

Finance and Resources Committee

10am, Thursday 12 May 2016

Revenue and Capital Budget Framework 2016/20 update

Item number	7.3
Report number	
Executive/routine	
Wards	

Executive summary

On 21 January 2016 Council approved a balanced revenue budget for 2016/17 as part of a longer-term framework. This report provides members with an overview of a number of recent announcements that, subject to the outcome of upcoming Scottish Parliamentary elections, may impact on the framework going forward. A summary of progress in discharging actions arising from the approved budget motion is also included.

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Report

Revenue and Capital Budget Framework 2016/20 update

Recommendations

- 1.1 Members of the Finance and Resources Committee are asked to:
 - 1.1.1 note the contents of the report; and
 - 1.1.2 note that progress in the delivery of approved savings and any material changes to budget framework assumptions will be reported to the Committee later in the year.

Background

- 2.1 On 21 January 2016, Council approved a balanced revenue budget for 2016/17 and indicative balanced budgets for the following two years, subject to confirmation of grant funding levels for 2017/18 and 2018/19. The approved budget framework leaves a £15.3m residual gap in 2019/20, with the intention that this be bridged by the identification of further savings once the new structures and service models underpinning the transformation programme have bedded in.
- 2.2 Since the setting of the budget, a series of further announcements covering proposed reforms to local taxation, drawing upon the main recommendations of the Commission on Local Tax Reform published in December, have been made. This report considers the potential impact of these changes on the budget framework as well as updating members on proposed monitoring and scrutiny arrangements of approved savings during the year.

Main report

Proposed reforms to local taxation

- 3.1 As was noted in the Business Bulletin considered by the Finance and Resources Committee on 17 March, the Scottish Government has proposed, subject to its re-election, a number of changes to current Council Tax arrangements. These include revisions to existing differentials between bands, changes to the system of reliefs and an ending of the current freeze policy, allowing councils to increase average rates by up to 3% each year from 2017/18 onwards.
- 3.2 Across Scotland as a whole, the proposed changes to the multipliers for higher-banded properties are expected to increase total income by around £100m per annum, with this income supporting additional attainment-related investment in schools. Given the number and profile of properties in the city, it is anticipated that the changes will increase Council Tax income raised in Edinburgh by about

£15m. Under the needs basis of the grant distribution system, however, it is likely that Edinburgh's share of the schools-related funding will be around £7m, with the remaining £8m offset by a corresponding adjustment to its revenue grant.

- 3.3 The Council's budget framework assumes annual increases in Council Tax levels of 3% with effect from 2017/18. Subject to subsequent Council approval, the Scottish Government's proposals are therefore consistent with these assumptions. Monies received in respect of maintaining previous years' freezes will be retained within the Local Government Settlement as these underpin current approved levels of expenditure.
- 3.4 In the medium- to longer-term, the Scottish Government's proposals also include, subject to further discussion with COSLA, devolving an element of Income Tax receipts to councils, with the aim of incentivising them to contribute to their areas' economic development.

Grant funding projections

- 3.5 A one-year Local Government Finance Settlement for 2016/17 was announced on 16 December 2015, with the level of revenue resources provided representing a cash-terms reduction of around 3.5% relative to the previous year. Due to a combination of the timing of the UK Spending Review in late November and on-going (at the time) discussions around fiscal framework arrangements between the UK and Scottish Governments, indicative allocations for the following three years were not provided. While no further details are available at this time, it is anticipated that the Draft Scottish Budget will revert to being announced in September 2016, with a three-year Settlement then provided in early December.
- 3.6 Following agreement of the basis of the fiscal framework between the UK and Scottish Governments, a wider discussion around income tax policy has ensued in the context of the Scottish Parliamentary elections. Given that the level of funding provided to the Council is already the complex product of the operation of the Barnett formula, Scottish Government priorities and the distribution process amongst local authorities, it is not however possible to draw any direct conclusions on the potential implications of any changes at this stage. As such, the existing assumptions of further cash-terms reductions of 1.2% and 0.5% in 2017/18 and 2018/19 respectively will be retained, although there is a risk, given the extent of the reduction in 2016/17, that the actual level of settlement will be worse than this.

Updates on other framework assumptions

- 3.7 In overall terms, current assumptions within the budget framework are considered to remain valid at this time. There are, however, a number of known and emerging issues, the impact of which will require to be considered as part of the framework over the medium-term:
- (i) any short-term or on-going funding requirement in respect of the proposed **Edinburgh and South East Scotland City Region Deal**;

- (ii) any short-term or on-going funding requirement with regard to the **proposed tram extension to Newhaven**. High-level preparatory works are continuing with a view to bringing forward to Council a further report, making a final recommendation on whether to proceed, after the Local Government elections taking place in May 2017;
- (iii) continuing discussions with the Chief Officer of the Edinburgh Health and Social Care Partnership and Interim Chief Finance Officer of the Edinburgh Integrated Joint Board on **the precise level of resourcing for Council-provided or procured services to be made available in 2016/17 and future years**. Of particular relevance are additional costs arising from the UK-wide National Living Wage effective from April 2016 (affecting, amongst other things, sleepover costs) and, more materially, the application of the Living Wage across the adult care sector to include voluntary and independent providers from October 2016. Discussions are continuing around the allocation of the element of the £20.2m provided to the Edinburgh IJB through the Social Care Fund in 2016/17 to address these pressures;
- (iv) potential additional costs arising from the introduction of a UK-wide **apprenticeship levy** from April 2017, set at 0.5% of larger employers' pay bill (equating to around £2m in the Council's case). A proportionate share of revenues raised will, however, be passed back to Scotland through block grant arrangements and pending further discussions between the Scottish and UK Governments, the net impact on the Council cannot be quantified at this time;
- (v) any short-term or on-going funding requirement associated with **the Local Development Plan**. Cost estimates are being refined as the nature and content of the plan become clearer but currently point to a potential capital funding gap across education and transport infrastructure alone of more than £135m. Recurring annual revenue costs of up to £8.5m arising from the additional education infrastructure required to address additional demand (primarily staffing and building running costs) from new housing have also been identified;
- (vi) incremental provision for additional demographic growth relative to current budget framework assumptions affecting, in particular, Communities and Families services. Not including costs linked directly to the Local Development Plan, service estimates point to a potential shortfall of £1.4m in 2017/18, rising to £7.0m by 2019/20 and to £12.2m by 2021/22.

3.8 The combined impact of the above factors could clearly place considerable additional calls upon the Council's revenue and capital budgets. These and other factors will therefore continue to be actively monitored and regular updates brought back for members' consideration. As with all service investment and expenditure pressures, however, budget framework provision is only affordable

and sustainable through the identification of corresponding recurring savings or additional income.

Savings implementation planning

- 3.9 Building on the additional scrutiny fostered by the establishment of “budget challenge” meetings involving Directors, the Chief Executive, Head of Finance and relevant elected members, a series of progress updates on the preparation of savings implementation plans (with clear milestones, timescales and associated responsibility for delivery) has been considered by the Council Leadership Team. These assessments have been undertaken both prior to and following Council’s approval of the budget framework on 21 January. The importance of this scrutiny cannot be overestimated, with almost £70m of savings to be delivered in 2016/17 alone.
- 3.10 The updates have, in the main, provided assurance that robust plans are in place. They have also, however, highlighted the need for further preparatory work for a number of more transformational proposals, the savings from which are in the main planned to be delivered from 2017/18. These proposals include changes to arrangements for the provision of school music tuition, library services, the second phase of the business support and customer service transformation plans (including business support in schools) and a number of Health and Social Care-related savings. These issues will be explored further at budget challenge meetings during the year and the resulting proposals brought forward subject to public engagement.

Actions arising from budget motion

- 3.11 As in previous years, the approved budget motion instructed the Chief Executive and other senior officers to initiate a number of actions over the coming months. Progress against those actions with anticipated implementation dates by the end of September is included in Appendix 1.
- 3.12 Members’ attention is drawn in particular to the mid-year review which will provide a full update on progress in delivery of approved savings targets, highlight any areas of shortfall and/or risk and set out additional detail on a number of approved proposals, the delivery of which is planned for 2017/18 and subsequent years. While dependent upon the timing of the announcement, an initial assessment of the implications of the Scottish Draft Budget across the period of the framework will also be provided.

Capital Investment Programme 2016/21

- 3.13 Members may recall that in approving the 2016/21 Capital Investment Programme (CIP) on 21 January, £7m of funding in each of 2019/20 and 2020/21 was left unallocated. Members did, however, agree to earmark some £7.9m of anticipated additional capital receipts equally between supplementing planned repairs and maintenance spend through use of the Capital Fund and providing funding for future LDP infrastructure requirements.

- 3.14 In addition to the £14m of unallocated funds, £35m of Asset Management works funding over the period of the programme remained unallocated at the time of budget-setting pending completion of estate-wide condition surveys. These surveys have now been completed and a prioritised list of works developed. Asset management remains a key priority within the capital plan, with the level of funding identified to date only able to address an element of backlog maintenance and health and safety concerns.
- 3.15 As part of the 2016/21 CIP, Directors also identified their respective top three priorities, highlighting unfunded pressures totalling around £142m. Amongst these priorities are Meadowbank Stadium replacement and South Morningside Primary School, as well as long-standing funding requirements to increase the provision of affordable housing and improve roads infrastructure within the city. Members will continue to receive updates on these and other capital budget-related issues.

Measures of success

- 4.1 Relevant measures in setting the 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 Delivery of a balanced budget in any given year is contingent upon the development, and subsequent delivery, of robust savings, alongside management of all risks and pressures, particularly those of a demand-led nature.

Risk, policy, compliance and governance impact

- 6.1 An annual report on the risks inherent in the budget process is considered by the Finance and Resources Committee in January and referred to Council as part of setting the revenue and capital budgets.
- 6.2 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 expected service impacts outlined in the respective budget templates. This process has been aided by the integration into a single cost reduction plan of savings derived from the respective transformation and service prioritisation programmes, monitoring

against which is being reported to the Finance and Resources Committee on a bi-monthly basis.

- 6.3 Recent improvements to the budget monitoring process should also enhance CLT and elected member scrutiny of the management of service pressures and delivery of approved savings. An update will be provided in the Period 2-based monitoring report to be considered by the Finance and Resources Committee on 18 August and a full analysis then included as part of the mid-year review to be considered by the Committee on 29 September.

Equalities impact

- 7.1 As in previous years, those proposals comprising the budget framework have been assessed for their corresponding potential equalities and human rights impacts. The results of this assessment were reported to the Finance and Resources Committee on 14 January 2016 to allow members to pay due regard to them in setting the 2016/20 budget framework.
- 7.2 A progress report outlining the effectiveness of the mitigating actions put in place to address those approved proposals with potential adverse impacts will be considered by the Committee on 9 June.

Sustainability impact

- 8.1 The proposals comprising the budget framework have also been subject to an assessment of their likely corresponding carbon impacts, with the main findings reported to Council on 21 January 2016.

Consultation and engagement

- 9.1 An extensive period of public engagement was undertaken on the proposals comprising the framework, with the findings reported to the Finance and Resources Committee on 14 January 2016 and informing the final approved budget.

Background reading/external references

[2016/20 Revenue and Capital Budget Framework](#), Finance and Resources Committee, 24 September 2015

[2016/20 Revenue and Capital Budget Framework](#), Finance and Resources Committee, 26 November 2015

[2016/20 Revenue and Capital Budget Framework](#), Finance and Resources Committee, 14 January 2016

[Council's Budget 2016/17 – Risks and Reserves](#), Finance and Resources Committee, 14 January 2016

[Capital Investment Programme/Plan 2016/17 to 2023/24](#), Finance and Resources Committee, 14 January 2016

[Capital Coalition Budget Motion](#), City of Edinburgh Council, 21 January 2016

[Business Bulletin](#), Finance and Resources Committee, 17 March 2016

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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	
Appendices	One – Actions emerging from Approved Budget Motion – progress update

Appendix 1 - Actions emerging from Approved Budget Motion – progress update

Report / Review / Future Budget Development	Brief Description	Responsible Officer	Timescale	Progress and RAG status
Voluntary sector – further partnership working	To prepare a report on the benefits, outcomes, management and improved transparency of various funding streams including grants, co-production and contracts for the voluntary sector	Chief Executive	Finance and Resources Committee, 17 March 2016	Green; report considered and approved by Finance and Resources Committee, 17 March; further report on lessons learned from recent grant awards programme to be considered by the Committee in June.
Additional potential income sources	To continue to investigate alternative sources of income in line with the recommendations contained within the Commission on Local Tax Reform report	Acting Executive Director of Resources	On-going	Amber; the Council is seeking the power from the Scottish Government to introduce a tourist levy. Talks with Ministers are ongoing.
Common Good	To instruct the allocation of £100,000 (increasing to £250,000 in 2017/18) to develop and maintain a Common Good asset register and report on progress	Acting Executive Director of Resources	Council, 30 June 2016	Green; a report setting out the timetable going forward will be considered at the Council meeting on 30 June.

Report / Review / Future Budget Development	Brief Description	Responsible Officer	Timescale	Progress and RAG status
Mid-year budget review	To establish a mid-year budget review meeting of the Council which will monitor progress against the Capital Coalition's financial commitments and act as an early warning system against potential risks	Acting Executive Director of Resources	Finance and Resources Committee, 29 September	Green; savings tracking in place; initial "budget challenge" meetings for all service areas have also been scheduled for April and June.
Equalities and rights and carbon, climate change adaptation and sustainable development impacts	To report to Committee early in the new financial year on how the actual impacts of approved proposals compare with those anticipated and, where necessary, the effectiveness of the mitigating actions put in place.	Acting Executive Director of Resources	Finance and Resources Committee, 9 June 2016	Green; report on schedule