

CLACKMANNANSHIRE COUNCIL

Report to Council

Date of Meeting: 14th August 2014

Subject: Budget Strategy Update

Report by: Depute Chief Executive

1.0 Purpose

- 1.1. The purpose of this report is to maintain Council's regular updates on the medium term financial outlook and indicative funding gap. This report also provides an update on the latest Finance Circular, the new Community Development Grants (CDG) process and the Budget 2015/16 preparation timetable.

2.0 Recommendations

It is recommended that Council:

- 2.1 notes the financial outlook set out in paragraphs 3.1 to 3.3,
- 2.2 notes the potential impact of the updated 2015/16 funding allocations as set out in Local Government Finance Circular 6/2014 and summarised in Exhibit 1.
- 2.3 notes the revised indicative funding gap to 2017/18 of £20.2m (Exhibit 2) taking account of the provisional allocations set out in Exhibit 1.
- 2.4 notes the potential range of the indicative financial gap from £20.2million to £22.6million as a consequence of the pay inflation scenarios set out in Exhibit 3.
- 2.5 notes the key milestones and associated indicative timelines for the preparation of the 2015/16 Budget (Appendix A).
- 2.6 notes progress with the implementation of the redesigned Budget Challenge process and the scheduled briefings for elected members and Trade Unions in late August (paragraph 4.11).
- 2.7 notes progress in the implementation of the Community Development Grant scheme under the administration of the Capital Investment Group (paragraph 4.14).

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 Council's report on the Draft Financial

Statements, presented to Council on the 26th June 2014, incorporated a briefing on the most recent (May) Centre for Public Policy for Regions (CPPR) Briefing.

3.2 In the intervening period the Directors of Finance CIPFA Forum met to consider and share information on financial planning assumptions. This is an annual review which is undertaken as councils move to consider their more detailed budget preparations. The review considers:

- top 3 areas of budget pressure for 2014/15
- top 3 areas of budget pressure 2015/16
- most effective savings approaches
- financial planning assumptions 2015/16- 2017/18
- level of savings required 2015/16-2017/18
- role of community planning partners in the budget preparation process.

3.3 The summary of this workshop has recently been circulated to all s95 Officers in each Council. At Clackmannanshire we are currently analysing the information to identify trends, themes or any potential areas that the Council should consider more fully.

4.0 Budget Strategy Implementation

4.1 In addition to the annual review outlined at paragraphs 3.2 and 3.3, 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. Recently the focus has been in 3 areas in particular:

- assessment of the Social Services Budget Requirement for the future
- the potential for cash reductions in future years
- pay inflation.

4.2 At the Council meeting on 26th June 2014, the Draft Financial Statements were presented for approval. The covering report indicated that the Social Services' outturn in respect of the financial year 2013/14 had the potential to change as a consequence of the ongoing review of commissioning activity within the Service. At this stage, the position, and consequently the financial statements, remain unchanged from that reflected in the draft financial statements. Related work is being taken forward to look at the Service's future budget requirement, including reviewing the first quarter outturns for 2014/15 in an additional Budget Challenge session on the 30th July. More detail of this is provided in the Social Services Performance report being presented to the Housing, Health and Care Committee on the 21st August 2014.

4.3 On the 7th July 2014, Local Government Finance Circular 6/2014 was received. The Circular provides updated details of the provisional total revenue and capital funding allocations for 2015/16. The allocations have been calculated based on the standard

agreed distribution methodology, including uprating of the needs based indicators, which was the subject of discussion between COSLA and the Scottish Government earlier in the year. At this stage there is no Scottish Government information available on likely funding levels beyond 2015/16.

- 4.4 The Circular also includes an update on the Business Rate Incentivisation Scheme (BRIS). Earlier in the year the 2012/13 BRIS targets were subject to discussion between COSLA and the Scottish Government without any final agreement. As a result a review of the operation of BRIS is now underway. However, the Scottish Government has accepted the COSLA argument that those councils that exceeded the targets for the 2012/13 financial year, which amounts to around £9million across Scotland, should be allowed to retain their respective shares. This retention will be achieved by individual councils adjusting the NDR pool contribution for 2014/15. For Clackmannanshire, this means that the earmarked sum of £1.250million will be released to uncommitted reserves this year.
- 4.5 At this stage the circular has been issued for information and the usual consultation processes will take place in the Autumn and in the run up to Christmas. On this basis, councils should not set their budgets on the basis of these provisional allocations. However, if the position outlined in Circular 6/2014 is confirmed, this would result in the following position for Clackmannanshire:

Exhibit 1: Potential impact of updated 2015/16 provisional allocations

Allocation category 2015/16	Assumed allocation indicative funding gap at 26 June 2014 £000	Provisional allocation set out in Circular 6/2014 £000	Net increase/ (decrease) £000
Individual Revenue allocation 2015/16	90,947	91,713	766
Individual Capital Grant allocation 2015/16	6,127	6,136	9
BRIS retention sum	1,250	1,232	(18)

The increase in the provisional revenue funding is partially due to changes in the amount and treatment of funding in respect of the Children and Young People (Scotland) Act 2014 implementation and partially as a consequence of the uprated needs based indicators.

- 4.6 As usual, Council will be kept informed of the progression of the discussions referenced in paragraph 4.5 through these regular reports and as information is released. At this stage, the indicative allocations have been adjusted in the indicative gap forecast set out in Exhibit 2 as this represents the most up to date position.

- 4.7 Exhibit 2 sets out the revised gap reflecting adjustments made in respect of the provisional allocations set out in Circular 6/2014. This suggests a cumulative indicative gap of £20.2million to 31 March 2018 and an annual gap of £7.6million for 2015/16.

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

	2015/16	2016/17	2017/18
	£000	£000	£000
Net expenditure	121,706	127,191	131,629
Net Funding	114,098	112,962	111,388
Cumulative indicative Funding Gap	7,608	14,229	20,241
Indicative Annual Gap	7,608	6,621	6,011

The projected gap has increased by £731k for 2015-16 since reported in May 2014. This is due to the revised information in Finance Circular 6/2014. The main changes are:

- assumed income in respect of the Council Tax Reduction Scheme has reduced by £218k
- the projected cost to fully fund Probationary Teachers has increased by £230k in line with prior year spend.
- Other movements in base funding and assumed areas of spend £283k

- 4.8 A significant consideration for future years is the potential level of pay inflation. This is currently receiving significant media attention as nationally Trade Unions have/are considering balloting for strike action in respect of pay and pension related issues. It is also an area of significant variation between councils in the level assumed for financial planning purposes.
- 4.9 Discussions are at an early stage however, there remains the potential for the outcome to have a considerable impact on the budget requirement in future years. Exhibit 3 sets out the potential range of the financial gap for future years in four scenarios in addition to the currently assumed 1%: 1.25%; 1.5%, 1.75% and 2% pay inflation for the period. This suggests the cumulative indicative gap could range between £20.2million (Exhibit 3 @1% assumed pay inflation) to £22.6million (Exhibit 3@2% pay inflation).

Exhibit 3: Pay inflation scenarios 2015/16-2017/18

Pay inflation percentage	Indicative gap Financial year 2015/16 £000	Indicative gap financial year 2016/17 £000	Indicative gap financial year 2017/18 £000	Cumulative gap £000
1.0%	7,608	6,621	6,011	20,241
1.25%	7,799	6,817	6,207	20,823
1.5%	7,991	7,012	6,403	21,405
1.75%	8,182	7,207	6,598	21,988
2.0%	8,374	7,403	6,794	22,570

- 4.10 Over recent years the Budget process including consultation arrangements has developed and embedded. For ease the key milestones, indicative timelines and outputs in respect of the preparation of the 2015/16 Budget are set out in Appendix A.

Budget Challenge Process

- 4.11 The refreshed Budget Challenge process is now underway and Council will recall it comprises the following key elements:
- **Round Table Session 1: Service Discussion.** These sessions most closely resemble the former process. This round of discussions has recently been completed and briefings will be held with both elected members and Trade Union representatives in late August to share the draft outputs. As part of this process, services have reviewed their outturn position to ensure that the service budget remains aligned with planned activity, reaffirmed the delivery of any Year 2 savings previously submitted through the Budget process, set out known demand pressures and submitted some new savings proposals.
 - **Round Table Session 2: Cross-cutting discussions.** This is anticipated to commence in September this year. It will comprise 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 are currently being finalised with the engagement of senior managers through the Senior Managers Forum (SMF).
 - **Round Table Session 3: Corporate discussions.** These will take place in October/November and 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.

Community Development Grants (CDG)

- 4.12 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.
- 4.13 The Capital Investment Group prepared the detailed Guidance notes and application template and these were submitted to the Resources and Audit Committee on the 19th June 2014 prior to opening the application process at the start of July. To date whilst no bids have been received, there appears to be a good level of interest.
- 4.14 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.

5.0 Conclusions

- 5.1 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 £20M by March 2018.
- 5.2 Recent and ongoing work reviewing the Council's financial planning assumptions is summarised and Council is provided with a range of pay inflation scenarios to demonstrate the potential impact on the Council's Budget requirement for future years.
- 5.3 Recent progress with the implementation of the redesigned Budget Challenge process and the new Community Development Grant Scheme is also detailed in this report. Appendix A to the report sets out a schedule of the key indicative milestones, the associated timescales and outputs in the budget preparation process.

6.0 Implications

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

7.0 Resource Implications

7.1. Financial Details

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

7.3. Staffing

as above

8.0 Exempt Reports

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

9.0 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)

10.0 Equalities Impact

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

11.0 Legality

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

12.0 Appendices

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

Appendix A: Budget Preparation 2015/16; Key milestones, timescales and outputs.

13.0 Background Papers

13.1 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) **YES**

Council Budget 2014/15 February 2014

CPPR briefing May 2014

Capital Investment Group July 2014

Finance Circular 6/2014 July 2014

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Budget 2015/16 Key Milestones, timeline and outputs

Task/ milestone	Timing	Stakeholders/ attendees	Output
Ts&Cs consultation	ongoing	TUs, Management	Proposals for efficiency/ redesign linked to MCB
Budget Challenge RT1	June 2014	Each service, Executive Team; Chief Accountant, Team Leader (Accountant); Service Accountant	Aggregated schedules of year 2 savings; new savings; demand pressures
Identification of cross cutting service groupings	July 2014	Head of Strategy & Customer Services, Chief Accountant working with SMF	Service Membership for cross cutting RT2 discussions linked to MCB TOMs
Budget Challenge RT1, elected member briefing	Late August 2014	Elected members, Executive Team, Chief Accountant, Team Leader (Accountant), Service representatives, Service Accountants	Indicative potential savings feedback
Budget Challenge RT1, TU briefing	Late August 2014	TU reps, Executive Team, Chief Accountant, Team Leader (Accountant)	Feedback from TUs
Capital Bid process Round 1	Late August 2014	Capital Investment Group	Aggregated capital bids
Budget Challenge : cross cutting RT2	September 2014	Cross cutting service groupings, Executive Team; Chief Accountant, Team Leader (Accountant);	Service redesign options; saving proposals, investment requirements and timescales.
Budget Challenge RT2: Service review of Plan B	September 2014	Individual Service MT, Executive Team, Chief Accountant, Team Leader (Accountant, Service Accountants);	Proposals for service reduction/alternative delivery models in respect of discretionary service provision and potential savings in respect of reduction in the level of statutory service performance standards.

Task/ milestone	Timing	Stakeholders/ attendees	Output
Budget consultation: Outline approach internally and externally	September 2014	Head of Strategy & Customer Services, Depute Chief Executive, Team Leader (Communications), Chief Accountant	Consultation outline approach and action plan
Budget Challenge RT2: cross cutting, elected member briefing	October 2014	Elected members, Executive Team, Chief Accountant, Team Leader (Accountant, cross cutting service representatives	Indicative potential savings feedback plus potential policy option feedback
Budget Challenge RT2; cross cutting, TU briefing	October 2014	TU reps, Executive Team, Chief Accountant, Team Leader (Accountant	Feedback from TUs
Capital Bid Corporate Round Table	Late October/early November	CMT, Chief Accountant	Draft Capital bids
Member dialogue on budget preparation (detailed evaluation)	October/ November 2014 and ongoing	Administration and political grouping as appropriate	Indicative budget including necessary savings proposals, policy decisions and prioritisation
Capital Bid RT2: Bid refinement	Early November	Capital Investment Group	Refined schedule of Capital bids
Draft Demand pressures review	Early November	Executive Team	Refined schedule of demand pressures, clarification query schedule
Budget Challenge RT3; corporate	November 2014	CMT; Chief Accountant, Team Leader (Accountant; Service Accountant	Corporate service redesign proposals, savings, investment requirements and timescales
Income and Charging Strategy Refresh	November 2014	Chief Accountant	Refreshed Income and Charging Strategy scenarios
Budget Challenge RT3, corporate, elected member briefing	December 2014	Elected members, Executive Team, Chief Accountant, Team Leader (Accountant, service reps, Service Accountants	Indicative potential savings feedback
Budget Challenge RT3: corporate, TU briefing	December 2014	TU reps, Executive Team, Chief Accountant, Team Leader (Accountant	Feedback from TUs

Task/ milestone	Timing	Stakeholders/ attendees	Output
Capital Bids: Consultation	December	Capital Investment Group and Capital Investment Forum	CIF assessment of bid process
Finalise demand pressures	December 2014	Executive Team	Finalised demand pressures to incorporate within budget
Pre consultation draft Budget	December 2014	CMT, Administration, Chief Accountant	Draft Budget subject to consideration of consultation responses.
Consultation	October - January 2015	Head of Strategy & Customer Services, Depute Chief Executive, Team Leader (Communications), Chief Accountant	Aggregated Consultation responses from stakeholders for inclusion in the Budget
Income and Charging Strategy	January 2015	CMT, Chief Accountant	Finalised schedule of charges and refreshed Strategy.
Budget setting	By end of February 2015	Special Council	Final Budget

Key			
Green	Consultation	Aqua	Income and charging refresh
Pink	Capital bid development	Yellow	Demand Pressures
Purple	Budget challenge	Red	Budget

