East Lothian Council

REPORT TO: East Lothian Council

MEETING DATE: 9 February 2016

BY: Depute Chief Executive (Resources and People Services)

SUBJECT: Council Financial Strategy 2016/17 to 2018/19

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1 PURPOSE

1.1 To outline the Financial Strategy of the Council, this report provides the financial context for Councillors in preparing their budgets for the three year period 2016-19.

2 RECOMMENDATIONS

2.1 The Council is recommended to approve the attached Financial Strategy Statement.

2.2 As part of presenting their budget proposals, each Group of Councillors is recommended to:

- Develop a sustainable General Services budget avoiding the use of reserves in Year three (2018/19).
- Develop General Services Capital Plans, which seek to minimise net borrowing requirements and are considered affordable both in terms of prudential limits and within the three year revenue budget.
- Adopt the recommended levels for earmarked reserves as detailed in the Financial Strategy Statement.
- Transfer any further additional reserves at the end of 2015/16 to either the General Services Capital Fund or the Cost Reduction Fund. Any balance on the Capital Fund to be used in future years to directly fund capital expenditure or defray capital charges.
- Prepare balanced budget proposals for General Services taking into account a freeze in the level of Council Tax for Year 1 and the related estimates of Scottish Government Grant and other funding.
- Retain within the HRA, at least £1.0 million of reserves as protection against unexpected costs or loss of income.

- Maintain the ratio of debt charges to income within the HRA to below 40%.

- Propose an appropriate rent increase to support the HRA revenue and capital budget proposals.

3 BACKGROUND

Constructing the Budget Proposals

3.1 Appended to this report is the Financial Strategy Statement for 2016-2019, which outlines the main opportunities, risks and constraints that face the Council over the next three years. The strategy forms the basis of the Council's stewardship of taxpayer's funds over an unprecedented and prolonged period of austerity that will continue through until at least 2019/20.

3.2 The establishment of a solid budgetary platform is the cornerstone of delivering the Financial Strategy. As in previous years, the budget allocates a "bottom-line" budget to each Business Group, and the Council Management Team in conjunction with relevant Service Managers have the task of managing any cost increases within that budget. Managers are expected to achieve any specified efficiency savings and identify how they will meet any savings targets included in the budget allocated to them. Although fully recognising the critical importance of effective leadership, it is the responsibility of every Council Officer to help deliver the Financial Strategy.

3.3 In preparing the 2016/19 budgets, provision to meet all known contractual commitments has been made, but once again, no general inflationary increase in budgets has been incorporated. Essentially, services are expected to absorb general inflationary pressures through the efficient management of the resources they have been allocated. This 'cost containment' continues to be an important element of the financial strategy.

3.4 The budget includes provision for capital financing (debt) costs that are generated by the Council's net borrowing requirements which are deemed affordable to both the HRA and General Fund within anticipated income levels. For each of the three years, the related revenue running costs of projects are sufficiently well advanced for these costs to be estimated with a reasonable degree of accuracy.

Financial Prospects

3.5 The Council continues to face substantial financial challenges. In 2016/17, the Council faces a significant cash terms reduction in Scottish Government Grant. The UK Chancellor published his recent Comprehensive Spending Review in November 2015, covering the four year period from 2016/17 to 2019/20. The Scottish Government has only published one year detailed figures relating to 2016/17, the amount of funding available for council services over the subsequent two years is at best forecast to remain static in cash terms, with a high risk of further cash and real terms reductions in our Scottish Government Grant. There remains further political and electoral uncertainty with Scottish Government and Local Government Elections, and the prospect of a Referendum on Membership of the EU all taking place within the next 18 months. The introduction of new tax raising powers, wider implications of the Scotland Bill and the Commission on Local Taxation all contribute to a cocktail of 'unknowns' and potentially, additional cost and service pressures to manage.

3.6 The Council has already made significant changes to how it is organised that will enable it to deliver the services across East Lothian within times of reduced resources. Since 2013, the Council has delivered over £15 million of efficiencies across a range of areas including; improved procurement practices, workforce management including implementation of a Voluntary Early Release Scheme (VERS), and an on-going review to the way in which services are managed and delivered. The Council continues to explore relevant partnering arrangements where these might provide more efficient and effective service delivery.

3.7 In conjunction with NHS Lothian, the Council has made further progress towards implementation of the new Integrated Health and Social Care Partnership. The East Lothian Integration Scheme has now been approved and the new Integration Joint Board was formally established in July 2015, taking on its delegated responsibilities from 1 April 2016. This will provide both challenge and opportunity in future years, requiring the Council to identify and manage any risks identified through the joint working arrangements. This will require close monitoring and review during 2016 to assess any impact upon the financial strategy of the Council going forward.

3.8 Following its decision in November 2015, the Council now has an approved Draft Local Development Plan (LDP) which requires the building of an additional 10,050 homes in East Lothian by 2024. When approved, the additional enabling infrastructure costs that fall to the council will need to be built into future financial plans.

3.9 The Council is a formal partner to an Edinburgh and South East City Region Deal bid that has been submitted to both UK and Scottish Governments and if successful, subject to affordability, the detailed structure of any such deal will need to be incorporated within our existing financial plans.

3.10 In accordance with the Financial Strategy, the Council has also taken steps over recent years to reduce the reliance on reserves and move to a more sustainable long-term budget. However, the unexpected and significant cash terms reduction in Scottish Government Grant in 2016/17 means the job remains only partially complete, with latest UK wide financial forecasts indicating a likely requirement to make ongoing annual savings in public expenditure over the years up to and including 2019/20.

3.11 Independent financial commentators have suggested that in the short to medium term, there are particular reasons that will create significantly increased uncertainty about the extent and nature of changes that will be required of both the Council and Scottish Local Government more generally – and the political group budget proposals will to varying extents reflect this. In accordance with our established practice, Groups have been advised to be as precise as they can be about the scale, timing and nature of the change that is needed. However, it is inevitable that some changes may not be capable of being specified in detail, which means that the further into the forward planning period you go, the greater the uncertainty about what will actually be required to deliver it. In general, the greater the value of any non-specific changes included in the budget, the greater the extent of change is being planned. These changes can be either cost reductions or income increases.

Managing the budget during 2016/17

3.12 The Council's external operating environment is subject to constant change and therefore budget review and development cannot simply be a once-a-year process. Performance compared to approved budget will be kept under constant review with regular quarterly reports made to Cabinet and a year-end report presented to the full Council following submission of the draft accounts for audit.

3.13 As part of our normal financial management support service, monthly and quarterly performance reports are issued to managers with budget responsibility and in addition to that, the overall finances of the Council are subject to detailed annual independent audit review.

3.14 It is vitally important that through the Council Management Team (CMT), the Council maintains a disciplined approach to the implementation of its change programme and delivers the financial efficiencies planned in accordance with that programme and the supporting budgets. During the recent years, significant progress has been made in delivering planned changes including; the VERS scheme mentioned earlier, continued implementation of the Customer Excellence Programme, improved procurement practices and efficiencies under the Procurement Improvement Panel, wider Partnership Working and a number of significant service reviews including Children's Wellbeing, Customer Services and best value reviews of both Adult Wellbeing and the Strategic Asset Management Team.

3.15 The Chief Executive established a Budget Review Group which continues to meet on a regular basis to scrutinise spending across all areas of the Council – identifying potential areas of budget variance and ensuring that maximum use is being made of resources.

3.16 Heads of Service will be required to manage within the budgets approved at today's Council meeting. If at any time spending pressures are not containable within the Business Group, the relevant Service Manager should report this to their Head of Service and Depute Chief Executive. In consultation with their Cabinet Spokesperson, the relevant Depute Chief

Executive has the flexibility to move budgets between business groups. Should this not resolve the spending issue, it is the Depute Chief Executives' responsibility to formally report this to the Head of Council Resources. In this situation the matter may be reported to Cabinet and the Council may be asked to reconsider the policies applying within that Group with a view to reducing services and costs or increasing charges and income. If this cannot be achieved, then the Council may be asked to approve policy changes elsewhere that will yield the necessary savings through service reductions or increased charges.

Council Tax

3.17 Since 2007/08, the Council has operated within a national settlement framework that has seen Council Tax levels frozen. In overall terms however, the funding received directly from the tax will increase over the coming year as a result of house building and an increase in the number of taxable properties, with further increases also anticipated in each of the two subsequent years.

3.18 It is anticipated that tax collection will continue to be adversely affected by the ongoing difficult economic conditions. This situation is being kept under review. However, every effort is being made to maximise tax collection and it is recommended that bad debt provision for in year collection remains at 2% for 2016/17.

3.19 In December 2015, the Commission for Local Taxation published its report on possible alternatives to the present Council Tax system. Despite no definitive recommendation on the most appropriate form of local taxation, there was a clear recommendation that the current Council Tax system should not continue in its current form. The implications of any future change will need to be considered within future year's financial strategy.

4 POLICY IMPLICATIONS

4.1 The Council has a range of plans and strategies that contribute to commitments made in both the Single Outcome Agreement and the Council Plan - this budget is an important part of putting these into effect.

5 EQUALITIES IMPACT ASSESSMENT

5.1 Equalities – the Financial Strategy and subsequent budget proposals will have significant impact on the future delivery of services by East Lothian Council and therefore a potential impact on the wellbeing of equality groups. The EQIA on the Council Financial Strategy recommends that EQIA is considered as an ongoing process as part of the development and delivery of Council budgets.

6 RESOURCE IMPLICATIONS

6.1 Financial – the respective group proposals will provide an overview of the finances of the Council reflecting the constraints outlined in this report. The approved budget will be the 3 year summary and the explanation of the changes in each of the three years provided by each group.

6.2 Personnel - none directly from this report although there will be implications arising from subsequent service reviews, efficiency measures and any new initiatives.

6.3 Other – none.

7 BACKGROUND PAPERS

7.1 Council 10 February 2015 – “Council Financial Strategy 2015/16 to 2017/18”

7.2 Cabinet 8 September 2015 – Financial Review 2015-16 Quarter 1

7.3 Cabinet 8 December 2015 – Financial Review 2015-16 Quarter 2

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East Lothian Council

Financial Strategy Statement

2016/17 to 2018/19

FINANCIAL STRATEGY STATEMENT 2016/19

Objective and Principles

A key financial objective for the Council is the provision of services that the Councillors believe are appropriate for the lowest Council Tax or service charge possible.

Underpinning this objective are two key principles of public finance that the Council must observe – that there should be no taxation in advance of need and that there should be fairness in the tax burden between generations of taxpayers.

In practice, the principle of taxing only when necessary is closely related to the question of how much reserves the Council should hold. In setting a budget a balance has to be struck between holding funds in reserve for specified reasons, with any excess of reserves being used for the benefit of, or returned directly to, the taxpayers. This effectively translates to making decisions on how much should be taken from reserves when setting the budget and this is explained further below.

Inter-generational fairness is most readily apparent in the financing of capital investment projects. Many capital investments have a relatively long-life and will provide benefit to future generations. The use of debt finance helps ensure that the costs of the capital investment are spread over the life of the asset and paid for through taxes and charges over that life. Similar issues are involved in making provision now for the future cost of pensions. Ultimately these costs will be incurred by future generations even though the pensions have been earned in providing services now unless adequate provision for the full future cost is made from current tax receipts.

Key Variables affecting the Financial Strategy:

1. <u>Scottish Government Grant Funding</u>

Central to delivering the Financial Strategy is the level of grant funding received from the Scottish Government. In the General Services revenue budget, nearly 75% of the Council's funding is received as Scottish Government Grant. In addition, the Council receives substantial Scottish Government support in respect of both General Services and Housing Capital Expenditure.

The Draft Scottish Budget for 2016/17 was announced by the Depute First Minister (DFM) on 16 December. Although the UK Government completed and published its own 4 year Comprehensive Spending Review (CSR) on 25 November, relatively late compared to previous CSRs, the Scottish Government has only published one year detailed figures relating to 2016/17. The Draft Budget does however; establish a number of priorities likely to be reflected in future years. As well as support for a more progressive approach to direct taxation, a clear indication has been given towards the protection of both Health and Police spending suggesting that a series of further tight settlements can be expected for Local Government in the coming years. The Scottish Government's financial plans continue to reflect the main recommendations of the Christie Commission promoting both service integration and early intervention and prevention.

The announcement made by the DFM also signalled the intention to conduct a full review of Business Rates and also that publication of the Scottish Government's formal response to the recommendations of the Commission on Local Tax Reform would take place early in the New Year. The 2016/17 Scottish Budget is the first that contains a Scottish Rate of Income Tax (SRIT) and for this year, no change to existing UK wide rates has been proposed.

The settlement continues to reflect allocation of monies to support a range of specified Scottish Government commitments including the provision of Free School Meals to all P1 to P3 pupils, an expansion of free early years learning and childcare and a policy of mitigation relative to the UK Government's Welfare Reform Programme. However, this must be considered within the context of an overall reduction in grant that means delivery of these commitments creates a proportionate adverse impact elsewhere.

The relatively late settlement announcement led to a period of extended post announcement negotiations between COSLA and the Scottish Government that only concluded on 26 January 2016. The following day, the DFM issued letters to each Council Leader containing updated, final settlement terms, most notably advising that receipt of the Council's full funding package is conditional upon delivery of **all** of the following measures;

- **Integration Fund** – relating to monies provided from the Health Budget to Integration Authorities in 2016/17 for the delivery of Social Care including expansion of social care services, making progress on charging thresholds, implementation of the Living Wage by care providers, demographic growth and to help meet a range of existing cost pressures.

- **Teacher Numbers** – the protection of teacher numbers through application of a commitment to maintain at a national level, the existing pupil teacher ratio.

- **Council Tax Freeze – for 2016/17**, the Council will require to deliver a Council Tax freeze for the ninth consecutive year.

Any council that does not formally agree to all of the above measures will not receive their share of the Integration Fund, support for teachers or the support for council tax freeze – amounting to £408M nationally. For East Lothian Council, this would mean a cumulative funding loss of £7.8M. The effect of this lower grant award would require a compensating Council Tax increase of nearly 17%.

The 2016/17 settlement, assuming acceptance of the conditions and commitments mentioned above, shows an overall grant reduction in cash terms of over £4.4M (2.6%). Although previous medium term plans had highlighted the potential risk of reduced grant levels, the extent of the reduction was much greater than most independent commentators and councils had anticipated. At a time when the Council continues to face a number of cost and demand pressures, a funding reduction of this scale presents a considerable challenge and re-enforces the need for continuation of the Council's existing strategy objectives of cost containment and cost avoidance.

In addition, the Council also receives Scottish Government support in relation to capital spending through receipt of a Capital Grant. The grant funding for the 2016/17 financial year has been reduced and will be returned to the Council over the next spending review period. There continues to be uncertainty surrounding the future of UK public sector finances and there is a significant risk that both revenue and capital grant figures planned for the next two years may be revised. However, the Council must not let this uncertainty undermine their planning for local services in the medium-term. The best way to deal with that uncertainty is to plan ahead as best we can enabling us to minimise any potential adverse impact of unforeseen change.

2. Delivery of Planned Efficiencies/Transformation Change Programme

The planned delivery of wider efficiency programme has been embedded within the current financial strategy over recent years, which has seen an overall reduction in the cost base of Council services, whilst at the same time maintaining high quality service provision.

The identification and deliverability of recurring savings remains critical to deliver a 3 year balanced budget model, with the need to drive forward an enhanced programme of transformational change to ensure delivery of all planned budget efficiencies.

3. Pensions

All employees working for the Council have access to defined benefit pensions, which means that the Council as employer has substantial unknown future financial liabilities that only materialise when the pensions are actually paid. For teachers, this liability is not established specifically for East Lothian as these costs are part of a national scheme administered by the Scottish Government. For non-teaching staff, there is a statutory requirement that these costs are independently assessed as part of an actuarial valuation of each local pension fund every three years.

In recent years, there has been significant reform to all public sector pension schemes including the Local Government Pension Scheme, and Teachers Pension Scheme in Scotland, both of which have seen new arrangements being implemented during 2015.

All public sector pension schemes are subject to on-going scheme valuations to establish the financial sustainability of the schemes to ensure that they meet their future liabilities.

- The Council is a member of the Lothian Pension Scheme which administers the Local Government Pension Scheme for the Lothian region. The Council previously agreed to participate in a formal Contribution Stability Mechanism which has allowed the Fund to move towards 100% funding while at the same time remaining affordable for employers. This will see overall the Council's total employer's contribution rate frozen at existing levels over the first two years of the financial planning period; however it is now anticipated that an increase in employer contributions will be required in the final year, 2018/19.

- The reformed Teachers Pension Scheme valuation has resulted in an increase in employer pension contributions of 2.4%. The new contribution rate was phased in from September 2015 placing an increased cost pressure upon the Council both for the part year in 2015/16 and now in full year terms from 2016/17 onwards.

Effective from April 2016, the UK Government have introduced a Single Tier State Pension, which means that everyone in receipt of pension will receive a flat rate amount for their state pension. As a consequence of this policy change, there will be no second state pension, and any ‘contracting out’ will cease. All public sector pension schemes in Scotland currently ‘contract out’ of the second state pensions and as such pay reduced employee and employer National Insurance rates. The implementation of the new single tier state pension policy will mean from April 2016 both employees and employers will no longer receive the previous National Insurance rebate. The cost of this policy change to the Council is just under £2.4M for the year, all of which has to be met from within its own resources.

The Pension Act 2011 has placed a number of new obligations upon the Council with changes to eligibility criteria effectively widening access to a greater number of Council employees. The Council decided to defer the new auto-enrolment provisions until October 2017 and it is anticipated that this is likely to increase scheme membership and therefore cost.

4. Accelerating Growth and Enabling Infrastructure

The Council now has an approved Draft Local Development Plan (LDP) which requires the building of an additional 10,050 homes in East Lothian by 2024. When approved, the additional enabling infrastructure costs that fall to the council will need to be built into future financial plans.

The Council is also a formal partner to an Edinburgh and South East City Region Deal bid that has been submitted to both UK and Scottish Governments and if successful, subject to affordability, the detailed structure of any such deal will need to be incorporated within our existing financial plans

Reserves

Holding an adequate level of reserves to meet unexpected costs is a key management tool for delivering the Financial Strategy, but this must be balanced against the need to avoid taxation in advance of need as explained earlier.

To strike this balance, the Council must take a view on what the reserves are likely to be at the start of the 2016/17 financial year, any plans that have already been made to use reserves and how much should be held to meet any risks that might materialise over the next three years. Any reserves that do not need to be held as part of this strategy should be used for the benefit of or directly returned to tax or rent payers as part of this budget.

FINANCIAL STRATEGY STATEMENT 2016/19

Council has been already advised through the various quarterly finance reports that the General Services reserves (excluding HRA reserves) available going into 2015/16 was £18.048 million. The split of these is detailed below;

	Current Position 1 April 2015
General Services Reserves	**£'000**
Required to support future budgets	1,950
Civil Emergency	2,000
Cost Reduction Fund	3,082
Earmarked Reserves	
• DSM (Devolved School Management)	261
• MELDAP/DAAT	363
• Other reserves	331
Insurance Fund	1,395
Gen Services Capital Fund	8,666
Sub-total General Services Reserves	**18,048**

This analysis includes the Insurance Fund and a range of earmarked funds such as those held for MELDAP and the DSM legislation. My advice going forward is that these should be retained and used for specific purposes already agreed by Council. This means that these are not then available for any alternative use.

I am also advising that the Council should hold a financial reserve within the Civil Emergency Fund as a cushion against the costs of any emergency or other unforeseen event, such as the severe weather experienced in various seasons over recent years. This should be retained at a level of £2 million.

Meeting future financial challenges is likely to mean significant changes in the way in which the Council delivers services. To help make these changes the Council previously established a Cost Reduction Fund. The balance on this Fund currently stands at £3.082 million and, in recent years, has been used primarily to meet the costs of employee contract severance payments. There is likely to be further use of this during 2015/16, and beyond, as the Council manages a Change Programme that will seek to reduce our staff and other cost base to match its reduced financial resources. Given the scale of the changes facing the Council and the costs associated with making these changes I am recommending that the Cost Reduction Fund should be retained.

FINANCIAL STRATEGY STATEMENT 2016/19

As with recent financial strategies, a preferred and more sustainable direction would be to place less reliance upon the use of reserves to balance future revenue budgets. Taking into account budgetary performance during the current year, we estimate that an additional £3m in reserves will be available going into 2016/17. The political groups have been informed of this and have used these funds in planning their 2016-19 budgets. Should any further reserves become available at the end of the 2015/16 financial year, I am recommending that these are transferred to either the existing Cost Reduction Fund or to the Capital Fund.

The regulations that surround the use of prudential borrowing powers require that the Council demonstrate that its capital investment plans are affordable and financially sustainable.

Affordability is best demonstrated by the incorporation of all the costs associated with the investments within a balanced three-year budget.

Financial sustainability is demonstrated by having the final year of the budget showing balanced income and expenditure without the use of reserves. Borrowing is usually repaid over a longer period than three years, and the best indicator of whether the future repayments are sustainable is a 2018/19 budget that does not rely on temporary sources of funding such as reserves. In other words, to sustain the capital investment plan the Council needs to demonstrate that there is no structural deficit in its budget by 2018/19.

Medium Term Financial Position – General Services

For the General Services revenue budget, the Council continues to plan for the medium-term through its three-year planning processes. Notwithstanding the completion and publication of the Chancellor's 4 year UK Comprehensive Spending Review (CSR) in November, the Scottish Government has provided grant figures for only a single year. The key financial assumption being made by the Council for Year 2 and Year 3 is that net grant will remain at the Year 1 level however; the risk of it being even lower than this is high. If any significant changes to the anticipated grant figures become known, the Medium Term Financial Position will need to be reviewed.

In the medium term it is clear that the Council faces some very difficult financial decisions as a result of the following;

- Cash and real terms reductions in the income it will receive from Scottish Government;

- A more complex conditional grant settlement that requires delivery of a range of Scottish Government policy objectives and carries a potentially significant sanction regime;

- Meeting our obligations from new and emerging legislative requirements e.g. Children and Young Persons Act; provision of Free School Meals and impending legislation affecting carers; responding to the challenges arising from recent and proposed UK benefit reforms;

- Increasing population and other demographic changes e.g. increased numbers of young and old, early years care/school rolls/elderly care;
- General price/inflationary pressures;
- Upward pressure on staff costs – particularly after a significant period of pay restraint and uncertain future pay settlements, but also arising from the likelihood of unfunded superannuation cost increases;
- New statutory arrangements relating to the provision of Integrated Health and Social Care services;
- Financial implications associated with the infrastructure requirements flowing from both the LDP and any proposed City Deal;
- Political change/uncertainty – within the forthcoming 18 months, there will be elections for both Scottish Parliament and Local Government and a referendum on membership of the European Union.

Taking into account the cash terms reduction in Scottish Government Grant, the latest estimate of overall funding available to support council services i.e. after all corporate commitments, new burdens and other presentational changes are taken into account, is forecast to reduce within the first two financial years of the strategy period with a subsequent slight increase in year 3 (2018/19). This funding is required to deliver a wide range of new legislative burdens and policy commitments including Free School Meals and Children's and Young People's Act, Teacher Promises and Social Care/Integration Fund as well as provide for contractual commitments including pay and pension contributions. Taking these inescapable commitments into account, in overall terms we have a significant real terms reduction in the resources being made available to deliver Council services.

Despite these very challenging economic conditions, the Council has its own ambitious 5 year Council Plan approved in 2012 but reviewed and updated in October 2014 and, in conjunction with Community Planning Partners, has committed to a new Single Outcome Agreement (SOA) in 2013.

It is therefore clear that the Council is financially challenged such that it must reduce expenditure commitments or increase income, or some combination of both. A significant share of any funding shortfall is likely to have to be met through continued application of cost containment and cost avoidance measures. As far as possible, the Council is seeking to contain costs by becoming more efficient, which would help minimise the effect on services provided. This includes the Council paying due regard to the statutory obligations of the Equality Act 2010. Understanding the impact of financial decisions on all those within the community will help to ensure that decisions about future provision of services meet the needs of the community effectively.

Medium Term Financial Position – Housing Revenue Account

It has been more than ten years since the achievement of a zero net HRA debt position in 2004/05 – mostly as a result of council house sale receipts in the property boom. Since then, there has been a significant increase in HRA capital spend as both the modernisation and affordable house building programmes have been expanded – and as a consequence, the share of spending on debt charges has also increased. The medium term position for the Housing Revenue Account (HRA) budget will be set out as part of the budget approved by the Council. As almost all of the income for this service is locally raised the Council can plan, with a relative degree of certainty, that it can self-manage the main financial risks. The overall HRA budget is a balancing act between the income raised through rent, the revenue expenditure such as staffing & repairs and the capital spending which is undertaken on modernisation and provision of affordable homes.

For the HRA, the financial strategy will continue to focus upon the following;

- Ensuring that the HRA can sustainably support the required housing capital programme associated with building new Council Houses and modernising existing homes, working alongside wider RSL partners to deliver the affordable housing needs across East Lothian in line with the objectives of the Council's Local Housing Strategy;
- Moving towards a position whereby the HRA is self-financing a larger proportion of its capital expenditure – typically by direct funding rather than borrowing;
- Continuing to meet on-going statutory requirements, including; Scottish Housing Quality Standards and EESSH (Energy Efficiency Standard in Social Housing);
- Ensuring that the properties and neighbourhoods continue to be attractive to existing and prospective tenants;
- Responding to the challenges arising from recent and proposed UK benefit reforms;
- Delivering the efficiencies required across the housing management and repairs service;
- Reducing rent arrears;
- Ensuring that the Council stays within the recommended upper limit for the ratio of debt charges to income of 40%. It is my view that this limit maintains an appropriate long term balance between the various elements of the HRA budget;
- Ensuring that the reserve or balance left on the HRA should not fall below £1.0million. This will allow the Council to maintain a cushion against any unexpected increase in costs or loss of income, and to protect against the risks inherent in the UK welfare reform proposals. Given the uncertainty that exists over the timing and scale of capital investment in new affordable housing, there is no upper limit on reserves.

Risk Assessment

In setting a 3 year financial plan, the Council must take into account the risks that may impact upon successfully delivering the financial strategy. A summary of the main risks to the budget are listed in Annexe 1 attached including the action the Council should take to manage those risks both in setting the budget and managing its finances over the coming years.

The success of the Financial Strategy depends on how successful we are in mitigating the risks through management action and the extent to which the risks we seek to manage actually materialise.

Summary

The Council continues to face much uncertainty, a wide range of risks and an increasingly difficult financial environment. For General Services, in the short and medium term expenditure is outstripping income. In the longer-term, pension liabilities are increasing and should be funded now rather than passed on as a burden for future taxpayers. 2016/17 signals the start of a major new partnership with regard to the provision of Integrated Health and Social Care that will hopefully have a positive effect on service delivery but will also require a new joint approach to risk sharing.

However, I remain confident that by continuing to follow the direction set in this strategy, and by collectively delivering the planned service changes, this challenge can be managed and that, by the end of the budgetary period we will be delivering our priority outcomes for the people of East Lothian within a sustainable and balanced budget.

To achieve this, over the next three years, the Council's financial strategy will continue to focus upon;

- Delivering an enhanced Change Programme that will achieve significant efficiency savings across all areas and all inputs such as staffing and supplies;
- Constraining cost growth – through effective demand management, good financial control by managers and by effective negotiation with suppliers;
- Generating additional income and ensuring that, where the Council has decided to charge, there is full cost recovery;
- Progressing partnership working where there are proven efficiency and or service gains;
- Continuing to manage the General Services Loans Fund balance ensuring affordability across the three years of the Strategy.

Jim Lamond
Head of Council Resources
04/02/2016

ANNEXE 1: FINANCIAL STRATEGY RISKS

Risk	Action	Mitigation Method
Future Scottish Government funding settlement awards are less than anticipated	Mitigate	1) Monitor developments arising from UK Government and Scottish Government fiscal strategies 2) Identify a programme of medium to longer term financial savings
Planned efficiency savings are not achieved	Mitigate	1) Identify required savings in the budget as part of a comprehensive change programme and report progress on achievement to Cabinet on a regular basis. 2) Accelerate the programme of planned savings as part of a comprehensive change programme. 3) Participate in national efficiency initiatives 4) Compare efficiency with comparable organisations 5) Test the competitiveness of in-house services against similar services available in the market and vice versa.
Budget is not effectively managed	Mitigate	1) Subdivide the budget to allow clear allocation of responsibility to managers and link those budgets to operational responsibility 2) Report on the budget position to managers on a monthly basis and Cabinet on a quarterly basis 3) Provide training in financial management to all responsible officers
Loss of key suppliers leads to additional costs	Mitigate	1) Maintain active relationships with key suppliers to assist in early identification of problems 2) Hold a financial reserve to provide funding to meet costs arising should a supplier be lost
Unforeseen events occur that were not anticipated in the budget	Mitigate	1) Encourage wide participation in budget setting to capture as much service information as possible 2) Closely monitor service expenditure, and implement an appropriate recovery plan 3) Maintain a minimum level of reserves to provide funding to meet costs arising from such an event

ANNEXE 1: FINANCIAL STRATEGY RISKS

Wider changes in the economy impact on our costs (e.g. energy prices, interest rates) and income	Mitigate	1) Identify volatile costs/income within the budget and adopt management processes to limit exposure 2) Consider and review recurring impact on future year's budget 3) Hold a financial reserve to provide funding to meet costs/income loss arising
The Council does not carry through its plans	Mitigate	1) Regularly monitor progress against the Council Plan 2) Regularly monitor the financial position compared to budget
A service fails to meet statutory requirements resulting in the cost of emergency corrective action	Mitigate	1) Regularly monitor progress against the Council Plan 2) Closely monitor service expenditure, and implement an appropriate recovery plan 3) Hold a financial reserve to provide funding to meet costs arising from corrective action
Failure of key financial and other systems	Mitigate	1) Ensure business continuity measures are effective 2) Hold a financial reserve to provide funding to meet costs arising should a system fail
UK welfare reform leads to a loss of income and increased demand for council services	Mitigate	1) Monitor the development of welfare reforms and seek to influence wherever possible 2) Hold a financial reserve to cover increased costs or income loss
The Council has to meet a major unanticipated insurance or compensation claim	Mitigate	1) Ensure insurance arrangements are adequate for the risks anticipated and that provision is made for claims 2) Hold a financial reserve to provide funding to meet costs arising should a claim arise