

To:	POLICY & RESOURCES (FINANCE & CUSTOMER SERVICES) SUB-COMMITTEE	Subject: Financial Outlook 2015-2016	
From:	EXECUTIVE DIRECTOR OF FINANCE AND CUSTOMER SERVICES		
Date:	7 November 2014	Ref:	KH/AC

### 1. Purpose Of Report

- 1.1 The purpose of this report is to update Committee on the financial outlook for the final year of the Council's approved three-year savings strategy to 2015-16.

### 2. Background

- 2.1 In February 2013, the Council approved a three-year savings package, including £1m capital, of £62.395m to ensure that the Council maintained a balanced budget. The Council successfully delivered £20.897m of savings options in 2013-2014, and is progressing plans to deliver £17.615m of savings in 2014-2015.
- 2.2 The Council approved the long-term financial plan to 2023-2024 in June 2014 following detailed consideration by the Policy & Resources (Finance & Customer Services) Sub-Committee. This plan updated the planning assumptions in respect of income and expenditure, whilst confirming financial year 2015-2016 remained on track to deliver the previously approved savings target of £19.106m.
- 2.3 In recognising that changing economic, legislative and social factors result in planning assumptions being subject to ongoing review and change, this report provides members with an update regarding the financial outlook for 2015-2016.
- 2.4 The annual revenue budget process for the 2015-16 financial year will be completed in February 2015 as usual and any subsequent amendments will be incorporated during that process.

### 3. Financial Planning Considerations

#### Income

- 3.1 The level of government support available significantly impacts upon the Council's financial planning assumptions. The Scottish Government's draft 2015-16 budget announcement of 9 October 2013 no longer represents the flat-cash position previously assumed by the Council. It instead reflects the impact of the updated Grant Aided Expenditure (GAE) assessments advised to the Council in July 2014, which sees a further estimated reduction in revenue support grant of £3.872m.
- 3.2 Though recognising all details are of course subject to receipt of the Local Government Finance Settlement 2015-2016 in early December 2014, further changes to government support worthy of note include additional resources to support the new cost pressures in respect of Free School Meals (£3.763m) and the Children & Young People Bill (£3.515m).

- 3.3 The Council previously agreed to the continuation of the council tax freeze, and in order for the Council to continue to access the full amount of government grant available, the financial outlook for 2015-16 assumes no change to this approach.

#### Cost Pressures

- 3.4 The long term financial plan contained detailed consideration of the range of cost pressures which the Council faces for the forthcoming financial year 2015-16. In line with Best Practice, a thorough review of these areas has been undertaken and exceptions to these planning assumptions can be summarised as follows.
- 3.5 In recognising the Council's loan charge repayments will reduce in 2016-17 to reflect lower levels of government support for historical debt, the Council has taken the opportunity to re-profile its loan charge repayment costs in advance of the 2016-17 position. In addition, the Council recently received a significant capital receipt of £3.750m which can further reduce the costs of loan financing in 2015-16.
- 3.6 Employee costs represent the most significant expenditure area within the Council and the financial plan recognises total cost pressures of around £6.4m in respect of 2015-16. There are, however a number of recent developments which are influencing future pressures within this area.
- 3.7 The Council has recently applied a revised methodology, in line with national guidelines, to the calculation of Holiday Pay. This has resulted in additional costs of £1.008m during 2014-15 which services have contained within existing budgets. It is proposed to include this sum as a one-off provision during 2015-16 to enable Services to review the management of overtime which ultimately leads to these payments.
- 3.8 There have been recent negotiations between Cosla and Trade Union representatives as part of the 2015-16 ongoing pay negotiations. Unison has recently confirmed the result of the ballot in respect of consolidating the Living Wage at £7.65 per hour within pay and grading structures going forward. In recognition that this is a major task it is anticipated that implementation will be phased over the three-year period 2015-16 to 2017-18. On 3 November the Living Wage Foundation announced the level of an enhanced Living Wage at £7.85 per hour. If the Council wished to implement the increased Living Wage of £7.85 per hour over the same three-year timeframe early indications are that this would require recognition of additional costs which are presently estimated at £0.400m per annum commencing in 2015-16.
- 3.9 The recent downward pressure in areas such as energy and oil has enabled a reassessment of the previous inflation assumptions in these areas which can be reduced for the 2015-16 financial year by £0.375m.

#### Strategic Priorities

- 3.10 The Council previously recognised the growing impact of welfare reform and in particular its commitment to the ongoing support of the Council Tax Reduction Scheme. A sum of £2m was set aside, on a recurring basis, within the 2013-14 budget to assist with these matters. Since then the actual level of financial support required from the Council has continued to reduce from around £1m in 2013-14, to £0.4m this year. As thresholds change again in April 2015 then it is anticipated that these resources will be available for further consideration by the Council.
- 3.11 The Council has continued to recognise the ongoing investment within its flagship Schools & Centres 21 programme. Indeed it has already set aside £3m within the current financial year and recognised a further £3.1m within its financial plan for 2015-16. The Council is currently developing the investment proposals for the period ahead and it is clear that there will be no immediate requirement to draw down on significant elements of this funding before 2016-17. It is estimated that there will be one-off resources available by the end of 2015-16 of £7.1m within this area.

## Delivery of Savings 2015-2016

- 3.12 The Council has delivered significant savings over the last two financial years, as outlined within paragraph 2.1 earlier, and has approved savings of £19.106m identified for the 2015-16 financial year. There are, however two exceptional areas within which this delivery is not achievable over the year ahead.
- 3.13 In the absence of a collective agreement in respect of revised core conditions, the Council has not been in a position to deliver the savings of £2m during 2014-15. This has been managed during 2014-15 from other areas of spend. It is proposed that this continues to be managed during 2015-16 from available one-off sources.
- 3.14 The Council has referred the review of School provision to the Schools & Centres 21 Member Officer Group to progress those proposals approved and review the position in other areas. The previously planned saving of £1.525m from the rationalisation of the school estate will not be deliverable within 2015-16 and will have to be managed over the financial year.
- 3.15 The Council approved its three-year savings package in February 2013 following an extensive period of consultation. This included £5.943m of teacher related savings. In setting the revenue budget for 2014-15 the Council, in order to access the full amount of government grant, agreed to maintain teacher numbers in line with pupil numbers and secure places for all probationers. During the current financial year Cosla has sought to base future commitments upon measures of educational output rather than base input measures. The Scottish Government has confirmed, on 9 October, a five month period to reach an in principle agreement on an outcome based approach by 1 March 2015. Whilst this work is ongoing the sanctions in relation to teaching numbers are suspended for 2015-16. If a new agreement is not reached for 2015-16 there will be a continuation of the previous arrangements. The Council has, therefore the opportunity to develop outcome and achieve the level of approved savings.

## **4 Risks and Uncertainties**

- 4.1 The Council assumption regards 2015-16 pay awards remains at 1%. A claim is currently awaited from the Trade Union side and will be the subject of ongoing negotiation. Members should note that each 1% variation equates to around £4.3m, or 3.5% of existing council tax income levels.
- 4.2 The long-term plan approved by committee in May 2014 highlights that with the majority of council services being prescribed or guided by legislation, there is always scope for the Council to incur additional costs when responding to new legislation. Given the long-term plan assumes that costs associated with implementing legislation such as the Land Registration etc (Scotland) Act 2012 and Children & Young People (Scotland) Act 2014 will be fully funded, any variation from this will impact the anticipated 2015-16 financial position.
- 4.3 The Council is currently finalising the details of the City Deal initiative which will require elements of ongoing revenue costs in areas such as its share of monitoring and assurance aspects along with direct support in Labour Market initiatives and MediCity.
- 4.4 The Council's annual accounts for the 2013-14 financial year contained appropriate provision in respect of Equal Pay matters. With the development of case law continuing in this area this will require to be kept under close review and any additional requirement reported to the Council.

## 5 Conclusions

5.1 This report updates the financial planning assumptions for financial year 2015-16 and the table below summarises this:-

<b>Description</b>	<b>Recurring</b>	<b>One-Off</b>
<b><u>Income</u></b>		
Revision to Financial Settlement	+£3.872m	
<b><u>Cost Pressures</u></b>		
Re-profiling of Loan Debt	-£3.750m	
Holiday Pay		+£1.008m
Enhanced Living Wage for 2015-16 – <i>Year 1 implementation</i>	+£0.400m	
Review of Energy & Oil prices	-£0.375m	
<b><u>Strategic Priorities</u></b>		
Welfare Reform Budget Considerations		-£2.000m
Schools & Centres 21 one-off Resource		-£7.100m
<b><u>Savings</u></b>		
Core Conditions		+£2.000m
Delay in School Estate Rationalisation		+£1.525m
<b>Totals</b>	<b>+£0.147m</b>	<b>-£4.567m</b>

5.2 Whilst work continues in the development of the detailed budget for 2015-16, which will be brought to Council in February 2015, this report gives a broad indication that a balanced budget position remains on track. Although in future years the application of available one-off resources to address some of the issues noted above will require consideration.

## 6. Recommendations

6.1 Committee is asked to:-

- a. Note the updated financial planning projections for financial year 2015/16;
- b. Note that further detailed work will be undertaken to progress the Revenue Budget for 2015-16 following the publication of the Local Government Financial Settlement in December.



**Executive Director of Finance & Customer Services**