



**COUNCIL EXECUTIVE**

**FINANCIAL STRATEGY 2015/16 TO 2017/18 UPDATE FOLLOWING CONCLUSION OF DBO CONSULTATION**

**REPORT BY HEAD OF FINANCE AND ESTATES**

**A. PURPOSE OF REPORT**

The purpose of this report is to update Council Executive on budget strategy, following conclusion of the Delivering Better Outcomes (DBO) consultation, and to seek approval for the basis and timing of revenue and capital budgets to full Council.

**B. RECOMMENDATION**

It is recommended that the Council Executive:

1. Notes the conclusion of the DBO consultation.
2. Agrees that the consultation responses will be used to inform measures to balance the revenue budget for the period up to 2017/18.
3. Notes the updated revenue budget gap of £29.544 million facing the council over the period 2015/16 to 2017/18.
4. Agrees that the Head of Finance and Estates presents a report to full Council in early 2015 on the revenue budget for 2015/16 to 2017/18, incorporating proposals to meet the budget gap of £29.544 million.
5. Agrees that the Head of Finance and Estates presents a report on the General Services capital programme for 2015/16 to 2017/18 to the same full Council meeting, to meet the agreed requirement for integrated financial and corporate planning.

**C. SUMMARY OF IMPLICATIONS**

I	Council Values	Focusing on customer need, being honest, open and accountable, making best use of our resources and working in partnership.
II	Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)	The council is required to set a balanced revenue budget on an annual basis. Best Value duties establish the council's requirements to understand the needs of its different communities and involve them in setting priorities and shaping services.
III	Implications for Scheme of Delegations to Officers	None.

IV	Impact on performance and performance indicators	The council aims to maintain performance against key priority areas.
V	Relevance to Single Outcome Agreement	Effective prioritisation of resources will be essential to achieving key outcomes.
VI	Resources (Financial, Staffing and Property)	Revenue grant funding over the three years will not be sufficient to meet the increasing cost and demand for services, resulting in an estimated funding gap of £29.544 million over 2015/16 to 2017/18.
VII	Consideration at PDSP	Feedback from the council's DBO consultation was discussed at a series of PDSP meetings in the week commencing 15 December 2014.
VIII	Details of consultations	The DBO consultation in 2014 generated a total of 3,467 responses and over 40,000 comments.

## **D TERMS OF REPORT**

### **D.1 Background**

It was reported to Council Executive on 19 June 2014 that budget reductions of £30.4 million would be required in order to secure a balanced budget position over the period 2015/16 to 2017/18, as funding provided by the Scottish Government would not meet the council's budget pressures.

The Council Executive agreed that officers would develop draft budget measures for the three years 2015/16 to 2017/18 based on the detailed responses received from the initial Delivering Better Outcomes (DBO) consultation in 2012. The 2012 consultation resulted in agreement of eight priorities and nine workstreams, aimed at prioritising the council's resources on the areas that have the most positive impact on outcomes. The responses and suggestions from the 2012 consultation helped officers to develop the proposed measures which were set out in a second DBO consultation document.

The second DBO consultation, launched in October 2014, provided stakeholders with a range of proposed budget reduction measures aimed at meeting the £30.4 million budget gap. In total, there were 39 proposed measures across the agreed workstreams.

This report provides an overview of the DBO consultation process following its conclusion. The report also provides an updated position in relation to the estimated budget gap facing the council over the period 2015/16 to 2017/18.

### **D.2 DBO Consultation 2014**

To facilitate full and effective consultation on Delivering Better Outcomes, a proposed set of priorities and options on how the council could deliver services in a better way and balance its budget was brought together in the consultation document which was published on Thursday 9 October 2014. The consultation ran for six weeks and closed on 21 November 2014.

The consultation document sought feedback from respondents on measures that will allow the council to balance its budget and continue to deliver its key priorities for the period to 2018.

As part of the consultation, various stakeholders were invited to comment on potential savings measures designed to ensure that, in the future, the council provides the best possible service for West Lothian citizens. Target stakeholders included a wide range of groups, including members of the public, various community and representative groups, community planning partners, employees and trade unions, and they were encouraged to contribute and complete the consultation which was publicised in various ways.

To ensure broad accessibility, the consultation was publicised both online and in print. The consultation document was distributed by direct mailing to an extensive number of key stakeholders and community and representative groups and was published in the October 2014 edition of the council's newspaper Bulletin, which was distributed to every household and local business in West Lothian.

Within the council, trade unions and managers were provided with a briefing on the consultation to ensure that employees were given every opportunity to participate in the consultation. Managers then delivered a series of briefings to all staff using internal communication cascade arrangements to ensure that all employees were informed about the consultation and invited to participate.

A specific plan to target hard to reach groups was deployed as part of the consultation process.

The number of responses received by the close of the consultation period was 3,467 which generated over 40,000 comments from all respondents.

To consider the feedback from the consultation, a series of PDSP meetings took place between 15 and 18 December 2014. Each PDSP considered a report which included the following:

- statistical information relating to the responses received on each measure associated with the remit of that PDSP;
- a high level summary of the comments and feedback received relevant to the remit of that PDSP.

Summary feedback from respondents relating to the themes and issues arising from the consultation is available to view online on the council's website at [www.westlothian.gov.uk/yoursay](http://www.westlothian.gov.uk/yoursay). A high level summary of the comments and feedback received relevant to the remit of individual PDSPs was reported to each PDSP as noted above. There were no additional or alternative suggestions put forward at any of the PDSP meetings in respect of potential saving measures.

### **D.3 Local Government Finance Settlement and Chancellor's Autumn Statement**

A report to Council Executive on 16 December 2014 highlighted the main implications for the council from the Chancellor's Autumn statement announcement. As highlighted in the report, the Scottish budget will receive an additional £227 million as a result of the workings of the Barnett Formula, £127 million of which has been allocated to NHS budgets. Decisions on the allocation of the remaining £100 million of Barnett consequential have still to be announced by the Scottish Government.

The outcome of the local government finance settlement for 2015/16 was also reported to Council Executive on 16 December 2014. The report highlighted a reduction in core revenue grant funding of £505,000 in 2015/16, funding of £3.623 million for expenditure commitments for free school meals, childcare, self-directed support and welfare reform administration changes, and additional grant of £2.042 million which is conditional on the council agreeing to a package of measures, including a council tax freeze for 2015/16.

It was agreed that the Head of Finance and Estates would incorporate the figures contained in the local government finance settlement in budget proposals to be reported to full Council in early 2015.

#### D.4 Updated Revenue Budget Position 2015/16 to 2017/18

As already noted, the DBO consultation highlighted that the council faces an estimated budget gap of £30.4 million in 2015/16 to 2017/18. The assumptions underpinning this position were noted by the Council Executive in a report on 19 June 2014.

Budget assumptions have now been updated to take account of additional spending requirements for free school meals, childcare, looked after children, self-directed support, and changes in the administration of Council Tax benefits, for which additional funding has been received. These changes are budget neutral and therefore the overall budget gap is not effected by these areas.

The budget assumptions have also been updated to take account of changes to costs associated with the elderly housing with care provision currently being built at Rosemount Court and for changes to expenditure and funding assumptions for the Teachers Superannuation Scheme. This has resulted in the following changes:

- A reduction in recurring revenue expenditure of £250,000 for the new Rosemount Court elderly housing provision.
- Indicative increases to employers' contributions for the Teachers' Superannuation Scheme were provided to the council from COSLA in December 2014. The increase in costs for the council over 2015/16 and 2016/17 are estimated to be £1.3 million. COSLA are in discussions with the Scottish Government over funding for this additional cost pressure for councils and, in common with other councils, it is assumed that this pressure will be fully funded by the Scottish Government from unallocated Barnett consequentials from the Chancellor's Autumn Statement. This assumption is consistent with previous local government finance settlements, where increases in employers' superannuation contributions for teachers have been fully funded by the Scottish Government.
- In line with this assumption, the previous budget gap was based on the council incurring non-funded expenditure of £639,000 for teachers' superannuation scheme costs. This expenditure has now been removed from the budget model on the basis that Scottish Government funding will be provided.

The updated budget position taking account of these changes is summarised below:

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Staffing Costs	3.680	6.610	2.712	13.002
Demographics and Demand Led Pressures	5.193	3.073	3.523	11.789
Revenue Consequences of Capital	0.444	0.183	0.403	1.030
Service Pressures	4.862	0.341	0.276	5.479
Inflation and Indexation	2.892	3.037	2.982	8.911
Council Tax Income from Additional Properties	(0.916)	(0.503)	(0.646)	(2.065)
Net Expenditure Increases	16.155	12.741	9.250	38.146
Estimated Movement in Revenue Grant	(5.960)	(1.642)	(1.000)	(8.602)
Estimated Budget Gap	10.195	11.099	8.250	29.544

The key expenditure assumptions for 2015/16 to 2017/18 include:

- An increase in the Living Wage Allowance from £7.65 to £7.85 for 2015/16 and further inflationary increases in the Living Wage of 2% in 2016/17 and 2017/18.
- A pay award of 1% per annum for all employees for each year.
- Increases in employers' pensions and National Insurance contributions.
- Increased school budgets based on latest pupil numbers projections.
- Demographic and demand led pressures in Social Policy and Operational Services based on population projections.
- West Lothian Council's contribution towards the Council Tax Reduction Scheme.
- Revenue consequences of the approved capital programme to 2017/18.
- Increased expenditure for the introduction of free school meals for all primary one to primary three children.
- Increased expenditure to meet the provisions of the Children and Young People (Scotland) Act 2014 for enhanced childcare for two year olds and looked after children.
- Increased expenditure to support the transition to self-directed support.
- Inflationary price increases for a range of third party contracts.

#### **D.5 Revenue Budget 2015/16 to 2017/18 – Next Steps**

It was agreed by Council Executive on 19 June 2014 that following conclusion of the budget consultation and PDSP process, a three year revenue budget strategy for 2015/16 to 2017/18, and a detailed 2015/16 revenue budget should be presented to Council for consideration. This is consistent with the strategic approach to financial and corporate planning agreed by the Council in January 2013 which ensures that the council can respond proactively to the magnitude of the challenge in delivering essential services whilst financial resources are constrained.

This approach also addresses the findings of the Audit Scotland Annual Report on the 2013/14 Audit which was reported to Council on 14 October 2014. The Audit Scotland report noted that the council will continue to operate in a funding environment which is subject to sustained pressures to deliver more with less and noted the good practice the council has adopted in estimating a budget gap for the next three years. The Audit Scotland report highlighted the funding gap as a key risk and recommended that the council should ensure that it has up to date plans in place to deliver the required efficiency savings.

The conclusion of the DBO consultation and subsequent reporting to PDSP's in December 2014 completed one of the two action points for managing this audit risk. The remaining action point is that a report on a three year revenue budget strategy and a detailed 2015/16 revenue budget should be presented to Council in early 2015.

A three year revenue budget strategy is beneficial as it:

- Provides a medium term view which is essential when implementing effective workforce planning, including delivery of the council's commitment to a no compulsory redundancy policy;
- Provides officers with sufficient time to implement changes that will have a significant lead in time;
- Helps officers and elected members to consider the long term implications of policy decisions;
- Creates greater certainty surrounding detailed financial plans;
- Provides services and customers with advanced notice of changes;
- Helps to integrate services and planning with community planning partners, especially where outcomes are longer term (e.g. preventative spend)

In line with the decision of the Council Executive on 19 June 2014, it is therefore proposed that the Head of Finance and Estates presents a report to full Council in early 2015, setting out budget measures for 2015/16 to 2017/18 that will allow the council to meet the revised budget gap of £29.544 million. Agreement of this approach will enable the council to continue with a strategic approach to financial planning and to meet the challenges of funding restrictions and spending pressures, whilst delivering its Corporate Plan priorities over the next three years.

#### **D.6 General Services Capital Programme 2015/16 to 2017/18**

The council's established approach to asset management and capital planning is that the council's General Services capital programme should be presented to a full Council meeting, alongside a medium term financial strategy report, to meet the requirement agreed by Council in January 2012 to integrate future financial and corporate plans.

The Council, in January 2013, approved a five year asset management and General Services capital programme for 2013/14 to 2017/18. Block budgets were allocated to specific projects at this time for 2013/14 and 2014/15.

On 19 June 2014, the Council Executive approved a revised capital programme for 2014/15 to 2017/18 which took account of latest circumstances such as phasing of projects and allocation of remaining block budget allocations.

In line with the established approach, it is recommended that the Head of Finance and Estates presents a report to full Council in early 2015, setting out the latest position for the General Services capital programme, taking account of current circumstances, including capital provision to deliver free school meals.

#### **E. CONCLUSION**

Following conclusion of the DBO consultation, and in line with the decision of the Council Executive in June 2014, it is recommended that the Head of Finance and Estates prepares a report for full Council in early 2015 setting out measures that will address the revised revenue budget gap of £29.544 million, and secure a balanced budget over the three years 2015/16 to 2017/18.

In line with the established approach it is also recommended that a report on the updated general services capital programme for 2015/16 to 2017/18 is presented to the same full Council meeting.

#### **F. BACKGROUND REFERENCES**

- Delivering Better Outcomes Consultation Overview – Report by Chief Executive to PDSP meetings 15 December to 18 December 2014
- Revenue Budget Strategy 2015/16 to 2017/18 - Report by Head of Finance and Estates to Council Executive 19 June 2014
- General Services Capital Programme Update – Report by Head of Finance and Estates to Council Executive 19 June 2014
- Audit Scotland Annual Report on 2013/14 Audit – Report by Head of Finance and Estates to Council 14 October 2014

Appendices/Attachments: None

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**7 January 2015**