

ITEM No ...8 (a).....

REPORT TO: POLICY & RESOURCES COMMITTEE – 26 OCTOBER 2015

REPORT ON: FINANCIAL OUTLOOK 2016-2018

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 372-2015

1.0 PURPOSE OF REPORT

- 1.1 This report advises members of the current position on the Council's Revenue Budget for 2016-2018, in light of projected grant settlement figures. The report also outlines the Council's updated medium-term financial strategy.

2.0 RECOMMENDATIONS

It is recommended that the Committee:-

- 2.1 Notes the current position on the Council's Revenue Budget for 2016-2018.
- 2.2 Notes the projected levels of savings and efficiencies that are required in the next two financial years.
- 2.2 Notes the Council's updated medium-term financial strategy.
- 2.3 Notes that a further report will be submitted to the Policy & Resources Committee in January 2016, detailing the Council's actual grant settlement and the associated implications. The proposed procedure for setting the Council's Revenue Budget and Council Tax for 2016/17 will also be included in this report.

3.0 FINANCIAL IMPLICATIONS

- 3.1 Based on current projections of budgetary requirements and available grant funding, the following levels of savings and efficiencies are required in order to achieve a balanced budget in the next two financial years:

	<u>Annual</u> <u>(£m)</u>	<u>Cumulative</u> <u>(£m)</u>
2016/17	15.958	15.958
2017/18	12.153	28.111

4.0 BACKGROUND

- 4.1 The Council's 2015/16 Revenue Budget was agreed by the Policy & Resources Committee on 12 February 2015. (Article III of the minute of the meeting of the Special Policy & Resources Committee on 12 February 2015, Report No: 68-2015 refers). In report 68-2015, it was estimated that the Council would require to identify further budget savings of around £22.7m over the two year period 2016-2018 in order to achieve a balanced budget. This report provides an update to that estimate.

- 4.2 Overall the financial outlook across the public sector has worsened. In March 2015 Audit Scotland noted in their overview report of local government in Scotland 2015 that:

“Councils face increasingly difficult financial challenges...”

“Many Councils are now reporting gaps between their income and the cost of providing services. With further funding reductions expected, Councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.”

- 4.3 Since then the Westminster Government has announced an Emergency Budget on 8 July 2015. Fiscal Affairs Scotland have identified that the consequence of this is that “day-to-day spending on public services is projected to fall by around 5% in real terms” in both 2016-17 and 2017-18.
- 4.4 As a response to this Edinburgh City Council has identified a requirement to identify at least £107m of recurring annual savings by 2019/20. Glasgow City Council has identified a need for savings of £103m by 2017/18 equivalent to 7% of its expenditure.

5.0 PROVISIONAL REVENUE BUDGET 2016-2018

- 5.1 Over the past few months the Chief Executive and Executive Director of Corporate Services, in conjunction with the other Executive Directors, have been preparing a Provisional Revenue Budget for 2016-2018. The current total Revenue Budget requirements are as follows:-

	<u>Total</u> <u>(m)</u>	<u>Annual</u> <u>Increase</u> <u>(£m)</u>	<u>Cumulative</u> <u>Increase</u> <u>(£m)</u>
2015/16 (Final)	355.308	-	-
2016/17 (Provisional)	366.815	11.258	11.258
2017/18 (Provisional)	374.268	7.453	18.711

- 5.2 The above figures represent the estimated cost of continuing to provide the current level of services and also provide for anticipated inflationary pressures and other cost pressures and technical budget adjustments. These figures incorporate provision for pay awards for 2016 and 2017, the cost of removal of the National Insurance contracting out rebate and an increase in teachers pension contributions. These items are outwith the Council's control and account for the vast majority of the overall increase.
- 5.3 The provision for anticipated inflationary pressures and other cost pressures will be reviewed as part of the on-going budget process, to identify any areas where the budgetary impact can be reduced without introducing an unacceptable level of financial risk.

6.0 FUNDING PROJECTIONS 2016-2018

- 6.1 No grant figures beyond the current financial year have been issued by the Scottish Government. The outcome of the Westminster Spending Review will be announced on 25 November 2015. It is anticipated that the Scottish Government will make announcements on the Scottish Budget in late December or early January 2016, with grant allocation levels for individual Councils being issued around one week later.
- 6.2 Forward funding projections are particularly problematic at this time given the lack of information to date and a number of variable factors e.g. the impact of Westminster Government fiscal autonomy measures for Scotland and the possible protection of some priority services. In preparing grant projections, reference has been made to high level figures issued by the UK Government around the planned budget cuts in the period to 2020. Reference has also been made to figures issued by the Office for Budget Responsibility (OBR), the Improvement Service and Fiscal Affairs Scotland. At this stage, the period which the grant allocations will cover is not known.

- 6.3 Based on the limited information that is currently available, it is projected the Council's grant allocation will reduce by 1.6% per annum in cash terms over the period 2016-2018. This equates to a cash reduction of £4.7m in 2016/17 and a further £4.7m in 2017/18 i.e. a cumulative grant reduction of £9.4m by 2017/18, from the current 2015/16 base figure. It is emphasised that there is a significant degree of uncertainty over these projections and there is a real risk that the actual grant reductions could be more severe. It is understood that the Council's projections, in terms of percentage grant reductions, are consistent with those being used by other Councils across Scotland.

7.0 SAVINGS & EFFICIENCIES REQUIREMENTS 2016-2018

- 7.1 Based on current projections of budgetary requirements, available grant funding and Council Tax income, the following levels of savings and efficiencies are required in order to achieve a Council Tax freeze in the next two financial years:

	<u>Annual</u> <u>(£m)</u>	<u>Cumulative</u> <u>(£m)</u>
2016/17	15.958	15.958
2017/18	12.153	28.111

The above projected budget gap is based on a combination of the new Budget requirement shown in 5.1 and the reduced grant settlement assumed in 6.3.

- 7.2 To set these figures in context it is estimated that a 1% increase in Council Tax all other things being equal would yield just under £585,000.

8.0 THE WAY FORWARD (CHANGING FOR THE FUTURE PHASE 4)

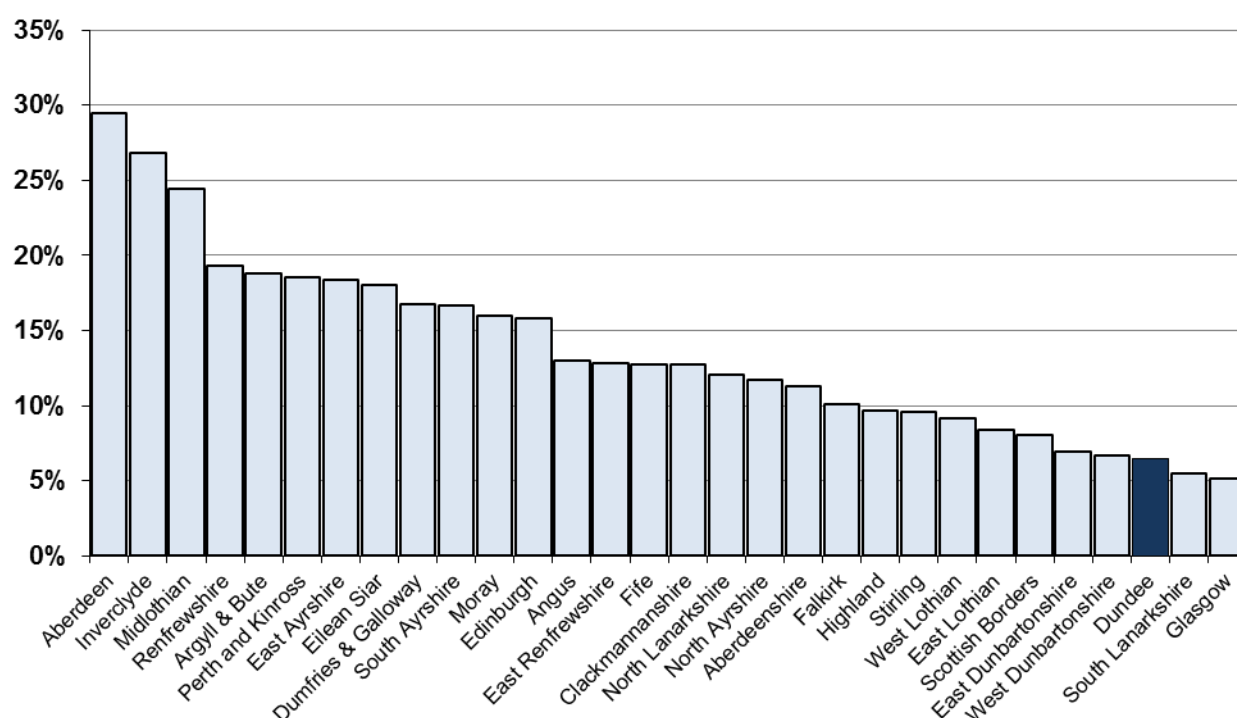
- 8.1 Savings and efficiencies of the magnitude detailed above can only be delivered through a strategic and transformational review of major aspects of the Council's existing operations. Since 2010 the Council has delivered savings and efficiencies of £51m, with a significant proportion of these being identified through the first three phases of the Changing for the Future programme. It is proposed that the Council's approach over the next two years is co-ordinated through a new (fourth) phase of the Changing for the Future programme. This is the subject of a separate report to the Policy & Resources Committee on 26 October 2015 (see report 379-2015).

9.0 ORGANISATIONAL CHANGE FUND

- 9.1 The Council's Audited Annual Accounts for 2014/15 show total General Fund balances of £13.027m at 31 March 2015, with an uncommitted element of £5.1m, equating to 1.51% of annual budgeted net expenditure. The uncommitted level of General Fund balances is in line with the Council's reserves policy (minimum level of £5m or 1.5% of budgeted revenue expenditure).
- 9.2 Following discussion and review with the Executive Service Directors, it has been possible to ear-mark £4.5m for a new Organisational Change Fund within the committed element of General Fund balances of £7.9m. The purpose of this new fund will be to help support and resource, on a spend-to-save basis, the organisational transformation that will be required to deliver the required savings and efficiencies over the next two years. By definition, the fund will only be used to meet one-off items of expenditure and cannot be used to meet recurring expenditure. Further details on the new Organisational Change Fund, including associated governance arrangements, are included in Report 379-2015.

9.3 The present availability of General Fund balances represents a one-off opportunity arising from extremely prudent budget management in 2014/15 to help address the significant financial challenges that lie ahead. The new Organisational Change Fund is an innovative approach to supporting and resourcing the organisational transformation that is required and that will be delivered through Phase 4 of the Changing for the Future programme.

9.4 It should be noted that the Council continues to maximise its resources by minimising the level of reserves it holds relative to other Councils in Scotland. This means any use of reserves has to be managed rigorously. The table below shows Councils' usable revenue reserves as a percentage of their net revenue stream, as at 31 March 2015. Figures for Orkney Council and Shetlands Council are not included as they are effectively "off the scale", at 311% and 175% respectively. This is due to the significant amount of reserves that these Councils have generated from the oil industry.



10.0 MEDIUM TERM FINANCIAL STRATEGY

10.1 The key aspects of a medium term financial strategy for the Council to help address the challenges ahead have previously been set out in the annual budget report to the Special Policy & Resources Committee in February 2014 and 2015. These have now been updated to reflect current circumstances and are as follows:-

- the Council's corporate approach to identifying savings and efficiencies will be co-ordinated through a new Changing for the Future (Phase 4) transformational change programme.
- a new Organisational Change Fund will help support and resource, on a spend-to-save basis, the organisational transformation that will be needed to deliver the required savings and efficiencies.
- the Council will set annual balanced budgets, taking on board the prevailing constraints e.g. continuation of Council Tax freeze, reducing grant settlements, unavailability of balances etc.

- the Council will seek to achieve an overall outturn position each year in line with or below budget.
- the uncommitted element of the General Fund balance will be maintained at a minimum level of the lower of £5 million or 1.5% of budgeted revenue expenditure.
- services will be expected to operate within the limits of their overall revenue budget allocation. Cost pressures which emerge in-year should, where possible, be accommodated within the relevant service revenue budgets. The General Contingency should normally be used to fund items of a non-recurring or emergency nature. Expenditure of a recurring nature should normally be funded from within service revenue budgets.
- allocation of resources will be informed by a thematic approach designed to reflect the strategic priorities of the Council.
- budget provision will be made for estimated pay awards and, in limited circumstances, for areas of specific price inflation. The costs of incremental progression for staff will be funded from service revenue budgets.
- the initial costs associated with VERs / VRs will be met from General Fund Balances. On-going staff costs savings from VERs / VRs will be reflected in service revenue budgets.
- the Council's Capital Plan will be prudent, sustainable and affordable. In particular, affordability will be assessed with reference to the level of loan charges and additional running costs that can be reasonably included within future revenue budgets.
- the Council's immediate planning horizon for revenue expenditure will reflect the availability of information on future years grant allocations from the Scottish Government. The Executive Director of Corporate Services will maintain longer-term budget projections using appropriate assumptions and based on the best available information.
- proposals for service re-design and service development will be underpinned by a comprehensive and robust business case, including options appraisal.

It should be noted that many of the above areas are already covered by the Council's Financial Regulations, reflect previous Committee decisions or are in line with established custom and practice.

11.0 CONCLUSION

- 11.1 The Council is facing a significant challenge to deliver a balanced budget over the next two years and maintain a Council Tax freeze. This is due to anticipated inflationary pressures and other cost pressures, together with a projected 1.6% per annum cash reduction in grant funding.
- 11.2 It is proposed that the Council's approach to identifying the savings and efficiencies required to deliver a balanced budget over the period 2016-2018 is coordinated through the next phase of the Changing for the Future transformational change programme outlined in Report 379-2015.

12.0 POLICY IMPLICATIONS

- 12.1 This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There is a real risk that the actual grant reductions could be more severe than those currently being assumed.

13.0 **CONSULTATION**

13.1 The Chief Executive and Head of Democratic and Legal Services have been consulted on the content of this report.

14.0 **BACKGROUND PAPERS**

14.1 None.

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19 OCTOBER 2015