Finance and Resources Committee

10.00am, Thursday, 4 June 2015

Financial Strategy 2015/16 to 2019/20

Item number	7.5
Report number	
Executive/routine	
Wards	

Executive summary

The Council faces well-documented challenges in reconciling increasing demands for its services with a reduction in total funding. The strategy therefore sets out a broad principle-based framework within which available resources will be aligned to the Council's key priorities going forward.

An update on recent work reviewing the appropriateness of the level of demographic provision contained within the Long-Term Financial Plan is also provided.

Links

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Council outcomes	CO25
Single Outcome Agreement	

Financial Strategy 2015/16 to 2019/20

Recommendations

1.1 To note the Council's financial strategy for the period 2015/16 to 2019/20 and that updates on progress will continue to be reported to the Committee going forward.

Background

2.1 The Council continues to operate in a challenging environment, with increases in service demand, complexity of need and service user expectations all set against a backdrop of steady real-terms reductions in the level of available resources through Government Grant and Council Tax.

2.2 In view of these conflicting pressures, the Council has established a transformation programme, an overview of which was reported to the Corporate Policy and Strategy Committee on 12 May 2015. This programme is geared towards building a lean and agile organisation, centred on customers, services and communities, and underpinned by significant investment to deliver both service benefits and financial savings. It is important to emphasise, however, that substantial further savings will be required to allow a sustainable position to be achieved going forward.

2.3 Sound financial management forms a key foundation of the plan. The financial management workstream therefore focuses not only on the development of options to address the overall funding gap but also on tracking subsequent delivery of the related financial savings and other service impacts. This enhanced scrutiny has been reinforced by the establishment of monthly "budget challenge" meetings, attended by the Chief Executive, Service Directors, the Head of Finance and key elected members.

Main report

3.1 Given the scale of the challenge facing the Council, a medium-term financial strategy covering the period 2015/16 to 2019/20 has been developed and is included as Appendix 1. The strategy sets out the principal assumptions and approaches in identifying the total level of funding required to deliver the Council's services and a framework for deploying resources in the most efficient and effective manner, consistent with wider objectives.

3.2 The strategy is underpinned by a number of guiding principles, namely:

- maximising investment in those frontline services reflecting the priorities of the citizens of Edinburgh;

- investing, wherever practicable, in preventative activity and “right first time” principles;

- maximising income, whilst keeping charges affordable through taking appropriate account of service users’ ability to pay;

- maintaining earmarked and unallocated reserves at a level consistent with the risks and liabilities to which the Council is exposed whilst providing for investment in technology and/or service transformation to release staffing efficiencies; and

- undertaking additional borrowing only insofar as this is prudent, affordable and sustainable.

3.3 In addition to recapping key planning assumptions around expenditure and income, the strategy provides, in sections 2.9 to 2.16, an update on work assessing the on-going appropriateness of current levels of demographic-related provision included within the long-term financial plan.

3.4 This review has concluded that existing levels of provision for Health and Social Care services, specifically those reflecting increasing numbers of older people and those with physical and/or learning disabilities, remain broadly consistent with updated client volumes and the associated complexity of this need.

3.5 For Children and Families services, significant additional pressures have been highlighted, mainly stemming from sustained increases in birth rates and the numbers of at-risk children. It is therefore recommended that £2.1m of the additional demographic-related pressures identified in 2016/17 be funded by means of savings relative to previous estimates in respect of increases in National Insurance contributions effective from April 2016. In view of continuing incremental demographic-related pressures thereafter, opportunities will be examined to realise further savings in Council Tax and loans charges.

3.6 More generally, however, the extent of the savings requirement across the Council reinforces the need to focus investment on key priorities if a sustainable way forward is to be found.

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 and subsequent years to be set as part of a longer-term sustainable 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 any 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.

6.2 Recent improvements to the budget monitoring process should also enhance CLG and elected member scrutiny of the management of service pressures and delivery of approved savings.

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 2016/20, Finance and Resources Committee, 13 May 2015

Council's Budget 2015/16 – Risks and Reserves, Finance and Resources Committee, 15 January 2015

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Links

Coalition pledges	
Council outcomes	CO25 the council has efficient and effective services that deliver on objectives.
Single Outcome Agreement	
Appendices	Financial Strategy 2015/16 to 2019/20

Appendix 1

THE CITY OF EDINBURGH COUNCIL

FINANCIAL STRATEGY 2015/16 TO 2019/20

Background

1.1 The Council continues to operate in a challenging environment, with increases in service demand, complexity of need and service user expectations all set against a backdrop of steady real-terms reductions in the level of available resources through Government Grant and Council Tax.

1.2 In view of these conflicting pressures, the Council has established a transformation programme, an overview of which was reported to the Corporate Policy and Strategy Committee on 12 May 2015. This programme is geared towards building a lean and agile organisation, centred on customers, services and communities, and underpinned by significant investment to deliver both service benefits and financial savings.

1.3 Sound financial management forms a key foundation of the plan. The financial management workstream therefore focuses not only on the development of options to address the overall funding gap but also on tracking subsequent delivery of the related financial savings and other service impacts. This enhanced scrutiny has been reinforced by the establishment of monthly “budget challenge” meetings, attended by the Chief Executive, Service Directors, the Head of Finance and key elected members.

Purpose of strategy

1.4 The primary purpose of this financial strategy, however, is to set out, at a high level:

- the principal assumptions and approaches to be applied in identifying the total level of funding required to deliver the approved level of services; and

- a broad framework as to how resources will be deployed in the most effective and efficient manner, consistent with the Council’s corporate objectives and individual service plans. While the strategy focuses primarily on the General Fund revenue budget, the associated revenue consequences of capital investment are reflected in the long-term financial plan.

1.5 The Council was one of the first in Scotland to introduce a long-term financial plan, doing so in October 2009. The plan is regularly reviewed, with an update on the key assumptions reported to the Committee’s last meeting on

13 May. While the plan is best seen as informing, rather than driving, the Council's financial strategy, there are, nonetheless, some common elements. The Council's financial planning arrangements more generally have been favourably assessed by Audit Scotland.

1.6 The most recent review has confirmed the need to identify and deliver recurring annual savings of at least £107m by 2019/20 (summarised in Appendix 1). Due to a combination of increasing service demand, reducing grant funding and the impact of increases in both National Insurance and superannuation employer contribution rates, the position in 2016/17 is particularly challenging; taking account of savings approved as part of previous years' budgets, total savings of at least £45m require to be delivered. It is clear, therefore, that there is a need to look beyond the potential savings offered by the transformation programme to more fundamental service prioritisation in order to secure longer-term financial sustainability.

1.7 The strategy also reflects the overriding principles of:

- maximising investment in those frontline services reflecting the priorities of the citizens of Edinburgh;

- investing, wherever practicable, in preventative activity and "right first time" principles;

- maximising income, whilst keeping charges affordable through taking appropriate account of service users' ability to pay;

- maintaining earmarked and unallocated reserves at a level consistent with the risks and liabilities to which the Council is exposed whilst providing for investment in technology and/or service transformation to release staffing efficiencies; and

- undertaking additional borrowing only insofar as this is prudent, affordable and sustainable.

1.8 The financial strategy is intended to serve as a framework of guiding principles, the detail of which will change over time. The importance of securing financial sustainability cannot, however, be overstated, allowing available resources to be matched to the Council's objectives over the short- to medium-term (assumed to be 2015/16 to 2019/20) covered by this strategy.

1.9 The following sections of the strategy set out, in turn, the principal elements of the Council's expenditure and income, along with a summary of current planning assumptions in these areas. Changes in the Council's expenditure are presented in three broad categories; those arising from the effects of inflation, the impact of demographic trends on the costs of service provision and the effects of legislative change. It is worth emphasising that developing, and potential further, constitutional changes may have a particular impact on funding arrangements and the commentary should therefore be read in that light.

1.10 An overview of the Council's risks and reserves strategy, along with the legislative and Council-specific financial governance framework, is then provided.

Inflationary factors – pay awards

2.1 Despite improvements in efficiency and recent programmes of staff release, staff-related costs remain the largest single element of Council expenditure, accounting for some 39% of the gross General Fund budget. In addition, recharges from the Council's remaining Significant Trading Operations (STOs) and care service providers primarily comprise staff-related costs and, as such, are influenced by wider public sector pay policy.

2.2 Current provision within the Council's Long-Term Financial Plan is aligned to the employer's offer of 2.5% across 2015/16 and 2016/17. Projections beyond this point are inherently more speculative but, at this stage, the plan provides for annual increases thereafter of up to 1.5%. As with all relevant factors contained within the plan, the appropriateness of these assumptions will be kept under review as additional details emerge.

Energy tariffs

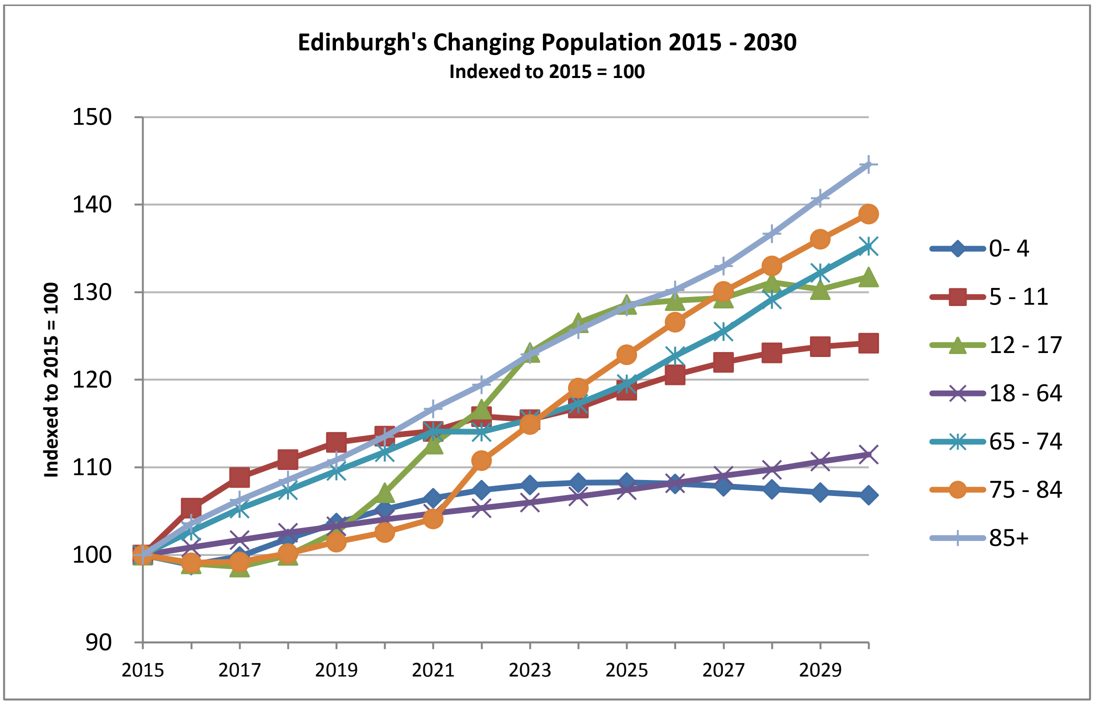
2.3 The Council has invested significantly in energy-efficiency measures in recent years, with consequent reductions in consumption. Energy tariffs have, however, consistently been subject to uplifts in excess of wider rates of inflation, meaning that combined annual General Fund spend on electricity and gas remains at around £14m. Whilst efforts to reduce consumption will be redoubled, the LTFP therefore incrementally provides £0.75m each year (equivalent to a 5.4% annual tariff increase based on current consumption) over the period 2015/16 to 2019/20.

Other inflationary factors

2.4 Besides staff pay awards and energy costs, the level of inflation directly or indirectly influences a number of aspects of the Council's expenditure, including 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) and non-domestic (business) rates. Given the Office for Budgetary Responsibility's medium-term Consumer Price Index (CPI) target of 2%, inflationary provision within the plan for these other factors remains aligned to this broad level.

Demographic factors

2.5 The broad impact of changes in the population size and profile on demand for the Council's services has been documented in a number of previous reports. The chart below indicates the projected changes in population across a number of key age groups between 2015 and 2030.



2.6 As can be seen from the chart, other than for the 0-4 year age group, over the period as a whole, growth in all other groups exceeds that of the traditional "working age" population. This has significant additional cost implications given that, in overall terms, Council services are most focused on the school-age and older (65+) age groups. These trends manifest themselves over the period 2015-2020 primarily in terms of:

Children and Families services

- increased capacity requirements in early years facilities; and
- rising overall school rolls across the primary and secondary education sector.

Health and Social Care services

- increased demand for both residential and at-home care services, with growth in the 85+ age group, for which needs increase exponentially, being particularly pronounced.

2.7 In addition to changes linked purely to increases in the size of the relevant population, medical advances have seen the survival rate for people born with disabilities (or acquiring them through illness or trauma) increase dramatically, resulting in larger numbers, and more particularly complexity of need, of cases of physical and/or learning disability. While the numbers concerned are considerably smaller, such is the intensive nature of support required, that the associated incremental financial provision requiring to be made in the LTFP is markedly higher than for increases in the numbers of older people.

2.8 Although not demographic-related per se, provision has historically also been made for steady growth in the number of at-risk children, with this investment then used to support the Council's wider looked-after children transformation plan. An overall summary of existing demographic provision within the LTFP is provided in Appendix 2.

Review of existing demographic provision

2.9 The report to the Committee's meeting of 13 May intimated that a high-level review of the on-going appropriateness of sums included within the LTFP was underway. This work has now been completed.

2.10 For **Health and Social Care services**, analysis of projected service volume and cost data suggests that, in net terms, the existing level of incremental expenditure provision to reflect changes in the number of older people remains appropriate. While still increasing, the number of older people is not now expected to rise at the rate underpinning earlier census-based projections, albeit unit costs have increased, resulting in a broadly-neutral overall position. In the case of physical and learning disabilities, the position is inherently more difficult to predict but, at this stage, no change to current assumptions is again proposed.

2.11 A comprehensive review of the position in respect of **Children and Families services** has also been undertaken, taking account of updated pupil roll projections, revised early years provision estimates and best-available data for the likely numbers of looked-after children and those with special needs over the next ten years. Estimates have also been incorporated for additional property and school meal costs based on an increase in the overall school population (although, in budgetary terms, these costs will be met by Services for Communities). The Children and Families submission furthermore outlined additional recurring primary school-related revenue costs anticipated to be required to support the level of housing in the second Local Development Plan.

2.12 The updated submission indicates significant additional incremental costs relative to current provision of around £2.3m in 2016/17 and a further £1.9m (i.e. £34.2m in total) in 2017/18. As the additional service investment provided through the priority-based planning process extended only as far as 2017/18, these additional costs increase further by £3.9m and £4.5m in 2018/19 and 2019/20 respectively (giving a total increase relative to current provision of £12.6m by 2019/20).

2.13 Previous reports have made reference to the introduction from April 2016 of a UK-wide single-tier state pension, resulting in the loss of the existing employer’s National Insurance rebate for staff in membership of either the Local Government or Teachers’ Pension Scheme. Initial estimates of the potential cost of these changes, assuming an increase in overall pension scheme membership following enactment of pensions auto-enrolment legislation, pointed to a likely increase in expenditure of around £12m.

2.14 Following clarification of the precise nature of the changes, further analysis has now been undertaken on an updated data set and this indicates a somewhat-lower projected liability of some £10m, assuming current pension scheme membership levels do not change materially. It is proposed that the resulting anticipated saving of £2.1m relative to current LTFP assumptions be allocated to contributing to the additional 2016/17 demographic-related costs highlighted at 2.12 above.

2.15 In view of savings relative to budget in respect of Council Tax and loans charges in 2014/15 and taking into account any savings already approved going forward, assumptions in these areas will be re-examined to determine whether these might be used to supplement the existing level of demographic provision made in 2017/18 and subsequent years. More fundamentally, however, the size of the challenge facing the Council is such that the on-going affordability of the strategy of providing for demography funding may need to be reconsidered, given that the level of per capita Scottish Government grant funding is steadily reducing.

2.16 The Children and Families submission also highlights potential additional borrowing costs associated with the second Local Development Plan, based on the assumption that an element of total expenditure is not met by developers’ contributions. While, if funded by prudential borrowing, these costs have the potential to reach over £12m annually by 2021/22, pending clarification of precise plan requirements and the level and timing of developers’ contributions, no specific adjustment will be incorporated at this time but the position will be kept under review and any change reported to the Committee in the autumn.

Legislative change

2.17 Following the outcome of the referendum on Scottish independence, the UK Government mandated the Smith Commission to bring forward recommendations to deliver more financial, welfare and taxation powers, strengthening the Scottish Parliament within the United Kingdom. The resulting changes to the Parliament's borrowing and tax-raising powers have the potential to change materially a number of the assumptions within the LTFP but given that these remain at a formative stage, no changes are reflected at this point.

2.18 The LTFP does, however, reflect the provision of additional monies to take forward Scottish Government commitments in the areas of free school meals and early years learning and childcare provision, as well as changes to National Insurance contribution rates as outlined at 2.13 above. The plan also reflects the full-year effect of changes to employer superannuation contribution rates for teachers effective from September 2015, for which no additional funding has been received by the Council.

Loans charges

2.19 The Council has adopted the Chartered Institute of Public Finance and Accountancy's "Code for Treasury Management in Local Authorities". Under the Code, a Treasury Policy Statement has been agreed setting out the Council's strategy and procedures. The implementation and monitoring of the Treasury Policy Statement is the responsibility of the Council, with scrutiny provided through the Governance, Risk and Best Value Committee.

2.20 The Council's revenue budget requires to make full provision for the revenue impacts of the capital programme and the 2015/16 budget therefore includes £119m of loans charge expenditure, covering both principal and interest payments. The Council can only commit to further capital expenditure if revenue expenditure plans are affordable and sustainable. When the revenue budget was approved in February 2015, the budget framework identified only broad themes in later years, and, as a result, in the absence of firm plans to balance expenditure to the available level of resources, no additional investment was included within the revenue framework.

2.21 The Council's treasury management strategy continues to use available cash balances in lieu of external borrowing, thus generating savings based on the differential between (i) avoided interest on borrowing and (ii) investment income foregone. This strategy, coupled with the upcoming redemption of a number of high-interest loans in the short- and medium-term, offers the potential for further savings to be generated in loans charge expenditure going forward, much of which have already been built into the LTFP. Further opportunities will be regularly reviewed and any recommendations reported to the Finance and Resources Committee as appropriate.

Principal sources of income – Government Grant and Non-Domestic Rates

2.22 After the announcement of a three-year financial settlement spanning the period 2012/13 to 2014/15, due to the timing of the UK Spending Review, a one-year settlement for 2015/16 was then intimated in December 2014. Local authority Chief Financial Officers have, however, emphasised the importance for planning purposes of a settlement covering a longer period and it is hoped that firm allocations for 2016/17, along with indicative allocations for the two following years, will be announced in November/December 2015.

2.23 The Local Government Finance Settlement is underpinned by a complex series of needs-based formulae spanning the full range of council services. Due to the incorporation for the first time of updated, (lower) census-based population estimates in 2015/16, the Council's year-on-year level of grant funding fell by some 1.8% relative to an essentially "flat cash" position for Scotland as a whole. Going forward, however, it is anticipated that the Council's share of overall resources will slowly increase, given that population growth, and particularly that in the younger and traditional working age groups, will likely exceed the equivalent position elsewhere in Scotland.

2.24 Of arguably greater relevance, however, is the overall quantum of available funding. The Local Government Finance Settlement works on the principle that authorities' need to spend is recognised by the provision of combined grant funding and non-domestic rates income equal to the difference between the Scottish Government's needs assessment and the proportion of that need able to be met through local domestic taxation i.e. Council Tax.

2.25 As mentioned above, no firm allocations, even at local government-wide level, have been confirmed beyond 2015/16. Assumptions within the LTFP are therefore necessarily based on UK-wide forecasts of public expenditure, adjusted as appropriate for the element of local government expenditure not funded by means of the Scottish Block (particularly non-domestic rates, the poundage for which is set by the Scottish Government). Taking these national and local factors into account, current forecasts for the combined level of grant and non-domestic rates funding are for a 0.5% year-on-year cash-terms decrease in each of 2016/17, 2017/18 and 2018/19, no change in 2019/20 (but with the potential for an upside) and modest cash-terms increases thereafter. This position will be kept under regular review as additional details become available. It is important to emphasise that these reductions imply larger real-terms and per capita decreases.

2.26 The Scottish Government also introduced a Business Rates Incentivisation Scheme (BRIS) in 2012/13, with a number of amendments incorporated in a revised scheme launched in 2014/15. While the scheme provides the potential to supplement the Council's total level of available income and now focuses more specifically on factors deemed to be within local authorities' direct control, no additional funding is assumed through the scheme for the duration of this plan.

Council Tax

2.27 Due to the relative affluence of the city's domestic tax base, Council Tax currently funds around 24% of the Council's net spending requirement after income received from fees and charges has been taken into account. The Scottish Government has, since 2008/09, operated a policy whereby local authorities have been provided with additional funding, equivalent to around a 3% increase on Band D tax levels, to freeze Council Tax at 2007/08 levels. The Council has each year signed up to attendant conditions around maintaining teacher and (formerly) police numbers to secure its full allocation and the LTFP assumes the policy, and the Council's receipt of corresponding compensating funding, will continue in 2016/17. It is important to emphasise, however, that this compensating income is paid as general revenue grant with, as a result, changes in overall Council Tax income mainly a product only of changes in the underlying number and banding profile of domestic properties (known as buoyancy), the level of exemption and reliefs and (albeit more marginally, given existing high rates) collection levels.

2.28 The LTFP assumes that the current Council Tax freeze policy will end at the conclusion of the current Parliamentary term in May 2016, with annual rises in Band D levels broadly aligned to inflation thereafter. This is an important assumption and its validity will be kept under review. It should be stressed, however, that this consideration needs to be seen in the context of the wider review of local domestic and non-domestic taxation being taken forward by the Commission on Local Tax Reform which may result in amendments, or more wholesale changes, to current arrangements.

2.29 The Council's financial strategy also assumes continuation of current arrangements whereby Council Tax discounts on second homes are restricted to 10%, with the additional income raised relative to the maximum permitted level of discount of 50% placed in an earmarked reserve to promote the provision of additional affordable social housing. A 100% surcharge will also continue to be charged on long-term empty properties.

Fees and charges

2.30 While the majority of Council revenue expenditure is supported by means of Government Grant, Non-Domestic Rates and Council Tax, a significant element is provided through income from service fees and charges. In 2015/16, total budgeted income in this area is around £105m, with the Council able to exercise an element of discretion in charge levels, structure or scope for around 80% of this.

2.31 The level of fees and charges set by the Council aims to strike an appropriate balance between the costs of service delivery, wider Council priorities and the needs and ability to pay of service users. Unless prevented by legislation or where there are other pre-existing plans in place, fees and charges will continue to be subject to an annual inflation-linked uplift. The Corporate Charging Policy framework, approved in June 2014, provides further details in this area.

Risks and reserves

2.32 A central element of the financial strategy is the effective identification, management and mitigation of the main risks affecting the Council. Review of key current, emerging and potential risks is regularly undertaken at Divisional and Senior Management Teams and overseen by the Corporate Leadership Group and Governance, Risk and Best Value Committee.

2.33 A comprehensive overview of the risks as they affect the budget-setting process is considered by the Finance and Resources Committee in January each year; the most recent such review may be found here.

2.34 Unallocated reserves are held against the risk of unanticipated expenditure or reduced income arising in any particular year. In addition, under accounting rules, some earmarked reserves are set aside to manage timing differences between the receipt of income and expenditure being incurred.

2.35 As with risks, the reserves held by the Council are reviewed annually as part of the revenue budget process. The review considers the level of balances, the risks inherent in the budget process and the adequacy of arrangements in place to manage these known risks. A summarised list of these reserves, their purpose and current and projected balances was most recently reported to the Finance and Resources Committee in January 2015.

2.36 The precise level of balances held at any one time needs to be viewed in light of known commitments, liabilities and risks. The Council maintains, for example, an insurance fund to meet insurance premia and outstanding claims. In the absence at this stage of firm longer-term plans to address the Council's overall savings requirement, however, reliance on reserves solely to facilitate additional investment and/or reduce the level of required savings would be considered neither prudent nor sustainable.

2.37 The Council previously approved a medium-term strategy to re-establish the unallocated General Fund reserve to a level equating to 1% of its gross annual expenditure i.e. around £13m. This was achieved in March 2011 and has been maintained since that time. The current level of this reserve, together with the forward strategy, is considered appropriate, in view of the financial liabilities and risks likely to face the Council in the short- to medium-term, including identifying £107m of budget savings by 2019/20.

Financial Governance framework - statutory and regulatory requirements

2.38 Section 95 of the Local Government (Scotland) Act states that every local authority shall make arrangements for the proper administration of its financial affairs and shall secure that the proper officer of the authority (termed the Section 95 Officer) has responsibility for the administration of those affairs.

2.39 The Local Authority Accounts (Scotland) Regulations 1985 further specify that the system of accounting and control and the form of the accounts and supporting records are to be determined by the Section 95 Officer and that s/he is to ensure that accounting controls are observed and the accounts and supporting records are kept up to date. S/he is also responsible for publishing the Annual Accounts of the Council and for making the arrangements for the statutory audit required by s96 of the 1973 Act.

2.40 The City of Edinburgh Council has designated the Head of Finance as the Section 95 Officer and therefore as the officer responsible for the administration of the Council's financial affairs in terms of Section 95 of the 1973 Act.

2.41 Other relevant statutory requirements include:

- Setting a balanced budget on an annual basis, including transfers to, or from, reserves – the Council can budget for a surplus but it cannot budget for a deficit;

- Setting the Council Tax by 11 March prior to the commencement of the financial year to which the tax relates;

- Complying with the Service Accounting Code of Practice and related statements of practice such as for Treasury Management;

- Submitting for audit draft financial statements for the Council by 30 June.

Roles and responsibilities

2.42 The following section sets out the roles and responsibilities of the key individuals or groups of individuals who are involved in the development and delivery of the Council's financial strategy and management of financial resources.

2.43 **Elected members** through the Council and Committees are responsible for considering and approving the financial strategy, plans and annual budgets of the Council. The Governance, Risk and Best Value Committee fulfils a scrutiny role on all financial matters.

2.44 **The Chief Executive and Service Directors** who form the Corporate Leadership Group are responsible collectively and individually for ensuring that best value is achieved across the Council in service delivery, procurement, use of assets, internal processes and compliance with the Council's Local Code of Corporate Governance. Each Director also has a specific responsibility to maintain his/her expenditure within the level of budget approved by Council.

2.45 As part of ensuring the overall sustainability of the Council's financial planning and management arrangements, Directors also have a responsibility to review their respective budgets on an on-going basis. This includes the active monitoring and management of service pressures, delivery of approved savings and application of approved service investment, particularly in cases where this investment is targeted towards delivery of longer-term savings.

2.46 **The Head of Finance** is the Council's statutory Chief Financial Officer under Section 95 of the Local Government (Scotland) Act 1973. In practice this means that he carries a responsibility for managing the totality of the authority's financial affairs in all its dealings. In addition he has a fiduciary responsibility to local citizens. He has the authority to comment on any financial decision and advise officers and members of the Council on all financial matters. The Head of Finance may also request that Directors report to Council during the year on measures being taken to ensure expenditure is contained within approved levels.

2.47 **Budget Managers** are officers who are responsible for preparing the budgets of specific service areas and making spending decisions in line with previously agreed policy, within budget limits and in accordance with the Council's financial regulations. Budget managers operate at various levels within the organisation depending on the extent of delegation.

2.48 **Internal Audit** is an independent function which provides an objective evaluation of the effectiveness of risk management, control and governance processes within the Council. Internal Audit provides reports to the Council's Section 95 Officer, other senior officers and the Governance, Risk and Best Value Committee.

2.49 The role of **External Audit** is to provide assurance to the Accounts Commission that the Council has spent public money properly to deliver outcomes in an efficient and effective manner. They provide specific reports in relation to the Council's financial statements, systems of control, performance and value for money. The external auditor is appointed by the Accounts Commission.

EXTRACT FROM LONG-TERM FINANCIAL PLAN, 2015/16 TO 2019/20 **Appendix 1**

	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Frontline service area budgets	810.5	812.6	826.8	845.9	866.0
Budgets to be disaggregated to services according to actual expenditure (non-domestic rates, energy, Living Wage)	3.0	4.2	5.9	7.1	8.3
National Insurance - estimated impact of creation of single-tier state pension and consequent loss of existing employer's contracted-out rebate	0.0	10.0	10.0	10.0	10.0
Corporate budgets (Modernising Pay, Carbon Tax, Pension Fund lump sum payments, inflation uplift provision, etc.)	15.3	25.5	31.4	37.5	43.2
Total General Fund Services	**828.8**	**852.4**	**874.1**	**900.5**	**927.5**
Loan Charges	119.2	117.5	116.9	114.7	114.6
Net Cost of Housing Benefit/Council Tax Reduction Scheme	1.5	3.3	3.3	3.3	3.3
Net Use of Earmarked Balances	(1.2)	2.9	2.4	0.7	0.7
Expenditure linked to Specific Grants	0.3	0.3	0.3	0.3	0.3
Total planned expenditure (net of fees and charges income)	**948.5**	**976.4**	**997.0**	**1,019.6**	**1,046.5**
Combined General Revenue Grant and Non-Domestic Rates	(712.3)	(708.8)	(705.3)	(701.7)	(701.7)
Council Tax Income	(236.2)	(237.3)	(245.6)	(252.9)	(260.5)
Specific Grants	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Total income (excluding fees and charges)	(948.7)	(946.4)	(951.1)	(954.9)	(962.5)
Total shortfall / (surplus) of funding	**(0.2)**	**30.0**	**45.9**	**64.6**	**83.9**

NB The total savings requirement over five-year period to 2019/20 is the £83.9m per this analysis plus £21.9m of net savings identified in the approved 2015/16 budget motion, resulting in an overall requirement of £105.8m. The requirements above are shown before factoring in any savings resulting from the Council's transformation programme.

The above analysis also incorporates the reduction in provision to reflect changes in National Insurance rates upon creation of a single-tier state pension in April 2016 and the consequent reallocation of £2.1m to address additional demographic-related pressures highlighted by Children and Families.

DEMOGRAPHIC-RELATED FUNDING INCLUDED IN LONG-TERM FINANCIAL PLAN, 2015/16 - 2019/20

NB Increases are shown incrementally relative to level of provision in preceding year.

Appendix 2

The analysis does not include the proposed increase in Children and Families demographic-related provision in 2016/17.

SERVICE AREA	DESCRIPTION	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	TOTAL £m
CHILDREN AND FAMILIES SERVICES							
Primary Schools	Pupil Numbers Demography	0.786	1.361	1.378	1.344	1.277	**6.670**
Secondary Schools	Pupil Numbers Demography	0.524					
Family Based Care	Vulnerable Children Demography	1.789	1.789	1.789	0.000	0.000	**5.367**
Professional Support	Additional Support Needs - Devolved Mainstream Schools	0.059	0.369	(0.032)	0.000	0.000	**0.396**
Professional Support	Additional Support Needs - Nursery Schools	0.355	0.114	(0.014)	0.000	0.000	**0.455**
Nursery Schools &	Nursery Classes	0.115	0.058	0.000	0.000	0.000	**0.173**
Nursery Schools &	Nursery Schools	0.058	0.031	0.000	0.000	0.000	**0.089**
HEALTH AND SOCIAL CARE SERVICES							
Older People Services	Demography - increasing number of Older people	1.982	2.043	1.937	2.369	2.372	**10.703**
Disability Services	Demography - adults with learning disabilities	2.495	2.600	2.705	3.204	3.334	**14.338**
Disability Services	Demography - adults with physical disabilities	0.368	0.373	0.379	0.384	0.390	**1.894**
Mental Health and Care Assessment	Demography - Mental Health and Care Assessment	0.900	0.900	0.900	0.000	0.000	**2.700**
CORPORATE GOVERNANCE							
Customer Services	Increasing Council Tax- and Housing Benefit/CTRS administration-related activity based on population changes	0.180	0.180	0.180	0.000	0.000	**0.540**
SERVICES FOR COMMUNITIES							
Environment	Impact of increase in household numbers on waste collection routing and disposal	0.000	0.348	0.348	0.348	0.348	**1.392**
TOTAL CURRENT PROVISION		**9.611**	**10.166**	**9.570**	**7.649**	**7.721**	**44.717**