most up-to-date assessment with a fuller refresh of the Medium Term Financial Strategy projections over the spring of 2020.

## **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 3: Sensitivity Analysis – 17 December 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>(0.138)</b>	<b>2.214</b>	<b>8.512</b>
Cash Flat Scenario Gaps	(3.242)	(3.996)	(0.805)
Negative Scenario Gaps	5.414	15.164	29.048
Positive Scenario Gaps	(3.242)	(5.719)	(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**

### **5.1 Further Proposals**

This position remains as previously reported with the cross party Business Transformation Steering Group tasked with progressing 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 once the grant settlement is known, albeit that will now be mid to late January 2020 at the earliest.

In addition, once the 2020/21 settlement is available BTSG will be provided with an update of the other elements of the 2020/21 budget and so thereafter be in a position to make recommendations to Council in respect of the budget and Council Tax levels for the year ahead. Again acknowledging the degree of uncertainty the Executive Director Place, in conjunction with the Chair of BTSG can make arrangements for further meetings of BTSG to allow recommendations to be made to Council.

On 25 November, the Business Transformation Steering Group endorsed a cross council working group recommendation to implement the upgrade of the Wedding Ceremony Room with the purpose of increasing the number and size of weddings and other events taking place at Fairfield House. This concept originated through a Making a Difference Idea. The presented businesses case requires the introduction of revised and flexible fees to reflect the ability to market the room in a variety of ways and for pricing to reflect peak periods. In order to facilitate this, it is recommended that Council delegate to the Executive Director Place, authority to determine the charges for wedding rates etc. including the charges for catering and other related services.

## **5.2 Midlothian Integration Joint Board**

The Chief Officer and Chief Financial Officer of the Midlothian Integrated Joint Board (IJB) have been updated on the Council's updated budget projections based on the 1 October Medium Term Financial Strategy . It will only be possible to give the IJB an indicative offer once the grant settlement and any conditions attached to it are known. Meantime dialogue continues with the Chief Officer and Chief Financial Officer of the IJB with a further meeting planned on 3 December 2019.

## **6 Governance and Timetable**

Each element of the Medium Term Financial Strategy continues to have clear governance in place to support the timely delivery of the work streams. 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. Members should note that the legislation contains no specific requirement for a Council to set its budget at the same time as setting its Council Tax. This is because it is implicit in setting the Council Tax that Council Tax income needs to be sufficient to fund the balance of expenditure not otherwise funded from government grant, fees, reserves etc.

As Council Tax funds the gap between expected income and expenditure, you need to first identify your proposed expenditure to tell you the resulting gap that Council Tax needs to fund. If no other action is taken to redress any shortfall, then the Council Tax has to be set at a rate that will do so, otherwise the budget will not balance. Accordingly, Council Tax decisions cannot be taken in advance of other budget decisions and the recommendations for special meeting(s) of Council will support the fulfilment of that the duties set out in section 93.

Members should also continue to 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 where these decisions are taken 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 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 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 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.

## **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.

An overarching EQIA will be presented alongside the final budget for 2020/21.

## **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 that consultation on the measures agreed in principal only as set out in table 1 will be combined with consultation on any further proposals necessary in due course. As a consequence these will not contribute to the 2020/21 budget;
- b) Note that the Business Transformation Board continues to provide a means to ensure savings measures are fully developed and implemented at pace and that the Medium Term Financial Strategy will be updated to reflect the delivery plans and where shortfalls are identified mitigating actions will require to be developed;
- c) Note the update in respect of Scottish Government grant set out in section 4.1 and the implications which arise from the delay in the publication of the Scottish Government budget and individual Council Grant settlements;
- d) Agree that provision be made for a special meeting(s) of Council sometime between the 12 February 2020 and 11 March 2020 where members can fulfil their statutory responsibilities in respect of the budget. It is recommended to remit the arrangements to the Executive Director Place, in consultation with the Provost;
- e) Delegate to the Executive Director Place authority to determine the charges for wedding rates etc. including the charges for catering and other related services; and
- f) Otherwise note the update.

**06 December 2019**

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## **Appendix 1 – Correspondence between the Cabinet Secretary and the Convener of the Finance and Constitution Committee**

### **Background Paper (1):**

#### **Fraser of Allander Institute (FAI) Scotland's Budget Report 2019**

<https://www.sbs.strath.ac.uk/download/Fraser/201911/201911-BudgetReport.pdf>