

CLACKMANNANSHIRE COUNCIL

Report to Council

Date of Meeting: 14th May 2015

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 update on the medium term financial outlook and indicative funding gap. This report also provides an update on the *Making Clackmannanshire Better* revised engagement and implementation arrangements which were implemented in April 2015.

2.0 Recommendations

It is recommended that Council notes:

- 2.1 the financial outlook set out in section 3
- 2.2 the publication of Audit Scotland's report on Borrowing and Treasury Management (paragraphs 3.5 and 3.6)
- 2.3 the cumulative indicative funding gap to 2018/19 of £23.384m (Table 1)
- 2.4 the factors influencing the indicative funding gap since February 2014 (paragraph 4.3)
- 2.5 the implementation of revised MCB engagement arrangements in April 2015 (Paragraph 4.5 to 4.8)
- 2.6 progress with negotiations and implementation of changes to Terms and Conditions and voluntary severance agreed as part of the February budget setting (paragraphs 4.9 to 4.11).

3.0 Financial outlook

- 3.1 Council has received regular updates on the medium term financial outlook in its regular Budget Strategy Update reports. Since the last report, Fiscal Affairs Scotland have produced three key publications:

- Monthly Bulletin
- Analysis paper covering 'Local Government Funding Challenges'

- Briefing note on 2015 UK Budget announcement.

These publications provide the key reference material for this update on the financial outlook.

- 3.2. The Office for Budgetary Responsibility (OBR) forecast indicates a similar profile on austerity measures to that outlined previously: significant reductions of around 5% (real terms) in public sector expenditure in 2016/17 and 2017/18. However, the position for 2019/20 has changed: previously, these reductions were forecast to continue in 2019/20, whereas the position has now been revised to suggest a 4% real terms increase in public sector expenditure during this period. The incidence of these measures remains unchanged, predominantly impacting day to day revenue expenditure rather than capital.
- 3.3. Following the UK Budget announcement on the 18th March, inflation as measured by the Consumer price Index (CPI) is forecast to bottom out at 0.2% in 2015 and then gradually increase back to its 2% target by 2019. Correspondingly interest rates are expected to rise from 0.6% in 2015 to 1.9% in 2019/20.
- 3.4. In early March, Fiscal Affairs Scotland published its analysis paper on local government funding challenges. The key messages are:
 - in order to balance budgets, councils will need to identify further efficiency savings
 - given this has been the case for some years, this is likely to prove increasingly difficult to deliver
 - increasing income from new or increased fees and charges for public services may contribute to closing the funding gap.
 - it is likely that non-statutory services will be at even greater risk than now, as will service quality levels that are deemed to be over and above the minimum necessary.
 - there has been increased reliance on non-domestic rate income (NDRI) and less on council tax revenues in Scotland.
 - in 2009/10 council tax raised 5.6% of total revenue and NDRI, 5.7%.
 - By 2015/16, the respective shares are estimated to be 5.3% council tax and 7.5% NDRI. This position is unlikely to be sustainable.
 - Local government is not currently exposed to any NDRI funding shortfall, though this position could change in the future.
 - Fiscal Affairs Scotland proposes the need for 'an honest and open debate on the future role of local government'.
- 3.5. On 19th March, Audit Scotland published its report: 'Borrowing and Treasury Management in councils' . The report highlights the fact that borrowing is a major source of funding for councils to invest in key services such as schools or roads.

Councils have total debt of £14.8 billion, 82% of which is funded by borrowing. The report concludes that whilst councils are following the relevant codes of practice, more could be done to highlight the strategic importance of borrowing and treasury management. It is acknowledged that this is a highly complex and technical area but it is important that councillors have sufficient clear and accessible information on which to base their decisions and also to facilitate councillors in discharging their scrutiny roles effectively. The report also emphasises the need for training for councillors to facilitate the effectiveness of scrutiny.

3.6 Clackmannanshire Council was "sampled" to provide information on our activities as part of the audit's fieldwork. The Council receives positive comment at paragraph 70 of the report in respect of our use of comparative information on all treasury management indicators in our annual reports.

4.0 Budget Strategy Implementation

4.1 As part of the 2015/16 Budget presented and agreed by Council on the 24th February 2015, the post budget setting indicative funding gap was also presented. This is detailed in Exhibit 1 below which indicates a cumulative funding gap of £23.384m to 2018/19 and an annual gap of £11.571m in 2016/17.

Table 1: Indicative budget Gap based on revised assumptions to 2018/19

	2016/17	2017/18	2018/19
	£000	£000	£000
Net expenditure	125.618	130.913	135.871
Net Funding	114.047	112.441	112.487
Cumulative indicative Funding Gap	11.571	18.472	23.384
Indicative Annual Gap	11.571	6.901	4.912

4.2 The main assumptions also remain as stated in the Budget paper.

4.3 On the 12 March 2015, Local Government Finance Circular 2/2015 was issued. This Circular confirms the details of the Local Government Finance (Amendment) Order 2015 which reflects any changes made since the Local Government Finance (Scotland) Order 2015 was approved on 5 February 2015. The Circular provides a summary of 2015-16 figures. Key issues are:

- the settlement increased by £372k in respect of Discretionary Housing Payments (DHP)
- all 32 councils in Scotland agreed to freeze their council tax levels in 2015/16

- all 32 Council Leaders wrote to the Deputy First Minister agreeing the revised teacher numbers commitment (as detailed in the 24th February Budget paper)
- the full amount (£70million) of held back resources have been allocated and the £41million included within the local government finance settlement to maintain teacher numbers was retained in the full settlement allocations.

4.4 Circular 2/2015 also includes details of the revised revenue allocations for 2014/15 which have been increased by £6.5million for the Developing Young Workforce in Scotland. The 2015/16 figures do not currently include funding for the 1+2 Languages funding, as discussions on this are ongoing.

Making Clackmannanshire Better : Programme arrangements

4.5 In the 2015/16 Budget report to Council, subject to approval of the proposed alternative service delivery model and the Programme of MCB service reviews, the intention to develop revised programme management arrangements was highlighted. Given the significant work required to take forward the agreed programme of activity, it was important and necessary to propose and implement these arrangements as soon as possible.

4.6 Since February, considerable work has been undertaken to develop and improve Making Clackmannanshire Better engagement arrangements for elected members, staff, Trade Unions and other key stakeholders. This is almost complete and it is intended that the outputs will soon be shared through the revised MCB engagement framework set out below:

- **MCB Member Forum:** the membership of this Forum comprises all elected members and the Council's Corporate Management Team. It will meet every month and will receive updates on progress with the strategic development and implementation of MCB and on progress with the agreed programme of reviews covering both revenue expenditure and capital investment. The first meeting of the Forum is on the 25th May 2015 and a forward Programme of meetings has been set up for the remainder of the calendar year.
- **MCB Trade Union Forum:** the membership of this Forum comprises Trade Union representatives and the Corporate Management Team. Like the Member Forum it will meet every month and will receive updates on progress with the strategic development and implementation of MCB and on progress with the agreed programme of reviews. The first meeting of the Forum is on the 25th May 2015 and a forward Programme of meetings has been set up for the remainder of the calendar year.
- Other key stakeholders: work is currently being undertaken to look at maximising the use of existing forums to brief and engage key partners and stakeholders, for instance through the Alliance, Joint Community Council Forum (JCCF) and Clackmannanshire Third Sector Interface (CTSI).

- 4.7 Alongside this review of engagement mechanisms, the Budget Challenge process has also been further realigned to ensure it is embedded and fully integrated within the MCB framework. The key features are as follows:
- the number of discrete Budget Challenge activities will be reduced from three tranches each year to one which will take place prior to the summer recess
 - the strategic challenge role at these sessions will be led by the appropriate service Convenor supported by the Executive Team
 - the Administration has established an Administration Finance Group to undertake the strategic challenge role of corporate policy and investment priorities. Feedback from these meetings will feature as part of the engagement framework set out at paragraph 4.6.
- 4.8 A key aspect of the work being taken forward is to establish opportunities for the wider engagement of staff and key stakeholders in specific projects, and also to improve and embed the understanding and awareness of how MCB is aiming to transform service delivery and reduce the Council's operating costs to a sustainable level. To facilitate this, following each round of monthly engagement, key messages will be agreed for cascading to staff and stakeholders updating on progress with the overall Programme of activity and giving a flavour of the range of options under consideration.

Terms and Conditions and Voluntary Severance

- 4.9 The Budget report highlighted two areas of terms and conditions for discussion and negotiation with Trade Unions and staff:
- redefining the working week
 - increasing the period between increments from 12 to 18 months.
- 4.10 In order to progress work in these areas, each proposal has been allocated a chief officer lead. The work to review redefining the working week is being taken forward by the Head of Development and Environment, and work to review timescales in respect of incremental progression is being taken forward by the Head of Resources and Governance. Both reviews will feed through the MCB Programme monitoring arrangements outlined in paragraph 4.6. At this stage, both reviews have been subject to initial scoping.
- 4.11 Work to finalise the 32 in principle approvals for voluntary severance has also been progressed since Council agreed the Budget. Progress is summarised as follows:
- of the initial 32 applications approved in principle, a final list of 23 applications were approved, two of which have subsequently withdrawn

- progress is ongoing within services to agree and finalise exit dates. To date 13 severance agreements have been issued, two of which have been signed and returned
- a further nine applications for voluntary severance are now under consideration. In addition six previously declined applications are being reconsidered
- final costings are not yet available for all of the severances outlined. However it is estimated, based on initial costings, that around £800K of the £1million Employment Fund will be utilised. It is estimated that this will yield approximately £590k of budget savings which will be realised over two financial years (2015/16 and 2016/17), in line with agreed exit dates.
- further savings will be delivered should further applications be approved. Management will continue to bring forward proposals for reducing staff numbers.

5.0 Conclusions

- 5.1 Significant work continues to provide a sustainable approach to the Council's financial planning. To facilitate this, MCB programme management arrangements have been refreshed and implemented- pace and momentum is required to ensure work is taken forward promptly. A Programme of activity has been established and the first cycle of meetings commences in May.
- 5.2 The report also indicates the work in hand to take forward implementation of changes in respect of changes to staff terms and conditions and progress in implementing voluntary severance.

6.0 Sustainability 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".

NONE

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)

Council Budget 2014/15 February 2014

Fiscal Affairs Scotland Bulletin March 2015

Borrowing & Treasury Management in Councils (Audit Scotland) March 2015

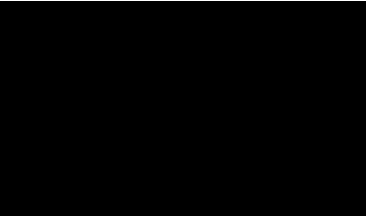
Fiscal Affairs Scotland Analysis paper: "Local Government Funding Challenges" March 2015

Fiscal Affairs Scotland briefing note on UK budget enhancement March 2015

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