THIS PAPER RELATES TO
ITEM 10
ON THE AGENDA

CLACKMANNANSHIRE COUNCIL

Report to Council

Date of Meeting: 12th May , 2016

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 Council's Budget Strategy. This report also provides an update on progress with the implementation of workforce related savings agreed in the Council's Budget on the 23rd February 2016.

2.0 Recommendations

2.1 It is recommended that Council notes:

a. the economic and fiscal outlook detailed in section 3

b. the revised indicative funding gap and underlying assumptions (Table 2 and paragraphs 4.1 and 4.2)

c progress in implementing workforce related savings agreed within the 2016/17 Budget (paragraphs 4.3 to 4.9)

d. the intention to progress formal discussions with trade union representatives in respect of maximising redeployment opportunities (paragraph 4. 6)

e. the current position with regards expressions of interest received in respect of both Targeted Voluntary Redundancy and Voluntary Severance (paragraphs 4.5 and 4.8, and Exhibits 1 to 4)

f. that an update on savings delivered by Targeted Voluntary Redundancy and Voluntary Severance, compared with those planned, will be made available to elected members and other key stakeholders as soon as acceptance and pension cost information is available (paragraph 4.7)

g. progress in establishing consistent corporate arrangements for monitoring the delivery of agreed budget savings (paragraph 4.9).

3.0 Economic and Fiscal outlook

3.1 On the 25th November, the UK Chancellor announced the Comprehensive Spending Review. At that time, based on improved performance and projections in respect of economic growth, UK public finances were also increased.

3.2 The Office for Budget responsibility (OBR) has reviewed the March 2016 UK Budget and the analysis suggests:

- economic growth projections have been revised downwards, resulting in a loss of the previously anticipated increases in public finances
- as a result, the UK Government has increased the planned reductions in public service resourcing post 2018/19
- there remain a number of, as yet, unresolved 2016 Budget changes which include: £3.5 billion of unallocated efficiency savings; £2 billion of savings due to increased pension contributions from public sector employees, and £1.3 billion of welfare savings in respect of Personal Independence Payments (PIP) which have been removed from the UK Budget
- overall the UK's fiscal outlook has worsened, though the distribution of the impacts has changed, with greater reductions being planned for 2019/20 and a lessening of the impacts in 2016/17 and 2017/18.

3.3 For Scotland, the changes made to specific UK Departmental budgets mean that, via the workings of the Barnett formula, there is an additional £650 million over the period to 2020/21, though it is not yet clear how the £650 million would be distributed across budgets or years. In addition, this position does not include the impact of the Budget 2016 changes which still require to be settled at the UK level (paragraph 3.2) and these could have a negative impact on this position. It should also be noted that at this time, there are no indicative Budget allocations for Scotland for 2020/21.

3.4 In overall terms, the distribution of reductions in the day to day (Resource DEL) budget in Scotland is likely to remain different to that seen at the UK level. The main reasons for this include the delay in reductions in funding to Scotland from 2015/16 to 2016/17 and the profile of reductions in funding, both in the past and planned for the future, across UK spending departments. Table 1 below shows this difference as well as the new pattern for the UK taken from the 2016 Budget.

Table 1: Scottish and UK resource DEL changes %

Measure	2016/17	2017/18	2018/19	2019/20	2020/21	2016/17-2020/21
Scotland (Dec 15)	-1.4%	-1.0%	-1.7%	-1.6%	N/A	-5.6%
UK (Nov 15)	0.1%	-1.2%	-1.2%	-1.1%	1.7%	-3.3%
UK (Mar 16)	0.2%	-0.6%	-1.3%	-2.0%	0.0%	-3.7%

Source: Fiscal Affairs Scotland, March 2016, based on OBR economic and Fiscal Outlook March 2016.

4.0 Budget Strategy Implementation

4.1 At the Special Council meeting on 23rd February 2016, details of the pre- and post-Draft Budget indicative funding gap were reported. Following the agreement of two amendments to the proposed Draft Budget, the revised indicative funding gap is set out in Table 2 below. This indicates a cumulative funding gap of £18.263 million up to 2019/20 and £7.761 million for 2017/18.

Table 2: General Services 2017/18-2019/20 Indicative funding gap

	2017/18 £000	2018/19 £000	2019/20 £000
Net expenditure	118,766	123,219	127,633
Net Funding	111,005	109,314	109,370
Cumulative indicative Funding Gap	7,761	13,905	18,263

4.2 The main assumptions included within Table 2 are:

- 0% increase in the level of Council Tax
- Pay inflation at 1.25% for 2017/18 and 2018/19 and 1.5% for 2019/20
- an annual allowance for utility increases and contractual inflation (£1.2m) but not general inflationary pressures
- general demand pressure provision of £1.3m each year
- Cash reduction on general fund grant of 2% in financial years 2017/18 and flat cash thereafter
- recurrent additional social care funding of £250m each year
- maintenance of the commitment to implement Minimum Living wage.

Both the assumptions and their impact will be kept under review and as further information is available, appropriate adjustments will be made and reported to future Council meetings.

Managed contraction in the cost of employment

4.3 At the Special Council meeting on 23rd February, Council also agreed Severance and Redeployment Policies in support of the Workforce Strategy and Organisational Change Policy and Procedures agreed in October 2015. This policy framework provides the basis for taking forward the implementation of a range of workforce related savings which were agreed as part of the Council's 2016/17 General Services Budget. The Budget report also highlighted the intention to update Council at its May meeting on progress with implementation of these savings proposals.

4.4 During March and April, the following progress has been made:

- the Chief Executive, Depute Chief Executive and Executive Director held post Budget staff briefing sessions to update staff on the Council's decisions, focussing in particular on the workforce related savings, Targeted Voluntary Redundancy (TVR), Voluntary Severance (VS) and organisational redesign proposals

- the latest Focus on Finance newsletter has been distributed via CONNECT (Appendix 1). This issue concentrates on workforce related savings and aims to assist with clarifying severance procedures and conditions

- chief officers have instigated and completed discussions with all staff in posts identified for TVR.

- a further briefing session has been offered to trade union representatives to facilitate them in supporting staff members in their discussions and assist understanding of the process

- 41 staff in the 'corporate pool' identified for TVR have requested figures to assist them in deciding whether to take the Council's offer, 2 members of staff have declined to take discussions further

- 137 expressions of interest in VS have been received and figures have/are being prepared to establish who might wish to progress their application

- HR have been liaising closely with Accountancy, the MCB Programme Co-ordinator, trade union representatives and Falkirk Pensions to progress and facilitate discussions with individual members of staff

- HR are investigating with Falkirk Pensions the potential to improve the current 12 week turnaround period for pensions figures for individual staff members by providing staff or financial resources

- Corporate arrangements have been established to review all expressions of interest in VS and those staff within the 'corporate pool' via a chief officer 'clearing house'. The arrangements provide the parameters for offers and also provide a corporate challenge function to ensure that opportunities for corporate flexibility in respect of service redesign and potential redeployment opportunities are maximised

4.5 Of the 41 TVR and 131 VS expressions of interest received, figures are available for 8 TVR and 15 VS applications. These are predominantly in respect of staff under 50 years old where we do not require additional figures from Falkirk Pensions in respect of pension benefit entitlement and costs. The first 'clearing house' session considered this first tranche of applications and resulted in offers being recommended in respect of 8 TVR and 6 VS applications. This first session was also helpful in establishing a set of core principles:

- performance and attendance issues with individual members of staff should be managed within the normal Council approved policies

- where services find that the original TVR proposal appears to be unachievable, alternative budget savings should be identified by the Service

- recurrent budget savings in respect of contraction of the workforce can not normally be replaced by cash savings (for instance additional income in the year or an in-year underspend), unless it can be demonstrated that the position is sustainable and gives rise to a permanent budget reduction

- where offers are acceptable to staff, exit dates should be mutually agreed with management for as soon as possible, and as a maximum in line with contractual notice periods

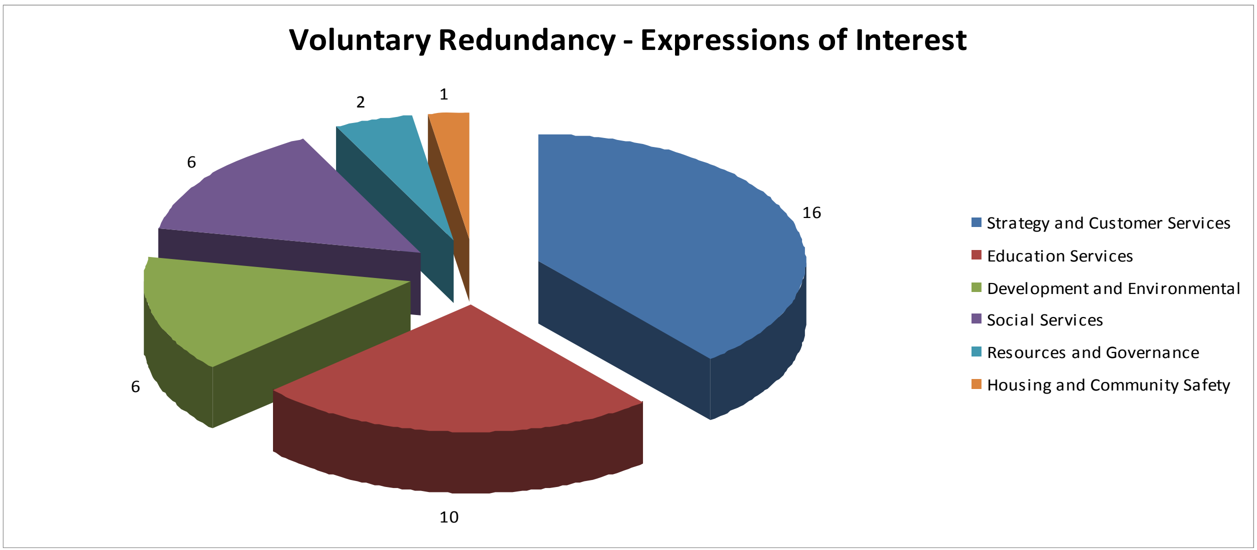
- Payment in Lieu of notice (PILON) will not normally be granted.

4.6 In agreeing the Council's workforce policy framework, a clear policy statement was provided that there would be no compulsory redundancies as a consequence of the implementation of the agreed policies. However, implementation of this policy from a technical perspective, reduces the potential flexibilities available for redeployment and is currently causing practical difficulties in developing and implementing service redesign proposals and managing the requests received for VS. Informal discussions with trade union representatives suggest that some staff might wish the opportunity to be considered for redeployment and we have had staff who have independently requested to be voluntarily placed in redeployment. It is, therefore, proposed that formal discussions be taken forward with trade union representatives on this matter, with a view to reporting back to the next meeting of Council in June.

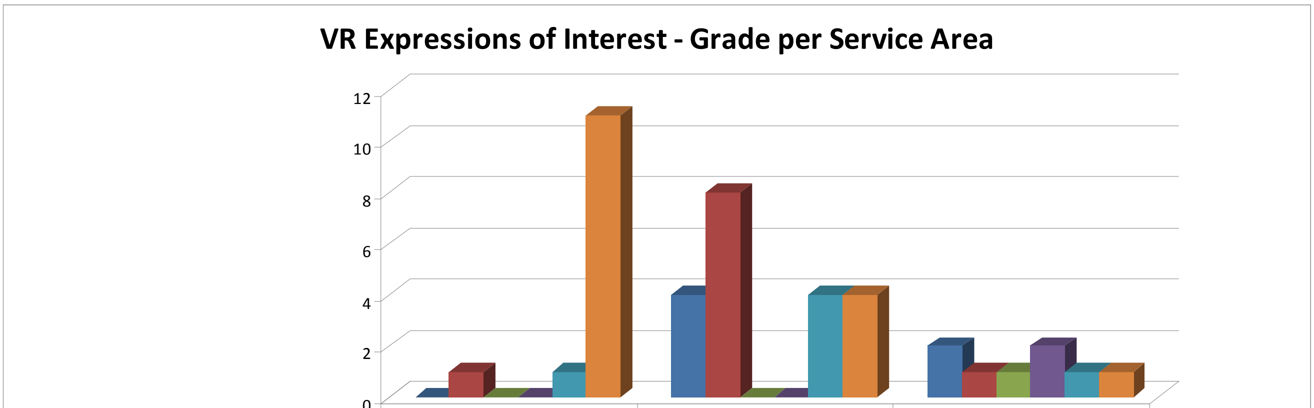
4.7 Given the relatively small proportion of staff for whom we have the costs of severance at this stage and that offers are starting to be made on a phased basis, it is not possible to state at this point how the likely saving compares with the budgeted saving. This information will be reported to elected members and other key stakeholders such as staff and trade union representatives, as soon as it becomes available. An update will be provided to the June Council meeting. However, as the picture crystallises, if this can be reported earlier, the information will be made available as a briefing.

4.8 The following four exhibits show the breakdown by service and grade of those staff who have currently expressed an interest in TVR and VS respectively. Overall 41 expressions of interest have been received for TVR together with 131 applications for VS.

Graph 1: Voluntary Redundancy - Expressions of Interest

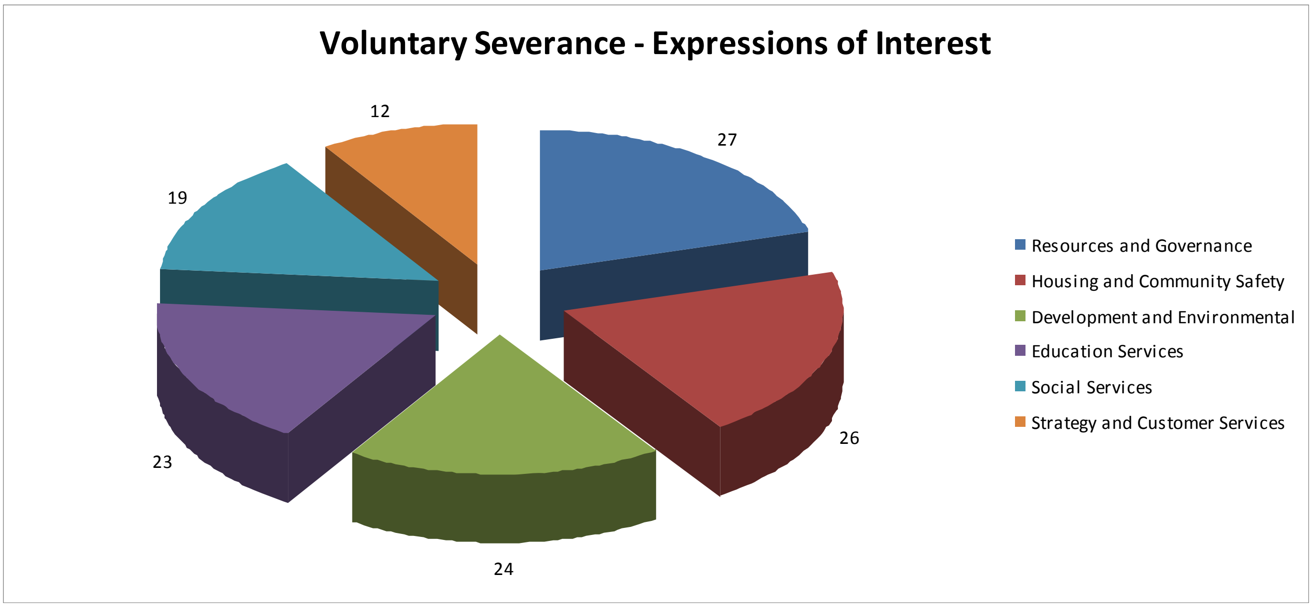


Graph 2: Voluntary Redundancy - Grade per Service Area

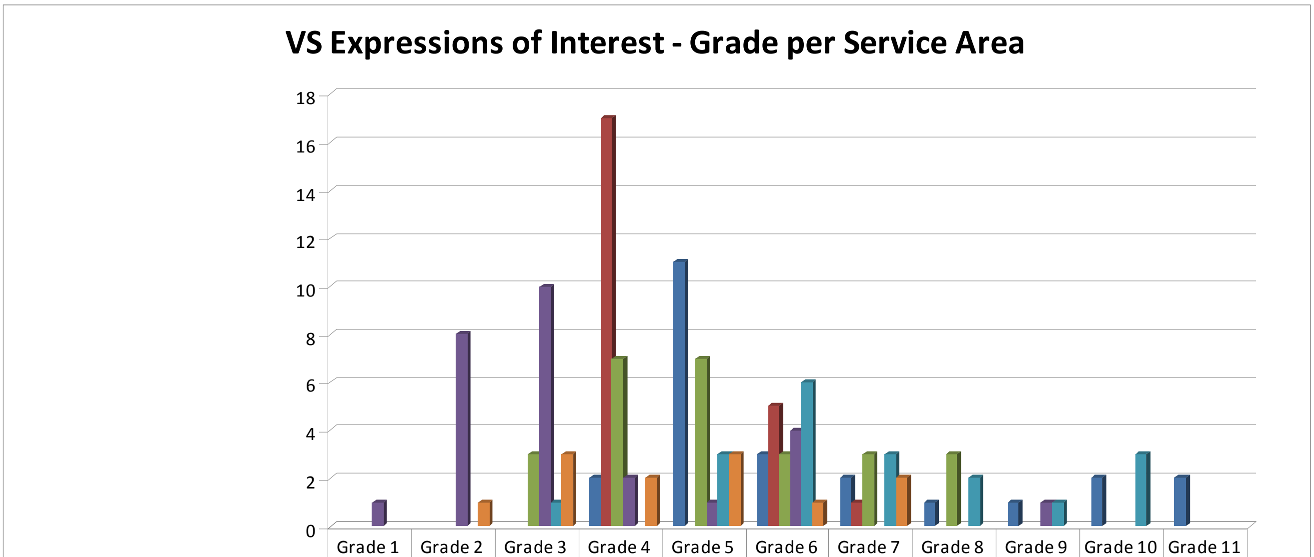


	Grades 3 and 4	Grades 5 to 7	Grades 8 to 10
Development and Environmental	0	4	2
Education Services	1	8	1
Housing and Community Safety	0	0	1
Resources and Governance	0	0	2
Social Services	1	4	1
Strategy and Customer Services	11	4	1

Graph 3: Voluntary Severance - Expressions of Interest



Graph 4: Voluntary Severance - Grade per Service Area



	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Grade 7	Grade 8	Grade 9	Grade 10	Grade 11
Development and Environmental				2	11	3	2	1	1	2	2
Education Services				17		5	1				
Housing and Community Safety			3	7	7	3	3	3			
Resources and Governance	1	8	10	2	1	4			1		
Social Services			1		3	6	3	2	1	3	
Strategy and Customer Services		1	3	2	3	1	2				

4.9 More generally, much work is being progressed to implement the full range of budget savings agreed by Council In February. Corporate arrangements have been put in place to ensure that progress is being monitored in terms of both the management action required as well as the financial benefits delivered. Progress in delivering savings will be reported through both service and R&A Committee reporting arrangements in line with previous years. Specific issues will also potentially be reported through MCB Forums which are due to recommence in May.

5.0 Conclusions

5.1 The key impacts of the UK Government's March 2016 Budget are considered by reference to the OBR and Fiscal Affairs Scotland analysis. This suggests a deterioration in economic growth with a consequent negative impact on the UK wide fiscal outlook. This results in greater reductions in public service resourcing being projected for 2019/20.

5.2 The level and incidence of reductions in public sector funding in Scotland continues to differ from that in the UK as a whole, and due to changes in the individual UK Spending Department funding reductions, at this stage, analysis suggests an additional £650 million will be available to Scotland over the period to 2019/20. This position could, however, be adversely impacted by a number of significant March 2016 UK Budget issues which are not, as yet, resolved.

5.3 The report sets out the indicative funding gap of £18.263 million over the next 3 years and £7.761million in 2017/18. There remain a significant number of uncertainties which may impact this position. The report clearly presents the current assumptions and provides for these to be updated to reflect new information as it becomes available.

5.4 Significant work has been taken forward since the Budget was set in February 2016 to implement the range of workforce related savings in the budget. The report focuses on this aspect, though good progress is also being made in taking forward the implementation of other non-workforce related savings. More detailed information on progress will be routinely presented to service committees within service performance reports.

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*s 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) Council Policies (Please detail)

Financial Strategy

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? N/A

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 Appendix 1 - Focus on Finance (Issue 4)

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 2016/17	February 2016
Fiscal Affairs Scotland	March 2016
MCB Business Cases	February 2016
10% and 15% exercise	February 2016
Post Budget Staff briefing	March 2016
TVR/VS Clearing stage 1	April 2016

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Focus on **Finance**

Issue 4
April 2016

Nikki Bridle
Depute Chief Executive and Section 95 Officer

Finance Billboard: 2016/17 Budget setting

The main focus of activity over recent months has been the preparation and presentation of the Council's budget for 2016/17.

This was an extremely challenging process for both elected members and officers as significant savings have already been delivered over a number of financial years.

The revenue budget approved by Council incorporated savings of £7.5m and used reserves of £1.5m to balance the budget. A significant investment was made by increasing the Council's Employment Fund to £4.75m to allow the Council to realise the financial savings delivered by staff reductions within the 2016/17 financial year. (This issue is the main focus of the second part of this newsletter). Following budget setting, the Council's uncommitted General Services reserves remain above the 3% minimum level at £5.1m (4.2%).

The Council's capital budget was significantly reprofiled and amended to reflect the Council's work towards full implementation of the community partnership (Hub/Cluster) model. This is a significant step and signals the Council's refinement of this approach from the previous years' budget. This year, the model clearly sets out how communities will be grouped to reflect three geographical clusters or community partnerships. The budget also starts the process of redesigning service delivery through this framework. Over the next few years, a key focus of activity will be on how services can be delivered more efficiently at the local level within this model.

The budget report also set out a summary of the key areas of work to develop further business cases for future years. At this time, the current forecast of the indicative funding gap is £7.6m. The key areas for business case development include:

- continued managed contraction in costs of employment
- asset utilisation
- alternative service delivery models
- efficiency reviews.

Work is currently being finalised to ensure that we have a clear corporate tracking system for implementing the savings agreed in the budget. Progress will be regularly reported to CMT and to elected members through the regular Service Committee and MCB reporting arrangements in place.

Workforce related savings

The approved budget incorporates a range of workforce related savings, including:

- deletion of 25 FTE vacant posts
- a 'corporate pool' of 81FTE posts to be targeted for Voluntary Redundancy
- £400k savings for corporate VS trawl
- £60k savings re family friendly policy provisions e.g. buy back annual leave
- £360k for review of working week
- ongoing targeted reduction in absence costs.

Targeted Voluntary Redundancy and Voluntary Severance

At its meeting on the 23rd February, Council also agreed the final elements of the workforce planning framework: the severance and redeployment policies. These allow the Council to move forward with implementing some of the workforce related savings as they provide the terms of offers to individual members of staff and document the processes which need to be followed.

It is clear from post budget discussions that this is a complex and potentially confusing set of issues to understand at a time when many staff are already anxious. Some of the most commonly raised issues are detailed below:

What is the difference between Targeted Voluntary Redundancy (TVR) and Voluntary Severance (VS)?

If you are approached by your service management to discuss TVR, this is because in the Council budget, proposals have been agreed to reduce service levels in specified (largely discretionary) services and your post is involved with delivering these services. The proposal is in no way a reflection on the individual, their performance or the contribution they make, it is a matter of prioritisation of which services the Council is going to continue to deliver as resources reduce.

If your post falls into this category, you are being consulted as part of a 'corporate pool' of staff about whether you would like to take up the TVR offer.

VS is quite different in that it is the individual member of staff who has expressed an interest to their manager about the possibility of leaving the Council and wishes to explore the terms of such a severance arrangement.

Such requests can be beneficial to the Council as they may provide opportunities for redesign or redeployment even though the post might not be in a service where the Council wishes to change, reduce or cease the level of service delivery.

What am I entitled to?

This is one of the most confusing areas as the terms of an offer or request are influenced by an individual's age, grade and length of service as well as whether you are being offered TVR or wish to take VS.

The policy links above set out both the terms and processes which the Council will follow. However, the general terms are set out in the boxes on the right:

Voluntary Redundancy

- Staff under 50 or unable to access their pension would receive an enhanced Redundancy Payment (up to a maximum of 52 weeks based on age, length of service and current grade)
- if you are able to access pension benefits, entitlements are as follows: Immediate release of pension benefits with the potential eligibility for up to 5 Compensatory Added Years (CAYs) and a Statutory Redundancy Payment
- VR is an offer from the employer to the member of staff, therefore there is no automatic right to VR
- VR is by its nature entirely voluntary and there is no requirement for individuals to accept.

Voluntary Severance

- Staff under 50 or unable to access their pension would receive an enhanced Payment (up to a maximum of 52 weeks based on age, length of service and current grade)
- if you are able to access pension benefits, entitlements are as follows: Immediate release of pension benefits with the potential eligibility for up to 5 Compensatory Added Years (CAYs)
- No Statutory Redundancy Payment is due
- VS is instigated by the individual
- There is no automatic right to VS.

What happens next?

As part of the budget papers presented for approval in February, the intention to provide an update report to Council in May, was highlighted. It is intended that the report will summarise the information we hold in relation to indicative expressions of interest for both TVR and VS and also, in the case of those staff approached for TVR, where staff have declined the offer.

Based on this data, an indication will be provided to Council of the likelihood of meeting the planned budget savings attributable to the contraction of our workforce and whether further savings options may need to be considered to ensure that the budget remains achievable and balanced during 2016/17.