THIS PAPER RELATES TO
ITEM 11
ON THE AGENDA

CLACKMANNANSHIRE COUNCIL

Report to Council

Date of Meeting: 15th May 2014

Subject: Budget Strategy Update

Report by: Director of Finance and Corporate Services

1.0 Purpose

1.1. The purpose of this report is to maintain Council's regular update on the medium term financial outlook and indicative funding gap. This report also sets out the new Budget Challenge process to better align and integrate with *Making Clackmannanshire Better* (MCB) and also submits for approval the core principles for assessing eligibility for the new Community Development Grants (CDG) approved by Council as part of the 2014/15 Capital Budget .

2.0 Recommendations

It is recommended that Council:

2.1 notes the financial outlook set out in paragraphs 3.1 to 3.6, including information on the implementation of the benefits cap in 2015/16 (Appendix A).

2.2 notes the revised indicative funding gap to 2017/18 of £19.3m (Exhibit 2) based on the assumptions set out in paragraph 4.2.

2.3 notes the factors influencing the indicative funding gap since February 2014 (paragraph 4.3)

2.4 notes the redesigned Budget Challenge process to improve alignment with MCB and further prioritise the Council's medium term sustainability (paragraph 4.8)

2.5 agree the core principles to underpin the production of eligibility guidance in respect of Community Development Grants (Paragraph 4.11 and Appendix B)

2.6 note the establishment of the officer Capital Investment Group and associated remit (paragraphs 4.13 and 4.14)

2.7 notes the Council's forecast outturn (Exhibit 3) as reported to the Resources and Audit Committee on the 1st May 2014.

2.8 notes the outcome of the Trade Union ballot on proposed changes to staff Terms and Conditions (Exhibit 4) and the ongoing work to finalise the implementation date for the change.

3.0 Financial outlook

3.1 Council has received regular updates on the medium term financial outlook in its regular Budget Strategy Update reports. The February and March 2014 Centre for Public Policy for Regions (CPPR) Briefings cover the Institute of Fiscal Studies (IFS) fiscal position analysis, the IFS review of the public sector workforce, NHS spending pressures and the UK Budget for 2014/15, including the Office for Budget Responsibility's economic and fiscal outlook.

3.2. The IFS highlighted that by the end of 2013/14 only 40% of planned spending cuts (through to 2018/19) will be in place. Furthermore, in the public sector, population growth and the increase in the number of age 65 and over individuals are likely to have a further impact on the level of public spending per head of population for the future.

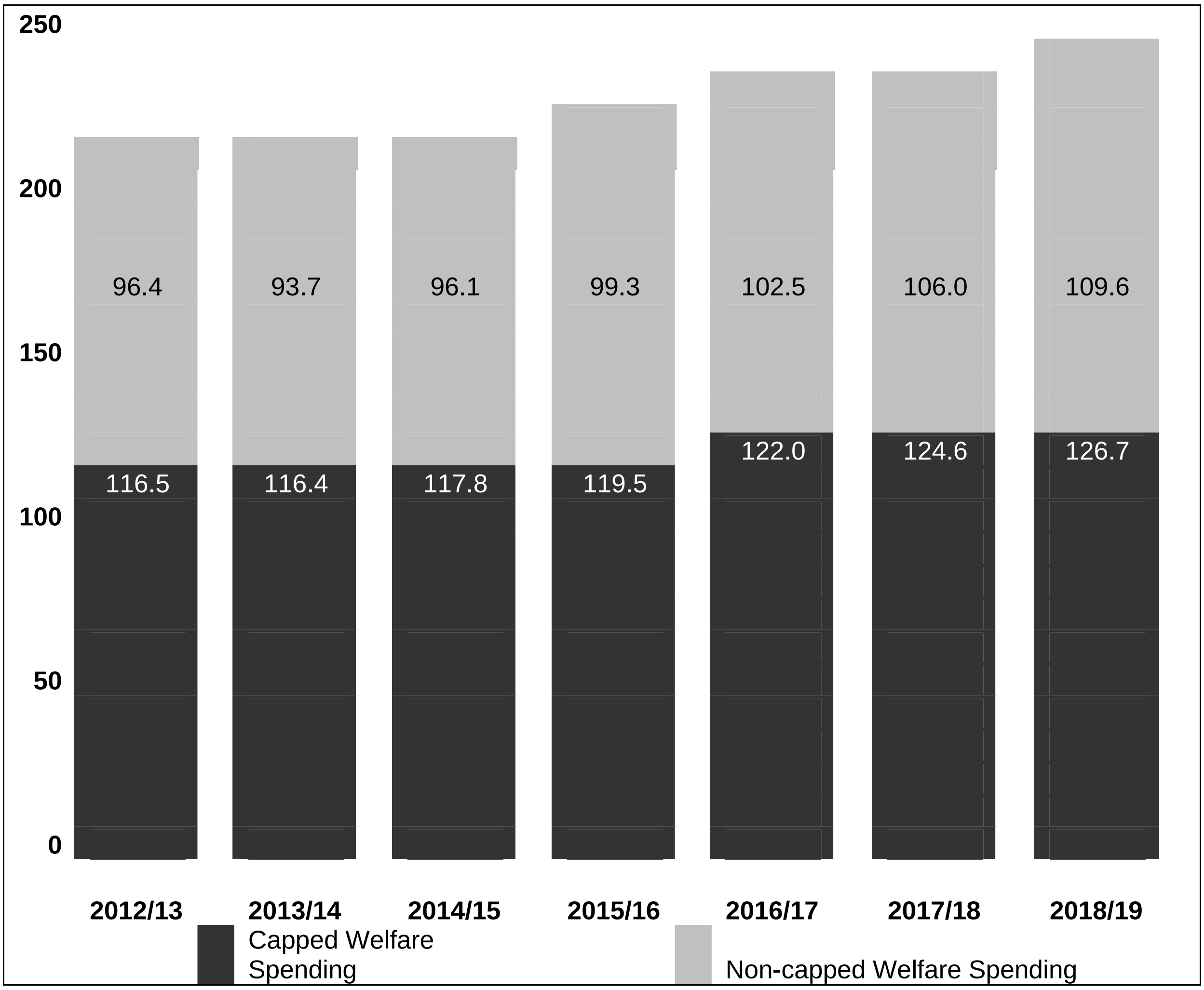
3.3 As a consequence, continuing reductions in public spending are anticipated. The most recent UK Budget suggests the need for another five years (to 2018/19) of reductions in the level of funding. It is also likely that the last three years will see annual reductions above the average previously seen during the period 2011/12 to 2015/16. What is not known at this time, is how the UK and Scottish Governments will apportion the reduction in funding across spending Departments.

3.4 The OBR forecasts that general government employment will fall by 19% (1.1 million jobs) by 2018/19 compared with that in 2010/11. In Scotland, the reduction in the number of public sector jobs since early 2010 has been a little over the UK average, though there has been a corresponding above UK average increase in private sector jobs. With education and NHS budgets being protected the shift in the composition of the public workforce continues- in 1991 42% were employed in these two sectors, by 2018 this is expected to have risen to over 70%. If this trend continued and there were no reductions in the education and NHS workforces up to 2018/19, the general government workforce would need to reduce by 40% to meet the OBR target forecast.

3.5 Most forecasters now seem to think that interest rates will start to increase towards the end of the current financial year / the start of 2015/16. Inflation (as measured by the Consumer Price Index (CPI)) is falling, and is below the Bank of England's 2% target rate for the first time in four years. This position is forecast to be at least maintained until 2018. However, the Retail Price Index (RPI), which is no longer an official statistic but is still used to update a number of key government rates and measures (and locally reflects the rates of inflationary uplift provided for the provision of many contractually delivered goods and services), continues to rise at well above the rate of CPI.

3.6 One of the ways in which the UK Government is seeking to control future public sector expenditure is through the introduction of a benefits cap. This cap is set to rise in line with CPI inflation between 2015/16 and 2018/19. Exhibit 1 shows the capped and uncapped welfare spending.

Exhibit 1: Welfare spending , £billion (cash terms)



Source: OBR, EFO June 2010 & March 2014

The benefits cap is set to start in 2015/16 and this is discussed further in a separate Welfare Reform Update report also included on this meeting agenda. Not all benefits, however, will be capped. Appendix A sets out those benefits which will be included and excluded from the welfare benefit cap.

4.0 Budget Strategy Implementation

4.1 As part of Budget preparation work, there is ongoing and detailed review of the assumptions built into the indicative funding gap. This exercise has the aim of refining the indicative budget gap and minimising the need for new savings proposals by ensuring budgets are, as far as possible, aligned with planned expenditure and reflect all known factors. Following the February 2014/15 Budget, the indicative funding gap of £19.3 million over the period to 2017/18. Exhibit 2 summarises the revised position.

Exhibit 2: Indicative budget Gap based on revised assumptions to 2017/18

	2015/16 £000	2016/17 £000	2017/18 £000
Net expenditure	**120,629**	**125,940**	**130,378**
Net Funding	**113,752**	**112,552**	**110,993**
Cumulative indicative Funding Gap	**6,877**	**13,388**	**19,385**
Indicative Annual Gap	**6,877**	**6,510**	**5,998**

4.2 The main assumptions included within Exhibit 2 are:

- 0% increase in the level of Council Tax
- Pay inflation maintained at 1% across the period to 2017/18
- an allowance of £830k per annum for impact of auto enrolment to pension fund
- an annual allowance for utility increases and contractual inflation but not general inflationary pressures
- limited demand pressures of £1.4m for 2014/15 with an estimate of £1m each year thereafter for further budget pressures
- an allowance of £1.1m in 2014/15 and £1.2M 2015/16 onwards to cover the impact of welfare reform across the Council.
- the ending of contracted out National Insurance contributions estimated at £1.1m in 2016/17
- Cash reduction on general fund grant of 1.3% and 1.8% in financial years 2016/17 and 2017/18 respectively
- maintenance of the commitment to implement Minimum Living wage (currently £7.50 rising to £7.65 from the 1st April 2014).

4.3 The indicative funding gap has decreased by £6 million since the last report to Council, this is largely due to:

- Updated general revenue grant figures in line with the latest circular.
- Continued income for Children and Young Persons bill until 2017/18.
- Removal of year 2 saving which need to be approved by council.

- Revised estimates for Council Tax Reduction Scheme and Teachers Induction Scheme in line with latest circular information.

4.4 The Council Budget was approved on the 21st February 2014. The Budget report included a number of related actions focused on securing the long term financial sustainability of the Council. This report provides an update on progress in implementing the following actions:

- redesign of the Budget Challenge process
- establishment of Community Development Grants (CDG)
- establishment of the Capital Investment Group (CIG).

Budget Challenge Process

4.5 Since 2010, the Budget Challenge process has provided a mechanism for the strategic review and challenge of departmental spending requirements and demand pressures. Over this period, savings proposals of £18.12m have been approved. In addition, the greater scrutiny of departmental spending has delivered additional cash savings of £6.944m. The corporate focus of the process has also provided the opportunity to look at broader options for improvement within and between services.

4.6 This process was departmentally focussed in the first instance to allow for a fundamental realignment of budget requirements and planned activity. It is clear that over the last four budget rounds, the majority of benefits to be realised from this process have now been largely captured. Alongside this, it is important that the financial planning process is integrated as far as possible, with the service delivery and (re)design process as being developed through the MCB programme. The Budget report, approved by the Council on the 21st February, highlighted this redesign as a priority action.

4.7 The current Budget Challenge process typically comprises 3 annual challenge sessions which take place between May and November. These sessions have a common format and have focussed primarily at the individual service level. As a consequence, proposals for improvements have typically been driven in a 'bottom up' approach by individual services. Whilst efforts have been made to develop cross cutting themes at senior management level, there has been some success, but on the whole there is a need to develop stronger management ownership and engagement in proposing and developing such proposals in the future. This approach of greater corporate consistency and management of the process is entirely consistent with the principles and developing direction within MCB.

4.8 The new Budget Challenge process will comprise:

- three annual 'Round Table' (RT) sessions.
- these RT discussions will typically be scheduled in May, August and October.

- as previously, following each round of discussions, a briefing will be provided for elected members on the emerging themes and proposals (typically June, September and December).

  - **RT Session 1: Service Discussion**. This will take place in May each year and will most closely resemble the current process. Services will be required to review their outturn position to ensure that the service budget remains aligned with planned activity, reaffirm the delivery of any Year 2 savings previously submitted through the Budget process, set out known demand pressures and submit any new savings proposals. The greatest difference from current arrangements will be the requirement for greater service manager and team leader input to the development and leadership of proposals.

  - **RT Session 2: Cross -cutting discussions.** This will take place in August each year. It will be a series of cross cutting RT discussions focussed on streamlining and maximising the integration of service delivery between services. This will be achieved by delivering service redesign proposals which seek to minimise the potential duplication and overlap in our current arrangements, access new funding streams and /or establish new partnership arrangements. The service groupings have yet to be finalised as input will be sought from senior managers through the Senior Managers Forum (SMF). However, initial considerations include organising cross cutting RT discussions along outcomes based, SOA, and/or Target Operating Models (per MCB)..

  - **RT Session 3: Corporate discussions.** This will take place in October each year. It will take the form of a Corporate RT discussion which is attended by all chief officers. These sessions will review the outputs from RT sessions 1 and 2 with a view to identifying those proposals or principles which can/should be rolled out across the Council as a whole rather than just within individual services or discrete cross -cutting service delivery areas. The session also provides the opportunity for peer challenge of previously submitted proposals. This process of corporate challenge is critical in delivering the Council's approved principle of the managed contraction of staffing in line with the agreed service delivery priorities.

- the challenge process is currently in the process of being integrated within the wider financial planning timetable to ensure the efficient administration of the process including the preparation of common templates and guidance. The first round of sessions will take place shortly.

- in the past, the process has typically focussed on revenue investment but the future sessions will also consider the capital expenditure requirements of proposed changes. This approach aims to ensure that in setting out the medium term spending plans for the Council, it is possible to profile the revenue and capital investment required and when savings and efficiencies can subsequently be realised.

Community Development Grants (CDG)

4.9 In February 2014, Council approved the establishment of a new £200k capital Grant Fund for community improvements as part of MCB. The funding aims to incentivise communities to work with the Council to improve the physical environment and community facilities. In particular, the Council is seeking to incentivise organisations to assist in meeting the ambitions set out within MCB of more integrated, accessible services within communities.

4.10 It is possible for the Council to make capital grants to third parties but it is important that this is within the prescribed terms of the General Capital Grant statement of acceptance which is signed each year following approval of the Council's Budget. This statement, at Schedule 1, sets out the specific legislative provisions on which the Council must rely in making these awards. Given the purpose of the funding set out at Paragraph 4.9, it is envisaged that the Council will largely rely on the provisions set out in Section 126 of the Housing Grants, Construction and Regeneration Act 1996 as detailed at Appendix B.

4.11 In permitting the grant to be used to fund third party capital expenditure, it is the Council's responsibility to ensure that *'the expenditure incurred , whether or not it is disbursed in the form of grants........ if incurred by the local authority (would) be capital expenditure*. As a consequence, the following core principles are proposed:

- applications will be considered from legally constituted not for profit organisations with responsibility for the maintenance and operation of halls, other buildings and facilities and /or associated land on behalf of, and for the use by, local communities
- the building, land or facility must be owned by the applicant organisation, be subject to a lease of satisfactory duration e.g. 20 years, or have security of tenure
- the project , if required, must have obtained all appropriate planning or listed building consent prior to application
- applicant organisations must provide copies of the previous two years financial accounts
- the proposed expenditure must meet the definition of qualifying capital expenditure, for instance expenditure on building fabric.
- the applicant organisation should provide a minimum of two quotes, addressed to the organisation applying for funding
- retrospective funding applications will not be considered
- The maximum grant available will be 60% of the estimated total cost, up to a maximum of £10,000.

4.12 Subject to approval of these core principles, the Capital Investment Group (see paragraph 4.13 and 4.14) will prepare the detailed Guidance notes and application template. This will be submitted to the Resources and Audit Committee on the 19th June 2014 for endorsement, prior to opening the application process in July. The CIG will oversee the administration of the bid process and the outcome will be reported to the Enterprise and Environment Committee following the assessment process.

Capital Investment Group

4.13 The CIG is a newly established officer group which provides a complementary operational/ officer partner to the existing Capital Investment Forum (CIF) which is an elected member and officer forum. The intention to establish the group was also notified in the Budget setting process in February 2014.

4.14 The Group met in March, following the approval of the Council Budget and agreed the following remit:

- to align with the work of the CIF to provide appropriate development and operational support at officer level
- reinvigorate and improve the volume, quality and strategic relevance of capital bids submitted through the capital project appraisal framework, providing more integrated capital bid opportunities which are linked to the asset management plans and the Corporate Asset Management Strategy (CAMS), once implemented.
- improve the co-ordination and schedules of bids for investment on the ground irrespective of whether these are funded by General Services Capital Grant, specific capital grant, Housing Revenue Account, external funding streams and/ or planning gain
- further improve the transparency over the collective Programme of capital investment
- further improve the governance over the capital bid and investment process
- contribute, as appropriate to the new Budget Challenge process which will also consider the capital investment requirements of new approaches as co-ordinated and managed through MCB.

4.15 A significant consideration in determining how the Council bridges the funding gap, is the regular review of the Council's outturn position. The detailed General Services and HRA revenue and capital outturn position was reported to the Resources and Audit Committee on the 1st May 2014. For ease this is summarised in Exhibit 3 below:

Exhibit 3: Summarised Outturn position 2013/14

Classification	2013/14 Projected outturn £000
General Services Revenue	(906)
General Services Capital	(7.607)
Housing Revenue Account	323
Housing Capital	(1.608)

Elected members play a vital role in scrutinising Council performance, including financial performance. It is important that the full opportunity provided by the service committees and the Resources and Audit Committee are utilised. Aspects of this issue are discussed in greater detail in the separate agenda item on the Audit Scotland Local Government Overview report.

5.0 Consultation

5.1 Ongoing consultation with Trade Union representatives remains a significant feature of the Council's activity. In particular, since the Budget was approved by Council, Trade Unions have consulted with and balloted their respective membership on the proposed changes to Terms and Conditions, which included a reduction in full time contract from 36 to 35 hours per week (or equivalent percentage reduction) and improved access to additional paid leave as part of proposed options for more flexible working.

5.2 The results of the ballots have been received (Exhibit 4) and each of the four Trade Unions has returned a majority in favour of accepting the proposals. Work is now in hand to look at how this reduction in hours is implemented to minimise the impact on front line service delivery. All services are currently consulting with the Senior Support Services Manager to agree their requirements in order that the timescale for implementation can be finalised. In submitting the savings proposal to Council assumptions were made about a part year saving being realistic, so there is some contingency available for this further work.

Exhibit 4:Trade Union Ballot result April 2014
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Trade Union	% in favour	% rejected	Overall result
GMB	83	17	accept
UCATT	80	20	accept
UNITE	85	15	accept
UNISON	57.5	42.5	accept
OVERALL RESULT			**ACCEPT**

6.0 Conclusions

6.1 Significant work continues to provide a sustainable approach to the Council's financial planning. The most recent work highlights that the Council needs to bridge a funding gap in the order of £19.3m by March 2018. This report also highlights a number of areas that have been taken forward following the approval of the Council's Budget including the establishment of the CIG officer forum, the redesign of the Budget

Challenge process to better align with MCB, and the proposal of principles for approval to allow for the implementation of the new Community Development Grants.

6.2 The report also indicates the work in hand to take forward implementation of a significant approved saving in respect of changes to staff terms and conditions following receipt of the Trade Union ballot results accepting these proposals in early April 2014.

7.0 Sustainability Implications

7.1. The Council's budget and its approval will allow services to deliver against sustainable outcomes.

8.0 Resource Implications

8.1. Financial Details

8.2. Finance have been consulted and have agreed the financial implications as set out in the report. **Yes**

8.3. Staffing

as above

9.0 Exempt Reports

9.1. Is this report exempt? **No**

10.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) Our Priorities

The area has a positive image and attracts people and businesses
Our communities are more cohesive and inclusive
People are better skilled, trained and ready for learning and employment
Our communities are safer
Vulnerable people and families are supported
Substance misuse and its effects are reduced
Health is improving and health inequalities are reducing
The environment is protected and enhanced for all
The Council is effective, efficient and recognised for excellence

(2) Council Policies (Please detail)

11.0 Equalities Impact

11.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations? **Yes**

12.0 Legality

12.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. **Yes**

13.0 Appendices

13.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix A: Welfare Reform Allowances included/ excluded from the cap.
Appendix B: Schedule 1, General Capital Grant Acceptance 2014/15

14.0 Background Papers

14.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Council Budget 2014/15	February 2014
CPPR briefing	January, February, March 2014
Capital Investment Group	March 2014
Trade Union Ballot result	April 2014

Yes

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APPENDIX A

Welfare Capped and Non-Capped spending areas

Included in Welfare Cap	**Excluded from Welfare Cap**
Incapacity benefits	DWP social security
Statutory maternity pay	*of which:*
Income support (non-incapacity)	*Jobseeker's allowance* *
Pension credit	*State pension*
Winter fuel payments	*Council tax benefit*
Disability living allowance and personal independence payments	*Housing benefit (unemployed)* *
Attendance allowance	*Discretionary housing payments*
Carer's allowance	NI social security outside welfare cap
Universal credit	War pensions
Housing benefit (not unemployed)	
Other DWP in welfare cap	
Personal tax credits (AME spending)	
Tax free childcare	
NI social security in welfare cap	
Child benefit	
Paternity pay	
Personal tax credits (negative tax element)	

* These are included within Universal Credit.

Schedule 1 - GENERAL CAPITAL GRANT 2014-15

1. The Grant may only be used to fund capital expenditure of the local authority, or any third party capital expenditure incurred, whether or not disbursed in the form of grants, by any persons (public sector bodies, private sector bodies or individuals) towards expenditure which would, if incurred by the local authority, be capital expenditure. In permitting the grant to be used to fund third party capital expenditure reliance is placed on specific legislation. As such the use of the grant to fund third party capital expenditure is limited to the subject of the specific legislation listed below. Local authorities should assure themselves that any grant payments that they may make to any person would be permitted by the legislation listed below.

2. Nothing in the legislation should be interpreted as enabling the grant to be used for any revenue expenditure other than that outlined in condition 2.3.

GRANT MAKING POWERS OF SCOTTISH MINISTERS – LEGISLATIVE DETAILS	
Condition 2.2: The Grant may be used to fund capital expenditure of the local authority	
Section 37 of the Local Government in Scotland Act 2003	Scottish Ministers may make grants to local authorities in respect of their capital expenditure. Capital expenditure is that expenditure that falls to be capitalised in accordance with proper accounting practices (section 39 of the Act)
Condition 2.3: The Grant may be used to fund third party capital expenditure, either directly or through the provision of grants to third parties (public sector bodies, private sector bodies or individuals) which would, if incurred by the local authority, be capital expenditure. Grant making powers are as detailed below:	
Section 37 of the Local Government in Scotland Act 2003	Scottish Ministers may make grants to local authorities in respect of their capital expenditure. Reliance is placed on this section to allow Councils to make grants to other Councils or other local authorities such as Regional Transport Partnerships.
Section 13 of The Flood Prevention (Scotland) Act 1961	Expenditure incurred by a local authority in carrying out flood prevention operations in accordance with a flood prevention scheme. Flood Prevention Schemes are those which have been promoted by the authority and confirmed by Scottish

	Ministers in accordance with legislation
Section 21 of the Coast Protection Act 1949	Scottish Ministers may make grants towards any expenditure incurred under this Act by a coast protection authority, or incurred by a local authority in carrying out of coast protection work under the enactments relating to roads.
Section 70 of the Transport (Scotland) Act 2001	Scottish Ministers may make grants to any persons for any purposes relating to transport. Reliance is placed on this section to allow unitary authorities (councils) to make grants to regional transport partnerships or bridge authorities.
Section 126 of the Housing Grants, Construction and Regeneration Act 1996	Expenditure incurred in connection with activities which contribute to the regeneration or development of an area. Extract from Act provision: Activities which contribute to the regeneration or development of an area include, in particular— (a) securing that land and buildings are brought into effective use; (b) contributing to, or encouraging, economic development; (c) creating an attractive and safe environment; (d) preventing crime or reducing the fear of crime; (e) providing or improving housing or social and recreational facilities, for the purpose of encouraging people to live or work in the area or of benefiting people who live there; (f) providing employment for local people; (g) providing or improving training, educational facilities or health services for local people; (h) assisting local people to make use of opportunities for education, training or employment; (i) benefiting local people who have special needs because of disability or because of their sex or the racial group to which they belong.

Section 90 (1) (a) of the Housing Scotland Act 2001	Grants for housing purposes (1) The Scottish Ministers may make grants to a local authority for the purposes of— (a) the authority’s functions in connection with— (i) providing, improving, adapting, repairing, maintaining and managing housing, (ii) undertaking, and assisting the undertaking of, the development, redevelopment and improvement of the physical, social, economic and recreational environment related to housing, (iii) preventing or alleviating homelessness,
Section 96 of the Housing (Scotland) Act 2006	Any power of a local authority to make grants or loans (including the powers to make payments under section 91(1) and to provide assistance under section 95(1)(b)), and any function of a local authority in relation to the making of grants or loans, under this Part is exercisable by the Scottish Ministers as it is by the local authority.
Section 153 (1) and (3) of the Environmental Protection Act 1990 as amended by SSI 83 of 2002	Scottish Ministers may give financial assistance for environmental purposes. Section 153 (1) includes: (nn) any scheme for the storage, treatment or disposal of any material or product for the purpose of preventing or reducing environmental damage.