

Governance, Risk and Best Value Committee

10.00am, Thursday 28 January 2016

Use of Demographic Information in the Budgeting and Service Planning Processes

Item number	7.3
Report number	
Executive/routine	
Wards	All

Executive summary

At its meeting on 18 June 2015, the Governance, Risk and Best Value Committee considered a six-monthly update of the (then) Corporate Leadership Group risk register which outlined the Council's highest-priority risks, along with the principal actions in place to manage them.

One of the risks, relating to planning for increased service demand, identified the potential for a lack of strategic approach in assessing the financial and service planning aspects of the city's changing demographics, resulting in a funding shortfall and/or lower service quality. While a number of mitigating measures were set out in the risk register, following discussion, members of the Committee requested that a report be brought back in around six months' time considering the consistency of current practice and any relevant proposed developments.

This report provides an overview of the Council's approach to recognising demographic change and outlines recent work to aid the development of consistent, organisation-wide projections and intelligence in this area.

Links

Coalition pledges	All
Council outcomes	All
Single Outcome Agreement	All

Use of demographic information in the budgeting and service planning processes

Recommendations

- 1.1 Members of the Governance, Risk and Best Value Committee are asked to note the contents of the report and the progress made in developing a consistent approach to assessing the financial and service aspects of demographic change upon the Council's services.

Background

- 2.1 At its meeting on 18 June 2015, the Governance, Risk and Best Value Committee considered a six-monthly update of the (then) Corporate Leadership Group risk register which outlined the Council's highest-priority risks, along with the principal actions in place to manage them.
- 2.2 One of the risks, relating to planning for increased service demand, identified the potential for a lack of strategic approach in assessing the financial and service planning aspects of the city's changing demographics, resulting in a funding shortfall and/or lower service quality. While a number of mitigating measures were set out in the risk register, following discussion, members of the Committee requested that a report be brought back in around six months' time considering the consistency of current practice and any proposed relevant developments.
- 2.3 Since the Committee's meeting, the results of a pre-planned internal audit have been issued. In addition to regular, on-going review of the level of financial provision contained within the Council's Long-Term Financial Plan (LTFP), initial work has been undertaken to develop both city-wide and local-level population projections to promote improved consistency and co-ordination in service planning. Such work has been developed and will be taken forward as a part of the Council's new approach to Strategy and Insight services.
- 2.4 The following sections set out progress across all of the above areas. The report begins, however, by describing the Council's current approach to modelling the service and financial impacts of changing demographics, before outlining future service developments. For the purposes of the report, the term "demographics" will be assumed to cover the size, structure and distribution of the population.

Population growth in Edinburgh

- 3.1 Over the past ten years Edinburgh has been one of the fastest-growing local authorities in the UK. From 2004 to 2014 the population of the city grew by over 46,000 people. This represents an increase of some 10%, more than double the growth seen across Scotland as a whole and almost double the 5.5% growth recorded in Glasgow.
- 3.2 According to estimates published by the National Records of Scotland (NRS), the Scottish Government agency responsible for preparing statistics on demographic trends, the city is likely to see continued strong population growth over the next ten years. NRS projections show the number of Edinburgh residents increasing by 57,000 people, or 11%, over the period 2015-25. These projections show strong growth at both ends of the age spectrum, with an 18% increase in the population aged under 18, alongside 25% growth in the number of residents aged over 75.
- 3.3 These trends, and associated changes in life expectancy and related medical advances, have significant impacts on demand for many Council services. In particular, projected growth in the number of young people in the city is expected to impact on **Communities and Families** services through:
- increased capacity requirements in early years facilities;
 - rising overall school rolls across the primary and secondary education sector; and
 - greater numbers of at-risk children in need of support.
- 3.4 Growth in the number of older people and increased survival rates for people with disabilities are expected to have an impact on **Health and Social Care services** through:
- 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; and
 - increased demand and need for support for residents born with disabilities (or acquiring them through illness or trauma).
- 3.5 Growth in, and changes in the characteristics of, the city population as a whole are also expected to result in increased demand for a number of other Council services, including:
- housing, particularly affordable housing; and
 - elements of essential city infrastructure, such as waste and recycling services.

Financial provision for demographic change

- 3.6 The Council remains one of relatively few in Scotland to make explicit provision for the costs of demographic change within its budget, having done so since 2009. This approach was specifically highlighted as an area of good practice by the Local Government and Regeneration Committee of the Scottish Parliament and has formed a foundation of the LTFP ever since. An overall summary of the current level of demographic provision within the LTFP is provided in Appendix 1.
- 3.7 The effect of cumulative years' savings requirements has, however, made this level of incremental provision increasingly challenging to sustain and underlined that such a level of investment is only affordable insofar as corresponding savings are available to pay for it. This issue has been brought into sharp relief by a series of below-inflation finance settlements in recent years that have accelerated the need, where feasible, to look at ways of managing demand or reducing the incremental cost of meeting that demand, with the Looked-After Children Transformation Plan (on which the Committee receives six-monthly updates) a good example of how this can be achieved.
- 3.8 The issue of demographic change and, in particular, the associated financial consequences has gained increasing prominence in recent months amongst both senior officers and elected members. The level of financial provision contained within the LTFP is, however, already subject to at-least six-monthly review or as and when relevant empirical or other evidence becomes available.
- 3.9 In April and May 2015, a comprehensive review of current provision across all service areas was undertaken, the results of which were then reported to the Finance and Resources Committee on 4 June. For Health and Social Care services, this review indicated that the existing level of incremental provision was considered broadly appropriate, with increases in service cost offset by lower-than-previously-forecast growth in the relevant population. This latter difference had stemmed, in turn, from actual 2011 census data showing that NRS projections of Edinburgh's population as a whole had been overestimated by almost 4%, with the younger working-age male population the principal contributor to this position. Given the importance of population-based measures to the grant distribution system, this overstatement was the main contributor to a reduction of £13m in the Council's external revenue funding in 2015/16. While, in each case, the difference stemmed from work undertaken by the Scottish Government, the susceptibility of existing national projections to relatively small changes in assumptions on migration is something the Council's own work (described later in this report) has specifically sought to address.
- 3.10 At a more strategic level, the Children and Families update also looked at anticipated additional education-related requirements arising from the Local Development Plan. Following consideration of the evidence presented, as a

result of lower-than-anticipated costs associated with National Insurance changes effective from April 2016, the resulting funding was reallocated to increase overall provision in this area by £2.1m.

- 3.11 The importance of recognising the longer-term financial implications of demographic change has also been highlighted, with risks around the adequacy of current provision highlighted in various update reports. Given the absence even of local government-wide funding allocations beyond 2016/17, however, the affordability of making further provision will be reviewed upon publication of the Scottish Government's Draft Budget for 2017/18. It is vitally important for the level of provision made to strike an appropriate balance between accurately forecasting additional demand and encouraging preventative approaches and/or service transformation, particularly given that the level of per capita grant support is steadily decreasing.
- 3.12 In overall terms, the review of baseline projections on which the level of additional provision had been calculated confirmed the approach's underlying robustness. More generally, however, opportunities exist to consider whether more Edinburgh-specific data could be developed that would assist both in service planning and highlighting more timeously the potential for material changes in external funding resulting from limitations in the methodologies currently being applied. Work currently being taken forward in this area is set out later in this report.
- 3.13 As noted in the Budget Update report considered by the Finance and Resources Committee on 14 January, the Draft Scottish Budget included an additional £250m transfer of resource from the NHS to health and social care partnerships to support health and social care integration. As such, the precise funding arrangements for addressing demographic change as it affects these services are subject to review.

Internal Audit review

- 3.14 The Council's financial planning approach was recently also reviewed as part of the internal audit plan; a copy of the report is included as Appendix 2. The review acknowledged a number of strengths of the current approach, including the explicit financial recognition of the impact of demographic change, regular review and discussion of the level of provision made and the use of updated projections by service areas. The review made three medium- or low-risk recommendations, the first advocating the use of latest-available population estimates for learning and physical disability services and work is proceeding to implement this action.
- 3.15 The other recommendations related to more specific consideration of NRS's variant projections (which make differing assumptions about birth rate and migration) and modelling the demographic impacts of the LDP. Each of these issues is being examined in the context of work being taken forward by Business Intelligence, a summary of which is provided in the following section.

Use of population projections in planning of Council services

- 3.16 Analysis of population change and its impacts on service demand is currently built into the planning of services across all areas of the Council. While the NRS projections cited above typically provide a starting point for this analysis, given the diverse range of services provided by the Council, the specific approaches and datasets used can vary considerably between service areas, with a bespoke approach also often adopted with regard to assessing financial implications of these changes. These projections are based on historic data and reflect assumptions about future changes, particularly with regard to migration, fertility and mortality.
- 3.17 With regard to **Children and Families services**, the Rising School Rolls report to the Education, Children and Families Committee on 9 December 2014 included the latest forecast of projected school rolls based on the most recent information on births and population projections provided by NRS, suggesting that future birth rates will be greater than they had previously projected. The differences in the projections are significant; relative to the estimates calculated two years earlier, the 2012-based projections suggest that there will be an additional 1,000 births each year between 2024 and 2035.
- 3.18 The actual birth rates in 2011 and 2012 were the highest in twenty years, with these feeding in to P1 in 2016 and 2017 and, in due course, through to the secondary sector. There are however, other factors that influence school rolls, with, for example, a marked recent increase in the stay-on rate in S5 and S6. Across the secondary sector as a whole, pupil numbers are expected to increase by nearly 37% between 2017 and 2030.
- 3.19 Analysis undertaken within **Health and Social Care** similarly takes as its starting point NRS population estimates and projections. In the case of both care home and domiciliary care provision, age-specific service utilisation rates are then applied to wider population projections to estimate likely demand, with unit costs multiplied by these volume changes to assess the level of additional financial provision required. As mentioned previously, the extent of growth in the 85+ age group is particularly influential in determining overall service volumes given the more intensive nature of support generally provided.
- 3.20 Other areas use population projections more broadly; planning for looked-after children services is based more on an extrapolation of past trends and other empirical evidence, alongside modelling the balance of provision across different care settings. Waste Services makes use of NRS household projection data, in conjunction with modelling of the locations of current and prospective housing and other development, to plan additional collection and disposal arrangements.

3.21 These bespoke arrangements, while important to ensuring a close fit with service needs and building on service-specific intelligence, do carry a number of risks for the Council. In particular:

While useful as a starting point for analysis, NRS projections are very sensitive to changes or errors in core assumptions (particularly around migration flows) and have tended systematically to overstate the level of actual population growth in Edinburgh over recent years;

- NRS projections are largely a demand-led estimate and make no allowance for housing supply constraints on population growth. As such, these projections are not necessarily consistent with Council planning or housing policies;
- While NRS projections are used by all services, the different methodologies and approaches mean that demand planning and financial planning in different parts of the Council may be based on different assumptions about the likely scale of population growth in the city; and
- Notably, NRS produces population projections for the city as a whole, but offers no guidance on likely population change for small areas of the city. As such, local planning and projections for different services may be based on different assumptions about the likely spatial pattern of population change.

3.22 A number of these risks and issues were identified in the August 2015 internal audit on the use of demographic projections in the Council budget process which recommended improvements to ensure that:

- A more consistent approach be taken to use of demographic projections across services areas, particularly in respect of the influence of likely migration trends; and
- The sensitivity and margins for error in NRS projections and their impact on service demand and financial pressures be more explicitly considered.

3.23 These recommendations will be taken forward by work underway to develop the Council's new Strategy and Insight function.

Future developments – Strategy and Insight

3.24 As a key strand of the council transformation programme, the Business and Support Services project is developing a new model for the provision of central support for Council services. The project will provide a strong Strategy and Insight centre to provide analytical resources to support front-line delivery and help promote consistent and integrated Council-wide approaches to planning services.

3.25 The new service will provide:

- An integrated, smarter approach to the delivery of strategy and insight services, removing duplication and inefficiency and integrating analytical resources across the Council;
- Improved availability and sharing of management information and analysis around a cohesive, Council-wide approach to managing requests for data, research and insight; and
- A dedicated business partner approach for all services and localities. This approach will be critical to maintaining consistency of service, expertise and knowledge and building insight programmes around the needs of services areas and localities.

3.26 An early priority of the new service is the development of single consistent Council-wide approach to planning and predicting future service needs. A core part of this programme will be the improved understanding of future population change in the city. Towards this, work is underway to build on the internal audit recommendations cited above and develop a single shared, Council-wide view of likely population growth across the city. This analysis, led by officers in Business Intelligence, addresses the limitations of NRS projections noted above to:

- Provide new estimates of likely population change in the city over the next decade which are consistent with the Council's own planning policies and understanding of likely house building patterns;
- Provide a single set of estimates of likely population growth by locality, ward, and age group for use across all Council services for demand planning purposes;
- Improve analysis and understanding of the sensitivity of likely population growth to changes in core assumptions such as house building rates, household size, birth and mortality rates, migration flows and other factors.

3.27 Initial draft outputs from the new approach have been built on analysis of the 2014 Housing Land Audit alongside detailed analysis of the most up to date statistics produced by NRS. These outputs have provided a useful starting point for consultation and confirmed the potential for the approach to provide better analysis of small-area population change and more useful predictions of likely demand change.

3.28 Next steps for the project during early 2016 will include:

- Updating new projections to incorporate data from the 2015 Housing Land Audit and most up to date analysis of expected house building patterns;

- Developing methodology and project outputs to ensure fit with existing service needs; and
- Publishing findings and rolling out projections for use in service demand and financial planning.

Measures of success

- 4.1 Within a context of decreasing real-terms resources, on-going provision of demographic-related funding needs to be effectively targeted and combined, as appropriate, with investment in early intervention and prevention to retain financial stability going forward.

Financial impact

- 5.1 A total of £47m has been provided in respect of demographic and other service demand-related factors over the five-year period of the budget framework. Given reducing real-terms overall resource availability, offsetting savings require to be identified elsewhere within the Council's budget to allow this level of provision to be sustained.

Risk, policy, compliance and governance impact

- 6.1 Planning for increased demand has been identified as one of the key CLT risks and a corresponding programme of mitigating actions developed including:
- explicit financial provision made within the Long-Term Financial Plan;
 - creation of a Strategic Workforce Board reporting to CLT;
 - on-going consideration at senior officer and political level, with at-least six-monthly review as part of financial planning updates considered by the Finance and Resources Committee; and
 - development of improved and consistent Council-wide management information.

Equalities impact

- 7.1 While there is no direct equalities impact arising from the report's contents, investment in the range of areas outlined impacts positively on a number of equalities groups.

Sustainability impact

8.1 There are no direct implications arising from the report's contents.

Consultation and engagement

9.1 There is no direct relevance to the report's contents but consultation and engagement is undertaken on an annual basis on the budget framework.

Background reading/external references

[The financial impact of changing demography](#), Finance and Budget Policy Development and Review Subcommittee, 22 May 2013

[Rising School Rolls](#), Education, Children and Families Committee, 9 December 2014

[Financial Strategy, 2015/16 to 2019/20](#), Finance and Resources Committee, 4 June 2015

[Corporate Leadership Group \(CLG\) Risk Update](#), Governance, Risk and Best Value Committee, 18 June 2015

Hugh Dunn

Acting Executive Director of Resources

Contact: Fraser Rowson, Principal Accountant

E-mail: fraser.rowson@edinburgh.gov.uk | Tel: 0131 469 3166

Jo McStay, Business Intelligence Manager

E-mail: jo.mcstay@edinburgh.gov.uk | Tel: 0131 529 7950

Links

Coalition pledges	All
Council outcomes	All
Single Outcome Agreement	All
Appendices	Appendix one – Demographic provision included within long-term financial plan, 2015/16 to 2019/20 Appendix two – Use of demographics in the budgeting process Internal Audit report

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.

SERVICE AREA	DESCRIPTION	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	TOTAL £m
CHILDREN AND FAMILIES/COMMUNITIES AND FAMILIES SERVICES							
Primary Schools	Pupil Numbers Demography	0.786	2.246	1.378	1.344	1.277	7.555
Secondary Schools	Pupil Numbers Demography	0.524					
Family Based Care	Vulnerable Children Demography	1.789	2.417	1.789	0.000	0.000	5.995
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	0.445	0.000	0.000	0.000	0.560
Nursery Schools &	Nursery Schools	0.058	0.230	0.000	0.000	0.000	0.288
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/RESOURCES							
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/PLACE							
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	12.265	9.570	7.649	7.721	46.816

As noted in the Budget Update report considered by the Finance and Resources Committee on 14 January, the Draft Scottish Budget included an additional £250m transfer of resource from the NHS to health and social care partnerships to support health and social care integration. As such, the precise funding arrangements for addressing demographic change as it affects these services are subject to review.

The City of Edinburgh Council **Internal Audit**

Use of demographics in the budgeting process

Corporate Governance

Final Report

August 2015

CG1502

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Appendix 2 – Terms of reference	

Although there are a number of specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive summary

Total number of findings

Critical	0
High	0
Medium	2
Low	1
Advisory	0
Total	3

Summary of findings

The following areas of good practice were identified:

- The cost of increased demand for Council services due to demographic change is built into long term financial planning and has been considered by both service senior management teams and the Finance and Resources Committee;
- Population projections published by National Records of Scotland (NRS) are being used in calculating the potential cost of demographic change. The projections are updated every 2 years and currently give estimated populations for each local authority by age and sex up to 2037; and
- Children and Families and Services for Communities have revised their demographic provision to reflect updated population projections published by NRS in May 2014.

The following areas for improvement were identified:

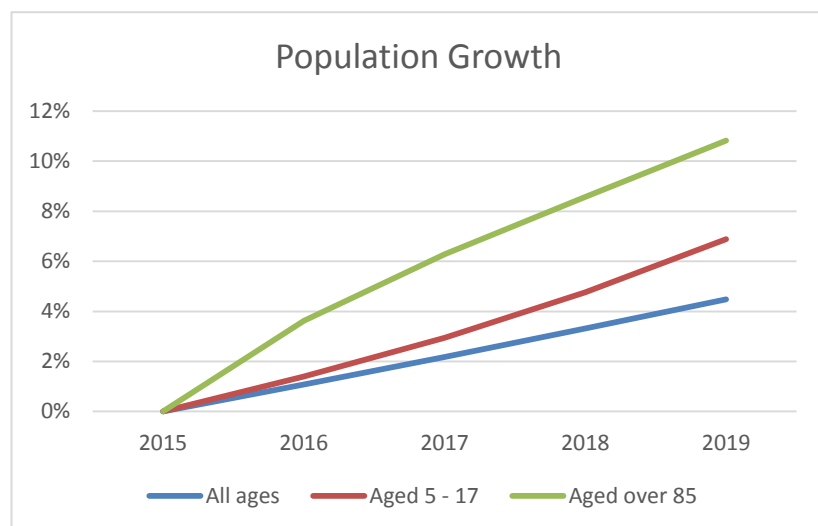
- Whilst acknowledging that the projections for services for adults in disabilities are presently under review, the current projections within the long term financial plan (whilst incorporating other factors such as unit costs), do not make use of the most recent data available;
- Potential costs arising from migration to the city under the Local Development Plan have not been included in the demographic provision for Services for Communities; and
- A sensitivity analysis to assess the impact of error in population projections has not been completed.

Our detailed findings and recommendations are laid out within Section 2: *Detailed findings*.

1. Background

Background

The population of Edinburgh is forecast to grow by 4.5% over the next four years to reach nearly 520,000 by 2019/20. The profile of the population is also expected to change, with growth particularly marked in the school age population (currently c. 85,500) and in the number of residents aged over 85 (currently c.10,900).



These demographic changes are expected to have a significant financial and operational impact on the Council. Corporate Governance has worked with service teams to quantify the impact of demographic changes and incorporate the additional expenditure into the Council's long term financial planning.

The key pressures identified are:

Children and Families

	Incremental increase				Forecast additional costs in 2019/20 compared to 2015/16 £m
	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	
School rolls	1.953	1.916	1.691	2.240	7.800
Vulnerable children	2.487	2.398	1.976	2.021	8.882

High birth rates since 2007/8 have resulted in increased demand for primary school places in the city, and will begin to affect secondary school rolls in the next four to five years.

Children and Families have estimated that the cost of staff and infrastructure to accommodate the extra classes will be an additional £7.8 million a year by 2019/20.

A further potential £4 million expenditure pressure has been identified between 2016/17 and 2019/20 to provide school places in areas where new housing will be built under the Local Development Plan.

The number of Looked After Children and children with disabilities is expected to increase at the same rate as the wider population aged 0 – 17. A transformation plan is currently underway with changes in the service model expected to off-set the majority of the additional costs due to increased numbers of looked after children in 2016/17 and 2017/18.

Health and Social Care

	Incremental increase				Forecast additional costs in 2019/20 compared to 2015/16 £m
	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	
Services for older people	2.043	1.937	2.369	2.372	8.721
Services for adults with learning disabilities	2.600	2.705	3.204	3.334	11.843
Services for adults with physical disabilities	0.373	0.379	0.384	0.390	1.526

Health and Social Care expenditure increased by over 14% between 2011/12, when the long term demographic provision was first calculated, and 2013/14.

There will be increased pressure on the Health and Social Care (HSC) budget with an aging population. Those aged over 85 will have greater need of health and social care services and are likely to have more complex needs. HSC have calculated that by 2019/20 the annual cost of providing services to older people will be £8.7 million higher.

Similarly, medical advances mean that those with severe disabilities are likely to live longer and that survival rates following major trauma have improved. There are more adults with learning and physical disabilities who are likely to require local authority support for longer periods and have more complex care needs. HSC calculated that by 2019/20 the annual cost of providing services to adults with disabilities will be £13.3 million higher, based on data available in 2011/12.

Services for Communities

	Incremental increase				Forecast additional costs in 2019/20 compared to 2015/16 £m
	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	
Waste services	0.348	0.348	0.348	0.348	1.392

The trend towards smaller households increases pressure on city infrastructure, such as waste services. National Records of Scotland (NRS) projects that the number of households in Edinburgh will rise from around 228,000 in 2014 to over 258,000 in 2019. Services for Communities have calculated that under the current service model, this will mean that the cost of collecting and disposing of waste will increase by £0.348 million each year.

Limitations of scope

The review is limited to the use of demographic data relating to :

Health and Social Care	<ul style="list-style-type: none">• Older people• Adults with learning and/or physical disabilities
Children and Families	<ul style="list-style-type: none">• School rolls• Vulnerable children
Services for Communities	<ul style="list-style-type: none">• Waste services

In each case, the demographic provision is a 'do nothing' cost which assumes that the unit cost to the Council will not change and that service models will remain the same. The demographic provision

relates purely to the additional expenditure required if the number of people accessing Council services increases. We have not verified the accuracy of 2014/15 unit costs used in calculating the provisions.

2. Detailed findings

1. Health and Social Care demographic provision

Finding

The future cost of providing services to older people and to adults with learning and/or physical disabilities was calculated in 2012 based on the 2010 mid-year populations projections and the weighted average cost of delivering Health and Social Care services in 2011/12. National Records of Scotland revised the population projections for the city in May 2014. The population is expected to be around 4% lower each year than previously forecast.

Older people's services

Health and Social Care have assessed the reasonableness of the existing provision for older people's services using the revised population projection and the 2014/15 weighted average cost of providing services and concluded that no adjustment is required in the short term. This is because reductions in the projected growth rates are offset by updating the unit costs.

Services for adults with disabilities

The annual cost, as calculated in 2012, is currently projected to be £13.3 million higher by 2019/20 and this sum is currently included within the long-term financial plan. The increase is largely based on rising time trends in the numbers of young people with disabilities who require adult social care following transition from children's services.

The cost of providing services to adults with learning and/or physical disabilities was being re-assessed at the time this report was written.

It is recognised that cost estimates for adults with disabilities are less sensitive to overall population demographics than some other services and that there are other factors which may influence cost estimates to a greater extent given, that there is significant variation in the nature, complexity and cost of services required.

Business Implication

The current projections within the long term plan, for future demand for services for adults with disabilities does not make use of the most recently available population projections.

Finding Rating

Medium

Action plans

Recommendation

The most recently available population projections (along with the most recent information on the other relevant factors) should be used in completing the reassessment of the cost of providing services to adults with disabilities. The revised estimates should then be used to update the Long Term Financial Plan.

The costs estimates for older people's services should be revisited as and when new population projections become available.

The time series of disabled school leavers that is used as the basis for

Responsible Officer

Strategic Policy and Performance Manager

forward projections of the numbers of people with learning disabilities requiring adult social care services should be updated each year.

Agreed Management Action

Estimated Implementation Date


1. Review future cost estimates for social care services for older people every two years in line with the publication of updated population projections by National Records of Scotland. (The next publication is expected in 2016).
2. Update annually the time series used to project future numbers of people with learning disabilities requiring adult social care services.
3. Within the above timescales, also update the unit costs and other assumptions used in the Health and Social Care estimates for the Long Term Financial Plan

Summer 2016, thereafter bi-annually as new NRS data is published

August 2015, thereafter annually


Timescales as above

2. Local Development Plan

Finding	
<p>An additional 9,000 dwellings will be built in the city by 2019/20 under the Local Development Plan.</p> <p>NRS population estimates do not incorporate any migration to the city as a result of the Local Development Plan.</p>	
Business Implication	Finding Rating
<p>The potential costs arising from the construction of additional dwellings and related infrastructure as part of the Local Development Plan have not been included in the Long Term Financial Plan.</p>	 <p>Medium</p>

Action plans	
Recommendation	Responsible Officer
<p>Infrastructure and other costs (such as additional teacher requirements) associated with the Local Development Plan should be considered in determining the appropriate long-term demographic provision.</p>	<p>Head of Finance</p>
Agreed Management Action	Estimated Implementation Date
<p>The Long-Term Financial Plan is subject to at-least quarterly review, with the next such review due in September. These reviews will highlight the emerging costs of the Local Development Plan going forward.</p>	<p>September 2015</p>

3. Sensitivity in population projections

Finding	
<p>NRS updated the population projections for Edinburgh in May 2014. The projected population is about 4% lower each year than previously forecast, as migration to the city was lower than expected.</p> <p>NRS have published a range of population projections to allow for variation in the birth rate and migration. This gives a variance of +/- 1.3% in the forecast population in 2019/20.</p> <p>CEC have used the principal projection for all demographic provisions. The potential impact of error in the projected population has not been assessed.</p>	
Business Implication	Finding Rating
<p>Future demand for services may be higher or lower than expected.</p>	

Action plans	
Recommendation	Responsible Officer
<p>A range should be calculated for each key demographic projection, to assess the potential impact should the population differ from NRS projections.</p> <p>The accuracy of the demographic provision should be assessed periodically, by comparing the actual cost and population or number of households to the base projections.</p>	<p>Head of Finance</p>
Agreed Management Action	Estimated Implementation Date
<p>While, based on the range indicated above, any monetary impact would likely be modest, future assessments of appropriate levels of demographic provision will model the impact of variation in actual population levels.</p> <p>A comparison between projected and actual growth in the numbers of school pupils and older people was reported to elected members in February 2014, prompting the recent detailed review. Going forward, however, quarterly reviews will incorporate such comparisons as a matter of course, making use of such updated information as is available. Reference will also be included in the Risk and Reserves report considered by Council as part of the annual budget-setting process.</p>	<p>September 2015</p>

Appendix 1 - Basis of our classifications

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance ; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2 – Terms of Reference

Corporate Governance

Terms of Reference – Demographics in Budgeting Process

To: Alastair Maclean

From: Magnus Aitken
Chief Internal Auditor

Date: 3 June 2015

This review is being undertaken as part of the 2015/16 internal audit plan approved by the Governance Risk and Best Value Committee in March 2015.

Background

Social and demographic changes will have a significant financial and operational impact on the Council. The Council is already observing an increased demand for services as people live longer and birth rates increase.

The key pressures identified are:

Health and Social Care: a growing population aged over 85 will have greater need of Health and Social Care services and are likely to have more complex needs.

Children and Families: rising birth rates have resulted in increased demand for school places in the city. The number of looked-after children has also risen.

Services for Communities: a trend towards smaller households increases pressure on city infrastructure, such as waste services.

The Council has allowed a cumulative provision of £31.45 million for additional costs arising from increased numbers accessing services and the complexity of their support needs.

Scope

The scope of this review will be to assess the design and operating effectiveness of the Council's controls relating to the use of demographics in the budgeting process.

The sub-processes and related control objectives included in the review are:

Sub-process	Control Objectives
Source data	<ul style="list-style-type: none">Demographic data used in the budgeting process is accurate and reliable.Populations used as base data are comparable to the demography of

	the Edinburgh population.
Assumptions	<ul style="list-style-type: none"> • Assumptions used to assess the impact of demographic change are reasonable and supported by empirical data. • The effect of government policy and changing service models is considered in calculating the potential financial impact of demographic change.
Response	<ul style="list-style-type: none"> • The impact of changing demography is quantified and is built into the relevant Service's budget. • Action is taken to address identified demographic pressures.

Limitations of Scope

The scope of our review is outlined above. The review is limited to the use of demographic data relating to:

Health and Social Care	<ul style="list-style-type: none"> • Older people • Adults with learning and/or physical disabilities
Children and Families	<ul style="list-style-type: none"> • School rolls • Vulnerable children
Services for Communities	<ul style="list-style-type: none"> • Waste services

Approach

Our audit approach is as follow:

- Obtain an understanding of the use of demographics in the budgeting process through discussions with key personnel and review of working papers,
- Identify the key risks relating to the use of demographics
- Evaluate the design of the controls in place to address the key risks,
- Test the operating effectiveness of the key controls.

Internal Audit Team

Name	Role	Contact Details
Magnus Aitken	Chief Internal Auditor	0131 469 3176
Gemma Dalton	Internal Auditor	0131 260 4057

Key Contacts

Name	Title	Role	Contact Details
Alastair Maclean	Director of Corporate	Review Sponsor	0131 529 4136

	Governance		
Hugh Dunn	Head of Finance	Key Contact	
Fraser Rowson	Senior Accountant	Key Contact	

Timetable

Fieldwork Start	Monday 1 June 2015
Fieldwork Completed	Friday 12 June 2015
Draft report to Auditee	Friday 18 June 2015
Response from Auditee	Friday 26 June 2015
Final Report to Auditee	Wednesday 1 July 2015
Final report available for presentation to the Governance, Risk and Best Value Committee	August 2015

Note: Actual progress against the dates set out above will be recorded on the face of the final report, along with commentary explaining any discrepancies.