

Finance and Resources Committee

2.00pm, Wednesday 13 May 2015

Revenue Budget Framework 2016/20 update

Item number	7.4
Report number	
Executive/routine	
Wards	

Executive summary

The report appraises members of the results of a review of the key income and expenditure assumptions contained within the Council's long-term financial plan. This review has reaffirmed previous savings requirement estimates and, as such, the need to look beyond savings offered through the Council's transformation programme to more fundamental service prioritisation in order to secure longer-term financial sustainability.

Links

Coalition pledges	P30
Council outcomes	CO25
Single Outcome Agreement	n/a

Revenue Budget Framework 2016/20 update

Recommendations

- 1.1 Members of the Finance and Resources Committee are requested to note:
 - 1.1.1 the results of the review of the main assumptions underpinning the long-term financial plan, reaffirming the need to deliver at least £67m of savings over the next three years and some £107m over the period to 2019/20;
 - 1.1.2 the additional measures taken since the previous update geared towards securing the delivery of a sustainable, priority-based budget in 2016/17 and future years; and
 - 1.1.3 that a further report on the Council's wider financial strategy will be presented to the Committee's next meeting on 4 June.

Background

- 2.1 The Council was one of the first local authorities in Scotland to introduce a long-term financial plan, doing so in October 2009. Since that time, the plan has served as a consistent framework to capture changes in the Council's main expenditure and income assumptions, highlighting both short- and longer-term pressures and acting as the foundation for the development of corresponding savings plans necessary to balance the overall budget. Although the current constitutional and economic landscape makes planning, even in the medium term, challenging, it is still vital in providing an evidenced backdrop to the need for fundamental service change and prioritisation.
- 2.2 While this report sets out the principal findings of the recent review of the assumptions contained within the long-term financial plan, it is important to emphasise that the plan's main purpose is to inform the Council's financial strategy. With this in mind, a further report on the strategy, providing additional detail in some of the areas set out within this report, will be brought to the Committee's next meeting on 4 June.
- 2.3 In overall terms, the review has reaffirmed earlier estimates of the scale of savings required over the next five years, as well as underlining a continuing need to deliver savings over the remainder of the ten-year timeframe covered by the plan.

Expenditure - inflation-linked factors

- 3.1 While current inflation rates are unprecedented in recent times, the Office for Budgetary Responsibility's medium-term target (as measured by annual changes in the Consumer Price Index (CPI)) remains at 2%. The level of inflation directly or indirectly influences a number of aspects of the Council's expenditure, including pay awards, sums due through index-linked contracts (particularly the PPP and current ICT contracts but also those negotiated at a national level on councils' behalf, such as for older people's residential care), energy costs and non-domestic (business) rates. In 2015/16 alone, the Council's budget included over £10m in respect of inflationary uplifts relative to the previous year.
- 3.2 Although index-linked contracts will in most cases see in-year benefits resulting from the application of lower-than-budgeted inflationary uplifts, the impact on future years' incremental provision is likely to be more modest and, on that basis, no change to plan assumptions beyond 2015/16 is proposed at this time. Pay award provision has been aligned to the employers' offer of a 2.5% increase over the period 2015/16 and 2016/17, with provision for up to 1.5% made annually thereafter.

Demographic provision

- 3.3 The additional demand for the Council's services arising from demographic change has been well-documented; the overall primary school roll, for example, is predicted to increase by a quarter between 2010 and 2020 and the number of the city's inhabitants over the age of 65 to rise by 65% by 2035. The long-term financial plan already provides for significant additional annual investment of nearly £10m across these areas, alongside increases in the numbers and complexity of need of those with physical and/or learning disabilities and at-risk children.
- 3.4 A review of the appropriateness of the current level of provision has been initiated, the full results of which will be reported to the Committee's next meeting on 4 June. The Acting Director of Services for Communities has, however, additionally highlighted waste collection and disposal costs associated with the on-going projected increase in the number of households across the city. Corresponding incremental annual provision of £0.348m has therefore been introduced within the plan with effect from 2016/17.
- 3.5 Recently-published data also indicate that pupil rolls across the primary and secondary sectors are increasing more quickly than was anticipated at the time the existing level of provision within the long-term financial plan was made. The corresponding increased teacher requirement has particular significance given the Scottish Government's explicit focus upon maintaining both teacher numbers and, more particularly, teacher ratios, going forward. For planning purposes, the Council's share of the £10m of additional resources provided by the Scottish

Government to support implementation of the policy (some £0.65m) has been assumed to be available going forward but further analysis will be undertaken to assess projected overall staffing requirements given that failure to maintain current ratios could result in a reduction in grant funding of up to £2.634m.

Legislative change

- 3.6 Recent years have seen a succession of new Scottish Government policies and commitments. The general line adopted by COSLA under the current partnership approach, however, has been that all such policies require to be fully funded. Across the piece, this strategy has been successful, with the introduction of free school meals for all P1 to P3 pupils, expansion of early years and childcare provision and further duties under the Children and Young People Bill assumed to have no net impact on the Council's overall savings requirement, with the additional funding provided offsetting the related costs of delivery.
- 3.7 A number of other changes do, however, place additional expenditure demands on the Council. Members will recall that, in setting the 2015/16 revenue budget, savings in loans charges were identified to offset the part-year impact of increases in employers' teacher pension contributions. Given the mid-year implementation date of the changes, a further £1.3m pressure impacts on 2016/17. Following a review of planned borrowing, debt redemption and likely movements in the loans fund pool rate, however, offsetting loans charge savings have now been identified.
- 3.8 A key contributor to the Council's overall savings requirement in 2016/17 is the removal from April 2016 of the current employer's contracted-out National Insurance (NI) rebate as part of the introduction of a single-tier state pension. The rebate equates to 3.4% of NI-able pay and, given high existing pension scheme membership, its loss has significant financial implications, estimated at up to £12m per year. There is, as yet, no indication of any compensating funding being made available at UK or Scottish Government level and, on that basis, full provision has been made within the long-term financial plan.
- 3.9 Whilst complying in full with all legal requirements in respect of pensions auto-enrolment implementation, the Council exercised its right to adopt the "transitional period", whereby all employees who had previously chosen to opt out of the Lothian Pension or Teachers' Pension Schemes were not automatically enrolled back in. This period ends in September 2017, at which point overall scheme membership is anticipated to increase, although the extent of this increase is difficult to predict. Existing provision within the long-term financial plan has, however, now been reprofiled to reflect the mid-year implementation of the change.

Government grant and non-domestic rates funding

- 3.10 Given the on-going freeze in Council Tax levels (2015/16 is the eighth successive year's freeze), after taking account of structural changes affecting the range of services delivered by local government, the proportion of total funding supported by Government Grant and non-domestic rates has been increasing year on year. Other than raising additional income through fees and charges, this therefore represents the key income determinant of the Council's overall savings requirement.
- 3.11 At present, the Local Government Finance Settlement is supported by two main sources; an allocation from the wider Scottish Block and total Scotland-wide income generated through non-domestic rates. The size of the former is influenced by the workings of the Barnett formula, with changes in funding for services in England triggering equivalent adjustments to the level of support for Scotland. It is important to emphasise, however, that the Scottish Government has discretion as to how these resources are applied and is therefore not bound by equivalent spending decisions in England.
- 3.12 Over recent years, the imposition of more severe average reductions on functions reserved to Westminster has shielded Scotland from an element of the reductions underpinning the UK Government's deficit reduction programme. This said, in overall terms, it is estimated that the overall Scottish budget will fall by almost 20% in real terms between 2009/10 and 2018/19.
- 3.13 A one-year Local Government Finance Settlement for 2015/16 was announced in December 2014; subsequent years' settlements are therefore inherently more subjective. While Edinburgh's absolute level of grant fell in 2015/16 due to a previous overestimate of the extent of growth in the city's population, now that this has been corrected, the anticipated overall level of population increase going forward is, along with Aberdeen, the highest in proportionate terms of any of Scotland's local authorities. It should be stressed, however, that, in the context of upcoming settlements that are expected to be, at best, cash-neutral, the effective level of per capita support will continue to reduce.
- 3.14 Taking into account anticipated changes in the level of the Scottish Block, Non-Domestic Rates income and the Scottish Government's continuing commitment to increase real-terms spending at health board level, the long-term financial plan assumes a net overall year-on-year reduction in combined external funding of 0.5% in each of 2016/17, 2017/18 and 2018/19. A "flat-cash" position (with the potential for an upside, based on recent economic forecasts) is assumed in 2019/20, with modest cash-terms increases assumed thereafter.

Council Tax

- 3.15 The Scottish Government has intimated its intention to develop a replacement for the current system of Council Tax and, to this end, established the Commission on Local Tax Reform in early 2015. Given that the Commission's

deliberations remain at a formative stage, however, current forecasts of available resources are based on existing arrangements.

- 3.16 The Scottish Government has previously committed to maintaining a freeze in Council Tax levels for the duration of the current Parliamentary term which ends in May 2016. The plan assumes that the freeze will end at this point, with the combined impact of the increase in properties and inflation-linked uplift adding 3% to each subsequent year's Council Tax revenues. These assumptions will be kept under review as the recommendations of the Commission on Local Tax Reform, and changes stemming from the Smith Commission more generally, become clearer.

Overall impact of changes

- 3.17 Further details of the specific assumptions underpinning the long-term financial plan will be reported to the Committee as part of the Council's wider financial strategy on 4 June. In overall terms, however, the minor changes made within the five-year period to 2019/20 are broadly neutral, reinforcing the need to identify at least £67m of savings in the period to 2017/18 (of which £22m have already been approved for delivery in 2015/16) and annual, recurring savings of £107m by 2019/20.

Savings assurance assessments

- 3.18 Following approval by Council, an updated assurance exercise was undertaken to assess the extent to which implementation plans, with clearly-assigned responsibilities and timescales, were in place for savings approved for delivery as part of the February 2015 or previous years' budget motions. While this review indicated appropriate arrangements had been developed for the majority of approved proposals, a number were prioritised to allow the approved savings, or agreed alternatives, to be delivered on a sustainable basis.
- 3.19 Progress in developing implementation plans and delivering resulting savings forms a key element of discussions at the recently-established budget challenge meetings and a summarised position will be reported to CMT and the Finance and Resources Committee on a quarterly basis, with additional detail provided to relevant Executive Committees.

Development of additional savings proposals for 2016/17

- 3.20 Members will be aware from the report to the Finance and Resources Committee on 19 March that the workstreams comprising the Council's transformation programme have the potential to deliver additional savings of up to £11m in 2016/17 and £31m by 2018/19. Relative to the total savings requirements for those years, however, this leaves a need to identify further proposals to a value of at least £20m in 2016/17 and £34m by 2018/19.
- 3.21 These net savings requirements furthermore assume full delivery of all previously-approved proposals in 2015/16 and subsequent years; the 2015/16 budget approved by Council on 12 February, for example, was underpinned by

almost £40m of savings. Significant current-year pressures are also apparent in both Health and Social Care and Corporate Property; in the case of the former, mitigating actions of some £6m still require to be identified, with savings associated with a number of approved proposals also assessed to be at risk.

- 3.22 Given the extent of these challenges, the Corporate Management Team has now initiated, in consultation with relevant elected members, a three-year, prioritisation-based approach. This approach will take due account of key public engagement findings, particularly the relative priorities as expressed through the results of the budget planner.
- 3.23 In order both to provide an element of flexibility in the management of risks and pressures and to allow for a degree of political prioritisation, Directors have been instructed to develop proposals, capable of full implementation by April 2016, to a total value of at least £34m. These proposals will initially be considered at transformation programme board level in the context of the Council's overall priorities. Those proposals ultimately taken forward will be closely aligned to, and monitored alongside, the transformation programme to ensure strategic fit and avoid potential double-counting of savings.

Cash-limited approach to Health and Social Care

- 3.24 The motion approved at the Committee's meeting of 19 March requested that the implications of applying a cash-limited approach to the Health and Social Care budget be considered. Such an approach would be similar to that applied to the former Police and Fire Joint Boards, where sums were requisitioned from constituent councils in accordance with the broad expenditure levels underpinning the respective councils' grant funding settlements. Decisions on the precise measures to be adopted in delivering necessary savings to keep within these overall allocations were then taken by the Boards.
- 3.25 The position with regard to services falling within Health and Social Care remit is complicated by moves towards full integration with effect from April 2016. Further discussion is therefore required with health colleagues to determine how the commissioning nature of the Integration Joint Board is best aligned to the Council's (and indeed NHS Lothian's) budgeting and public engagement processes and a specific recommendation will be made as part of the Council's wider financial strategy in the follow-up report to the Finance and Resources Committee on 4 June.

Measures of success

- 4.1 Relevant measures in setting the Council's revenue budget include:
- accurate capturing and quantification of the key determinants of the Council's overall expenditure requirement and available sources of income, allowing a balanced overall budget for 2016/17 to be set as part of a longer-term framework;

- development of savings and investment options aligned to the Council's priority outcomes, with due opportunity provided for public consultation and engagement; and
- subsequent delivery of the approved savings, particularly where these are linked to additional service investment.

Financial impact

- 5.1 Inclusion of additional revenue investment within the budget framework is contingent upon the development, and subsequent delivery, of corresponding savings, alongside management of all risks and pressures, particularly those of a demand-led nature.

Risk, policy, compliance and governance impact

- 6.1 The savings assurance process is intended to ensure that, as far as is practicable, those proposals approved by Council deliver the anticipated level of financial savings in a way consistent with the anticipated service impacts outlined in the respective budget templates.

Equalities impact

- 7.1 As in previous years, those proposals comprising the budget framework will be assessed for their corresponding potential equalities and human rights impacts. The results of these assessments will be referred to Council to ensure that members pay due regard to them in setting the Council's 2016/17 budget on 11 February 2016.

Sustainability impact

- 8.1 The proposals comprising the budget framework will also be subject to an assessment of their likely corresponding carbon impacts. As with the equalities impacts, the results of these assessments will be referred to Council to ensure that members pay appropriate regard to them in setting the Council's 2016/17 budget on 11 February 2016.

Consultation and engagement

- 9.1 As in previous years, draft budget proposals will be the subject of around eleven weeks' public engagement and consultation, with the feedback received shaping the final budget in February. In addition, Directors have been asked to take explicit account of the priorities of the city's residents as expressed through the budget planner in developing proposals to address residual savings

requirements.

Background reading/external references

[Revenue Budget Framework 2016-2020](#), Finance and Resources Committee, 19 March 2015

Alastair D Maclean

Director of Corporate Governance

Contact: Hugh Dunn, Head of Finance

E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

Links

Coalition pledges	P30 – Continue to maintain a sound financial position including long-term financial planning
Council outcomes	CO25 – The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	n/a
Appendices	None