

Financial Strategy 2015/16 to 2017/18

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

1 Purpose of Report

This report provides Council with a further update on the delivery of the Financial Strategy approved by Council on 4 February 2014 with a focus on;

- The Scottish Government's spending plans for 2015/16 which were set out to Parliament on 9 October 2014 by the Cabinet Secretary for Finance, Employment and Sustainable Growth;
- The implications of the spending plans on the projected Scottish Government Grant Settlements for Councils.

2 Background

As previously reported the core objective of the Financial Strategy is to facilitate the Council's continued financial sustainability during a continuing period of unprecedented constraint. Whilst the Financial Strategy now encompasses the period to 2017/18 the prospects for later years remain challenging with an extended period of financial constraint expected to continue well into the next decade.

Fiscal Affairs Scotland's recent analysis of the Scottish draft budget indicates that *"The overall profile of austerity that the UK Government is embarked on, and which impinges heavily on the profile of the Scottish Budget via the Barnett formula, suggests that 2015/16 is likely to prove to be one of the milder years in terms of cuts... and that cuts of over 3% are likely to re-emerge in both 2016/17 and 2017/18."*

This reinforces the message in previous Financial Strategy reports that Midlothian in common with all Councils will need to reposition itself through the withdrawal and dilution of services and by having a greater emphasis on those in the community who are the most disadvantaged and vulnerable.

The Financial Strategy provide a means to secure financial sustainability, incorporating the actions the Council will take to address predicted budget shortfalls and at the same time prioritise available resources to focus these on the delivery of the Council's priority outcomes of Early Years, Positive Destinations and Economic Growth and its priority localities.

3 Scottish Government Grant Settlement

The Scottish Government's spending plans for 2015/16 sets out spending for Local Government at a national level, with individual Council figures published in

December. For 2015/16 Local Government will receive revenue funding (including Non Domestic Rates) of £9,895 million. This is close to flat in cash terms when compared on a like for like basis with the current year totals. The national figures are however approximately £200 million higher than what was proposed for this year's budget which principally reflects the extra funding for free primary school meals and early years provision.

The Scottish Budget sets out the conditions attached to the Local Government settlement which are as follows “ *For 2015-16 each local authority will require to agree formally to work with the Scottish Government to deliver a council tax freeze for the eighth consecutive year. Agreement has also been reached that the Scottish Government and Local Government will work in an inclusive process with others towards reaching an in-principle agreement to an educational outcomes-based approach subject to the completion of work which is satisfactory to both parties. This first phase of this work will be completed by 1 March 2015. In addition, local government will work with their NHS partners to work towards the full integration of adult Health and Social Care.*”

Further information as regards the terms of the Local Government finance settlement allocations were set out in a letter from the Cabinet Secretary to the President of COSLA and copied to the leaders of all Scottish Local Authorities. A copy of this letter is attached as appendix 1.

The assumptions on Scottish Government Grant for 2015/16 set out in the September 2014 Financial Strategy report remain consistent with the information published in Government's spending plans. Work continues to more fully analyse the spending plans, the implications of the conditions and also the resources allocated to Health and the NHS which will go further to the promotion of the integration of Health and Social Care. For later years the Financial Strategy continues to assume a 1% reduction in grant in both 2016/17 and 2017/18.

4 Council Tax

The Financial Strategy already reflected a continuing Council Tax freeze with Band D Council Tax remaining at £1,210. The Council Tax income detailed in table 1 reflects the latest Council Tax Base and also reflects the additional income from the projected increase in the number of properties.

5 Cost of Services

Table 1 sets out the projected costs of providing services and continues to be based on a number of assumptions on cost and income over the period. There have been no changes to these projections since the report to Council in September 2014. Work will continue to review and update these projections through the remainder of the year. As such it is inevitable that these projections will change.

Again the key assumptions reflected in the budget projections include:

Inflationary and Other Cost Pressures on existing Service Costs:-

- An increase in the assumptions made for pay awards and pay inflation with 1.5% provided in each of the years (previously 1%) and contractual inflation on other costs for each of the years;

- A provision for increased national insurance costs as a result of the Public Services Pensions Act 2013. Current estimates are an increased cost for the Council from 2016/17 of £2 million per annum, with no compensating increase in government funding;
- Borrowing costs reflect the General Services Capital Plan; and
- The introduction of food waste collection from 2015.

Demographic Cost Pressures

- A provision for additional social care services demographic cost pressures of £1.1 million per annum.
- A provision for increasing school rolls of £0.405 million in 2015/16, a further £0.407 million in 2016/17 and £0.400 million in 2017/18.

The projected budget shortfall reflecting the above is detailed in table 1.

Table 1: Projected Budget Shortfalls 2015/16 to 2017/18 – 04 November 2014

	2015/16 £m	2016/17 £m	2017/18 £m
Cost of Services	196.783	203.711	208.236
Less: Council Tax	40.000	40.500	41.000
Less: Scottish Government Grant	154.097	152.241	150.441
	2.686	10.970	16.795

In broad terms the shortfall arises for the following reasons:

Table 2: Analysis of Shortfalls – 04 November 2014

	2015/16 £m	2016/17 £m	2017/18 £m
Opening Shortfall	-	2.686	10.970
Pay Inflation	1.645	1.771	1.797
Contractual and other inflation	1.027	1.062	1.062
Pensions Act	-	2.000	-
Food Waste Collection	0.264	0.283	-
Demographics: Care	1.100	1.100	1.100
Demographics: School Rolls	0.405	0.407	0.400
Scottish Government Grant	(0.910)	1.856	1.800
Council Tax: Additional Income	(1.184)	(0.500)	(0.500)
Other Movements	0.339	0.305	0.166
Totals	2.686	10.970	16.795

As previously indicated there are no changes to these projections since the last report to Council on 23 September 2014.

6 Financial Strategy

6.1 Overview

The approved Financial Strategy provides for the Council to take forward actions which fall into three categories:

- Efficiencies, actions which aim to reduce costs of Council services without changing service levels as far as the public are concerned;
- Investment, actions which aim to reduce the need for Council services or reduce the cost of services in future;
- Retrenchment, actions which reduce the Council's role in terms of the services it provides and for whom it provides them.

These support 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.

6.2 Transformation Programme

The Transformation Programme is central to the delivery of the Financial Strategy, delivering both efficiencies and transformational change in service provision. In addition to ongoing work on Procurement and Integrated Service Support the current Transformation Programme includes:

- Energy;
- Customer Service;
- Income Maximisation;
- Education;
- Services to Communities;
- Externalisation/In-sourcing;
- Children's Services;
- Integrated Health and Social Care;
- School Catchments.

Although there are no savings targets attached to the Integration of Health and Social Care or School Catchments their inclusion in the Transformation Programme reflects the importance of these to future year's financial sustainability.

The latest assessment of the savings targets is set out in table 3. As previously reported work continues to substantiate the targets for Income Maximisation and Externalisation/In-sourcing and as such these targets for these remain indicative. Otherwise the savings targets have a greater degree of confidence of delivery, recognising however that ultimately the achievement of the savings will be dependent on decisions taken by Council.

Table 3: Council Transformation Programme – 04 November 2014

	2015/16	2016/17	2017/18
	£m	£m	£m
Integrated Service Support	0.750	1.500	1.500
Energy	0.000	0.217	0.217
Customer Service	0.000	0.175	0.350
Income Maximisation	0.075	0.150	0.150
Education	0.150	0.300	0.300
Services to Communities	0.300	0.750	1.350
Externalisation/In-sourcing	0.000	0.500	1.000
Children's Services	0.350	0.700	0.700
Totals	1.625	4.292	5.567

Further details are set out in the Council Transformation Programme update report to Business Transformation Steering Group on 6 October 2014.

6.3 Workforce Strategy

There are three main elements of the Workforce Strategy strand

- Management Review;
- VSER;
- Workforce Planning.

Management Review

The savings arising from the Management Review approved by Council on 13 May 2014 remain as reported to Council on 23 September 2014.

VSER

The financial implications of VSER remain as reported to Council on 23 September 2014.

Workforce Planning

An effective workforce strategy supports the delivery of services by linking workforce planning and development requirements to the Council's strategic and service priorities. Following on from the management review and taking cognisance of the VSER scheme each service is continuing to prepare workforce plans and reviewing staffing establishments.

As the elements of the workforce strategy are developed and savings quantified they will be fully reflected in the Financial Strategy.

6.4 Local Government Staff Pay, Grading and Terms and Conditions

The position remains as reported to Council on 23 September 2014.

6.5 Asset Management

The position remains as reported to Council on 23 September 2014.

6.6 Borrowing Costs

The projected budget shortfall set out earlier in table 1 reflects the General Services Capital Plan Strategy approved by Council.

6.7 Service Reviews

The position remains as reported on 23 September 2014.

6.8 Efficiency and Financial Discipline

The first phase of this strand encompassed a review of existing budgets provisions to assess which existing budget provisions could be reduced or simply removed in the current and future years as a consequence of the under spend achieved in 2013/14. As reported elsewhere on today's agenda this work has identified that Financial Discipline savings totalling £0.571 million can be achieved without any detrimental impact on service provision.

Otherwise the efficiency targets remain as set out in the Council report on 23 September 2014. The efficiency savings targets recognise the need for all Services to continue to exercise strong financial discipline, improved productivity and demonstrate efficiency ensuring that costs are controlled, unnecessary expenditure ceases and that there is clearly defined accountability for expenditure commitments.

6.9 Summary of Financial Strategy

The latest projections of the impact of the various strands of the Financial Strategy are as follows. As the strands are further developed the Financial Strategy will be updated to fully reflect the emerging proposals.

Table 4: Financial Strategy 2015/16 to 2017/18

	2015/16 £m	2016/17 £m	2017/18 £m
Budget Shortfall	2.686	10.970	16.795
Less Strands:			
Transformation Programme (6.2)	1.625	4.292	5.567
Workforce Strategy (6.3)			
• Management Review	0.220	0.409	0.409
• VSER	1.026	0.933	0.844
Terms & Conditions (6.4)	-	-	-
Asset Management (6.5)	0.139	0.277	0.277
Service Reviews (6.7)	0.260	0.560	0.560
Efficiency/Financial Discipline(6.8)	0.571	1.200	1.650
Projected Budget Shortfall /			

(Surplus)**(1.155)****3.299****7.488**

Whilst the figures in table 4 present a broadly similar position to that reported on 23 September 2014 they remain projections and as such will inevitable change as assumptions are reviewed the budget is further refined.

6.10 Service Reductions

In addition to the actions set out in sections 6.2 to 6.8 it the Council will need to consider policy changes, including the withdrawal from, or dilution of services.

7 Governance and Timeline

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

The timetable previously approved by Council provides for a further report in December incorporating final projections for 2015/16 alongside updated projections for future years to allow Council to reach agreement on the budget for 2015/16 and set out indicative budget plans for future years. The table below sets out the schedule for Financial Strategy update reports to Council, together with details of the proposed schedule for other financial reports over the remainder of the budget period, to allow 2015/16 budget decisions and Council Tax levels to be determined in advance of the statutory deadline of 11 March 2015.

Table 5: Budget Report Timetable

Council Meeting	Reports
16 December 2014	HRA budget Capital plan Financial Strategy Update incorporating: <ul style="list-style-type: none"> • Final projections • Council Tax • Agreement of budget for 2015/16. • Indicative budget for 2016/17.
10 February 2015	Further Financial Strategy report if required.

The 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.

Whilst the Band D Council Tax will remain at £1,210 per annum and the report to Council in December will include the required recommendations for Council's consideration to confirm this. Council are reminded that in terms of Section 112 of the Local Government Finance Act 1992 (as amended) it will be an offence for any member 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.

8 Focussing Resources to Key Priorities

As previously reported the Financial Strategy will help ensure that available resources are as far as possible targeted on delivery improved outcomes, particularly against the key priorities of Early Years, Positive Destinations and Economic Growth.

9 Reserves

The latest projection of useable reserves at 31 March 2015, reflecting the report elsewhere on today's agenda is as follows:-

Table 6 – Useable Reserves – 31 March 2015

	Total £m	Uncommitted £m
General Fund Reserve	11.152	7.085
HRA Balance	21.073	8.039
Capital Fund	8.558	2.558
Repairs and Renewal Reserve	2.553	0.000
Total Useable Reserves	43.336	17.682

It is necessary for the Council to retain a General Fund Reserve to meet unplanned or unforeseen costs and a prudent level of uncommitted reserves is seen to be between 2% and 4% of net expenditure which equates to between approximately £4 million and £8 million. Council agreed on 4 February 2014 that the uncommitted General Fund Reserve should be maintained at £8 million and as detailed above the current projection is slightly below this level.

The uncommitted balance on Capital Fund reflects the decisions of Council on 4 February 2014 and is retained to provide for unforeseen capital expenditure and to provide flexibility between financial years, its utilisation is subject to annual review.

Repairs and Renewal Reserves are fully committed.

10 Report Implications

10.1 Resources

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

10.2 Risk

Within any financial plan 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:

- Impact of economic climate on range of factors including: inflation, interest rates, employment, tax and income levels, service demands;
- Outstanding pay award settlements;
- Decision by Scottish Government on future years grant settlements and grant distribution;
- Extreme weather events (or other unforeseen events) and provision for immediate response as well as longer-term implications;
- Cost pressures exceeding budget estimates;
- Non-delivery or late delivery of planned savings, including those arising from reductions in the staffing establishment;
- Impact of Welfare Reform and Pension changes;
- The costs of implementation of national policies such as free school meals, the Children and Young Peoples Bill and Council Tax Reduction Scheme exceeding the resources provided by Government; and
- Capital investment requirements and associated cost.

The financial strategy aims to mitigate a number of these risks by setting out forward plans, and the early identification of future saving proposals. Alongside this the Mi-Future programme has been designed and implemented to increase flexibility across the workforce.

10.3 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

10.4 Impact on Performance and Outcomes

The Financial Strategy is at the heart of the way Council allocates and uses its limited resources and as such has fundamental implications for service performance and outcomes. The budget projections indicate that in 2017/18 the Council will have available in the region of £191 million for the provision of services and the pursuit of the priorities set out in the Single Midlothian Plan.

10.5 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.

10.6 Involving Communities and Other Stakeholders

Any proposed changes in the staffing establishment arising from the elements of the financial strategy or transformation programme will be subject to meaningful consultation in accordance with the Council's Human Resources policies.

As the various elements of the Financial Strategy are developed and proposals emerge there will be meaningful consultation and engagement with those on who the proposals may impact.

10.7 Ensuring Equalities

There are no equality implications arising directly from this report. As part of the development of proposals an EQIA will be prepared and for each year's budget an overarching EQIA will also be prepared encompassing the revenue budget, capital plan and service plans.

10.8 Supporting Sustainable Development

There are no direct sustainability issues arising from this report.

10.9 IT Issues

There are no direct IT implications arising from this report.

11 Summary

The report provides an update on the Financial Strategy, and in particular the draft Scottish Government budget for 2015/16 and the implications for Council

12 Recommendations

Council is recommended to;

- a) Note the publication of the Scottish Governments draft budget for 2015/16 and the assessment set out in sections two and three of this report
- b) Otherwise note the update on delivery of the Financial Strategy.

Date 27 October 2014

Report Contact:

Gary Fairley Tel No 0131 271 3110

gary.fairley@midlothian.gov.uk

Background Papers:

