

**CLACKMANNANSHIRE COUNCIL**

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**Report to Council**

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**Date of Meeting: 23rd October 2014**

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**Subject: Budget Strategy Update**

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**Report by: Depute Chief Executive**

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**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 financial outturn for the Council, progress with Budget preparation and the new Community Development Grants (CDG) process.

**2.0 Recommendations**

It is recommended that Council notes:

- 2.1 the Draft Scottish Budget announcement and the further information which follows in early December 2014 (paragraphs 3.1- 3.4).
- 2.2 the revised indicative funding gap scenarios to 2017/18 of £21.85m (Exhibit 2) and £22.24m (Exhibit 3) based on pay inflation rates of 1.5% and 2.0% respectively.
- 2.3 the amendments to financial planning assumptions detailed in paragraph 4.5.
- 2.4 the work undertaken by management to improve on the outturn position reported to Resources and Audit Committee on 25th September 2014 (paragraphs 4.10 and 4.11).
- 2.5 the improved outturn position from £1.854m to £0.281m overspend since the Resources and Audit Committee on 25th September 2014 (paragraph 4.13).
- 2.6 the importance of robust financial monitoring by both elected members and management to sustain or further improve upon the current outturn position (Paragraph 4.14).
- 2.7 that additional savings for 2014/15 are not proposed at this time but that other precautionary management measures are being progressed (paragraph 4.15).
- 2.8 progress with the implementation of the redesigned Budget Challenge process and the next scheduled briefings for elected members and Trade Unions in December (paragraphs 4.16 and 4.17).

2.9 progress in the implementation of the Community Development Grant scheme under the administration of the Capital Investment Group (paragraph 4.18).

### **3.0 Financial outlook**

3.1 On the 10th October 2014, the Cabinet Secretary for Finance and Sustainable Growth set out the Draft Scottish Budget for 2015/16. In his commentary the Cabinet Secretary highlights a strengthening of Scotland's economic performance over the last two years whilst acknowledging the fact that major challenges still exist, particularly with regards public sector finances.

3.2 The Draft Budget figures announced are at Scotland wide level and include:

- £54m for free school meals
- £44m for pre-school entitlement
- £6.5m for the Council Tax Reduction Scheme administration costs
- £39m for Children and Young People Act (general Capital Grant).

The published totals still require a number of other agreed sums to be reflected, for instance Discretionary Housing Payments, free school meals capital allocations and additional teacher support. It is anticipated that these, along with the individual council allocations will be announced as part of the Budget at either the Autumn Budget Revision which is announced in early December, or the Spring Budget Revision, which is confirmed in March. At this stage figures are only expected in respect of the 2015/16 financial year as there has been no Spending Review covering the period from 2016/17 onwards.

3.3 In return for the proposed settlement, as in previous years, Local Government is required to meet specified Scottish Government commitments in respect of an eighth consecutive year council tax freeze and to secure places for all probationer teachers who require one under the teacher induction scheme. For 2015/16, changes to the teacher numbers' commitment are proposed and these are detailed in paragraph 3.4.

3.4 The Draft Budget reflects an ongoing commitment to maintain teacher numbers in line with pupil numbers for 2014/15. However, a suspension of the sanctions associated with this commitment is proposed for 2015/16, subject to the establishment of a new agreement on an outcomes based approach to educational outcomes. To facilitate this agreement a five month timetable has been set to allow work to be completed to identify what these indicators should be. Should agreement not be reached for 2015/16, the Scottish Government has indicated its continued commitment to maintain teacher numbers in line with pupil numbers at a national level.

3.5 The Draft Budget also included proposed tax rates and forecasts of tax receipts in advance of the introduction of the Land and Buildings Transaction Tax (LBTT) and the

Scottish Landfill Tax (SLfT) on 1 April 2015.

#### 4.0 Budget Strategy Implementation

- 4.1 As in previous years, during the Autumn, Budget preparations gain momentum. As part of scheduled work, a fundamental review of the Council's financial planning assumptions is undertaken to refine the quantification of the indicative funding gap. The aim of refining the indicative budget gap is to minimise, as far as possible, the need for new savings proposals by ensuring budgets are aligned with planned expenditure and reflect all known factors.
- 4.2 Exhibit 1 shows the indicative gap as reported in August 2014. This position assumes that the provisional allocations set out in Circular 6/2014 are delivered, giving rise to a cumulative indicative gap of £20.2million to 31 March 2018 and an annual gap of £7.6million for 2015/16. This is the starting position for the recent review of financial planning assumptions.

**Exhibit 1:** Indicative budget Gap based on revised assumptions to 2017/18

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

- 4.3 As previously reported, a significant consideration for future years is the potential level of pay inflation. At this stage negotiations are progressing. However, nationally UNISON balloted their membership for strike action, and locally strike action was proposed to take place on the 21 October 2014. The Council was notified on the 14th October that the strike action had been withdrawn following further consultation with COSLA.
- 4.4 Exhibit 2 sets out the indicative funding gap based on a pay inflation rate of 1.5% and Exhibit 3 sets out the indicative funding gap based on a pay inflation rate of 2%. In both cases the indicative funding gaps also reflect the changes in assumptions highlighted in paragraph 4.5. This results in cumulative indicative funding gaps of £21.85 m and £22.24m respectively over the three years to 2017/18. This equates to an annual (2015/16) gap of between £9.2m and £9.6m, depending on the pay inflation rate applied.

**Exhibit 2:** Indicative budget Gap based on rate of 1.5% pay inflation

	2015/16	2016/17	2017/18
	£000	£000	£000
<b>Net expenditure</b>	<b>123,306</b>	<b>128,800</b>	<b>133,238</b>
<b>Net Funding</b>	<b>114,098</b>	<b>112,962</b>	<b>111,388</b>
<b>Cumulative indicative Funding Gap</b>	<b>9,208</b>	<b>15,838</b>	<b>21,850</b>
<b>Indicative Annual Gap</b>	<b>9,208</b>	<b>6,630</b>	<b>6,011</b>

**Exhibit 3:** Indicative budget Gap based on rate of 2.0% pay inflation

	2015/16	2016/17	2017/18
	£000	£000	£000
<b>Net expenditure</b>	<b>123,689</b>	<b>129,191</b>	<b>133,630</b>
<b>Net Funding</b>	<b>114,098</b>	<b>112,962</b>	<b>111,388</b>
<b>Cumulative indicative Funding Gap</b>	<b>9,591</b>	<b>16,229</b>	<b>22,242</b>
<b>Indicative Annual Gap</b>	<b>9,591</b>	<b>6,638</b>	<b>6,012</b>

4.5 As indicated in paragraph 4.4, alongside the impact of pay inflation, a number of other amendments have been made to the financial planning assumptions. These changes are set out below:

- an increase in the level of assumed demand pressures from £1m per annum to £1.5m per annum. This better reflects the level of demand pressures approved in respect of the 2014/15 Budget and the level of draft Demand pressure bids received to date.
- budget growth of £1.5m in respect of Social Services in line with the current projected outturn for the Service.
- removal of Adult Change Fund Budget of £600k.
- removal of Welfare reform Budget of £746k.

4.6 These changes to financial planning assumptions have been made on the basis of: an evaluation of the annual review of the financial planning assumptions undertaken by Directors of Finance, review of the Council's current outturn monitoring information

and, consideration of up to date information on funding streams and demand pressures. The changes are also reflective of the level of uncertainty which exists around a number of national and local influences.

- 4.7 It is important to note that any differences in these assumptions have the potential to impact the indicative gap further, either positively or adversely. For instance, Exhibits 2 and 3 currently assume budget growth of £1.5m in respect of Social Services. This is prudent and in line with the current level of forecast overspend in the service. However, significant work is ongoing, including the completion of the Zero Based Budgeting (ZBB) exercise, which aims to confirm the budget requirement for the future. The output from this work is anticipated to give a more robust assessment of the extent to which budget growth is required and, if needed, to what level. If the level of growth for Social Services was capped at £1m, this would result in an indicative funding gap of between £8.7m and £9.1m in 2015/16 dependent on the rate of pay inflation applied.

### **Corporate Financial Performance**

- 4.8 In considering the preparation of the Budget for 2015/16, it is important that the Council controls its expenditure in the current financial year. On 25th September 2014, the Council's financial monitoring report was presented to the Resources and Audit Committee. This report highlighted a projected outturn for the Council by 31st March 2015 of £1.854m overspend. The key areas contributing to this position were detailed in the report and a number of management actions detailed, including:

- work with Social Services to investigate the areas of overspend in greater detail and to identify potential areas to reduce the level of the anticipated overspend.
- the preparation of additional monthly outturns for Social Services.
- additional Budget Challenge sessions with Social Services.
- commencement of a ZBB exercise for Social Services.
- additional corporate management actions, with all chief officers reviewing budgets to identify areas where robust management of the budget may facilitate a reduction in expenditure.

- 4.9 The report also indicated that an update on progress would be provided to Council at this meeting.

- 4.10 Much work has been completed already, including:

- the preparation of a service action plan which will be reported to the Housing, Health and Care Committee on the 30th October 2014.
- commencement of an Internal Audit review of budgetary control within Social Services.
- commencement of a ZBB exercise which is being progressed jointly between

Social Services and Accountancy.

- the identification of management savings and revised financial planning assumptions for 2014/15.
- expedition of corporate outturn reporting to allow for the monitoring and reporting of the impact of actions taken to date.

4.11 The management savings were agreed by Executive Team and verified by Accountancy as achievable based on current information. These savings have subsequently been reflected into the outturn position detailed in paragraph 4.13 and Exhibit 4.

4.12 The outturn position may be subject to further refinement in preparation for service committees, though it is not anticipated that this further work would materially change the position reported in Exhibit 4.

4.13 Exhibit 4 indicates that the Council's outturn position has been considerably improved from £1.854m to £0.281m overspend by the end of March 2014.

**Exhibit4:Summary of Service Budget Variances**

Service	Annual Budget	Projected 31.03.15 (under)/over @ 30 June 2014	Projected 31.03.15 (under)/over @ 31 August 2014	Variance June to August
Support Services	£6.947m	(£116K)	(£77K)	£39K
Strategy and Customer Services	£6.468m	(£363k)	(£379K)	(£16K)
Facilities Management	£24.911m	£94k	(£67K)	(£161K)
Social Services	£26.464m	£1.685K	£1.519K	(£166K)
Education	£34.302m	£23k	(£397K)	(£420K)
Housing	£2.405m	(£56K)	(£114K)	(£59)

Service	Annual Budget	Projected 31.03.15 (under)/over @ 30 June 2014	Projected 31.03.15 (under)/over @ 31 August 2014	Variance June to August
Community and Regulatory	£5.359m	(£283K)	(£227K)	£57K
PCU	(£0.789m)	0	0	0
Corporate Adjustments	£0.936	£429K	£13K	(£417K)
Non Distributed Costs	£1.528	NIL	(£3K)	(£3K)
<b>Total</b>	<b>£107.138m</b>	<b>£1.414m</b>	<b>£369K</b>	<b>(£1.046K)</b>

The outturn also reflects a movement in respect of Council Tax of £528k as a consequence of the review and updating of figures on Council Tax collection based on the mid year estimates return. In overall terms Exhibit 4 indicates an improvement of £1.046K on the previously reported overspend outturn. Once this is considered alongside the improvement in the Council tax position, this results in a further reduction in the forecast overspend to £281k (paragraph 4.13).

4.14 It is critical that this position continues to be robustly monitored by both elected members and management to ensure it is, as a minimum sustained, but preferably, improved upon by the end of March 2015. Failure to deliver this position would result in a significant additional call on the Council's uncommitted reserves to balance the current year's budget, and potentially suggest further budget growth requirements for 2015/16.

4.15 Given progress with the ongoing Budget Challenge process, it is not proposed that additional new savings are brought forward for Council approval at this meeting. However, it is considered prudent that other precautionary management measures are taken to ensure that it is possible to sustain an improved outturn in the current year and present a balanced budget in February for 2015/16. These measures include review of the list of current vacancies across the council and the review and renewal, as appropriate, of statutory redundancy notification requirements should it prove necessary to reduce staff numbers in the near future.

### Budget Challenge Process

4.16 The refreshed Budget Challenge process is progressing broadly in line with the timetable previously reported to Council in August 2014:

- Round Table Session 1 Discussions have been completed for all services.
- The aggregated output from the Round Table 1 discussions has been shared with elected members and Trade Union representatives.

- Round Table 2 Discussions (Cross cutting Groups) are currently taking place. A list of the Groups and their membership is attached at Appendix A
- work is being scoped to look at the Capital Programme limits in consultation with Capital, the Council's Treasury Management advisors.
- a draft budget consultation approach is being developed.
- detailed work is progressing to finalise the change in status of the Council's former Significant Trading Organisation (STO), Property Contracts Unit (PCU).
- demand pressure bids are being verified and resubmitted.
- work to verify savings proposals continues between services and the service accountants.

4.17 The next engagement with elected members and Trade Union representatives is planned for early December at which time details of: the indicative funding gap; progress with the Round Table discussions; an update on budget consultation progress, and the aggregated outputs and proposals will be shared.

### **Community Development Grants (CDG)**

4.18 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.

4.19 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.

4.20 The CIG has received and reviewed 9 bids. 3 of these met the criteria agreed by Council. Details of the successful bid projects will be reported to the next Enterprise and Environment Committee on the 6<sup>th</sup> November 2014.

## **5.0 Conclusions**

5.1 Significant work continues to provide a sustainable approach to the Council's financial planning. The most recent work highlights continuing uncertainty with respect national and local factors influencing the accurate calculation of the indicative funding gap. For this reason a wider range of potential scenarios are presented to Council as part of this report.

5.2 The scenarios reflect a fundamental review of the underpinning financial assumptions built into the calculation of the indicative funding gap. The scenarios presented suggest a cumulative indicative financial gap of between £21.85m and £22.24m up to 2017/18. This translates to an annual gap in a range of £9.2m to £9.6m for 2015/16.



5.3 A significant influence and consideration is the Council's current forecast of overall financial performance by March 2015 which is showing an overspend of £0.281m. This position represents a considerable improvement on the position reported to the Resources and Audit Committee on the 25th September following a significant management intervention to minimise expenditure and hence budget requirements in the current financial year. Work is continuing with the aim of delivering a more sustainable position for current and future years.

5.4 Recent progress with the implementation of the redesigned Budget Challenge process and the new Community Development Grant Scheme is also detailed in this report.

## **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: Cross cutting Groups and associated membership

## 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
Capital Investment Group	July 2014
Finance Circular 6/2014	July 2014
Council Financial Performance	September 2014
Management savings	September 2014

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**Cross-cutting Groups & Priority Activities for MCB / TOMs**

**Appendix A**

**Proposed Cross-Cutting Groups & Members**

**1. TOM (1) - Integrated Universal Transactional Services**

**Proposed core membership of cross-cutting group:**

- Customer Services Manager
- Revenues Manager
- Housing Services Manager
- IT Services Manager
- PCU Manager

**2. TOM (2) - Integrated Family & Community-based Services & Facilities**

**Proposed core membership of cross-cutting group:**

- Asset Manager
- Development Services Manager
- Senior Manager Education
- Senior Manager Social Services
- Customer Services Manager (Library & Leisure Ops)

**3. TOM (4) - Universal Community Services**

**Proposed core membership of cross-cutting group:**

- Environment Manager
- Regulatory Services Manager
- Roads & Transportation Manager
- Development Services Manager

**4. TOM (3) - Integrated Preventative & Early Intervention Services for  
Vulnerable People and Families  
and**

**TOM (5) - Centralised Specialist Services** (e.g. *social workers, psychologists, Occupational therapists, counselling, advisers, etc.*)

Two significant subsets of these TOMs, *Reshaping Care for Older People* and *Health & Social Care Integration* are identified from SMF output as major pieces of work in their own right. On the basis that we would not wish to divert resource or focus from these key priorities, it is suggested that these are progressed as the initial phase of development for TOMs (3) & (5).



## Cross-cutting Groups & Priority Activities for MCB / TOMs

### **Proposed core membership of cross-cutting group:**

As per existing programme arrangements, with oversight on developments to be shared with SMF.

## **5. Advice & Guidance**

This is a core piece of work that underpins and informs all TOMs to some extent.

### **Proposed core membership of cross-cutting group:**

- Revenues Manager
- Senior Social Work Manager
- Senior Housing Manager
- Strategy & Performance Manager

## **6. Workforce Planning & other Organisational Development**

SMF identified this as a core piece of work that underpins and informs all TOMs. As a result, this was identified as a piece of cross-cutting work requiring urgent attention and impetus.

### **Proposed core membership of cross-cutting group:**

- Governance Manager
- Chief Accountant
- Business Support Manager
- Representatives from each Service area, including HR, OD and Learning & Development, as appropriate.