

CLACKMANNANSHIRE COUNCIL

Report to Council

Date of Meeting: 23rd June, 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 and the development of Business Case proposals in support of the next Budget setting round.

2.0 Recommendations

2.1 It is recommended that Council notes:

- a. the potential impacts on revenue funding based on Fiscal Affairs Scotland analysis in section 3
- b. the revised indicative funding gap scenarios, should Fiscal Affairs Scotland assumptions on key variables be applied for a High, Realistic and Low scenario (Tables 3 to 6 and paragraphs 4.2 to 4.4)
- c. the timing of the Scottish Spending Review in the early Autumn 2016 (paragraph 4.5)
- d. the development of management information arrangements to monitor and track the delivery of 2016/17 agreed budget savings (paragraph 4.6 and 4.7)
- e. work to develop savings proposals and Business Cases in support of the 2017/18 Budget preparation process (paragraph 4.8)
- f. ongoing discussion with trade union representatives in respect of maximising redeployment opportunities (paragraph 4.9)
- g. the current position with regards expressions of interest received in respect of both Targeted Voluntary Redundancy and Voluntary Severance (paragraphs 4.10 to 4.12).

3.0 Economic and Fiscal outlook

3.1 Following the election of a new Scottish Government in May 2016, the most recent Fiscal Affairs Scotland analysis focusses on the potential funding levels for the resource (revenue) and capital budgets ahead of the Scottish Spending Review announcements. It proposes adjustments to the Scottish Government's Draft Scottish Budget 2016/17 based on known Barnett consequential and/ or on the pledges and commitments set out in the Scottish Government's Manifesto.

3.2 The key pledges and commitments considered are in respect of:

- additional funds raised by changes to Council Tax and Income Tax, these having been 'earmarked for 'schools' and childcare respectively at this stage
- the NHS Budget is guaranteed to increase by £500 million above inflation by 2021-2022. It is likely that this will be largely met by Barnett consequential
- the Police Budget is guaranteed to rise in line with inflation (real terms protection)
- other funding pledges may also impact the availability of funding for the unprotected revenue budget including the increased number of Apprenticeships and the increased Carers' Allowance.

3.3 Table 1 summarises Fiscal Affairs Scotland's analysis of the potential impacts of changes to revenue funding. This analysis shows a smaller than previously anticipated reduction of 1.2% in 2017/18 revenue funding in unprotected budgets (including Local Government) with subsequent years showing reductions in revenue funding in unprotected budgets of 1.9%.

Table 1 – Fiscal Affairs Scotland RDEL Analysis

Cash, £ million	15-16	16-17	17-18	18-19	19-20
RDEL	26,033	26,098	26,299	26,348	26,468
change		65	201	49	120
% change		0.2%	0.8%	0.2%	0.5%
<i>Protected Budgets</i>					
Health	11,986	12,383	12,718	12,964	13,269
change (Barnett)		397	335	246	305
% change		3.3%	2.7%	1.9%	2.4%
Sc Police Auth'y	1,036	1,053	1,089	1,111	1,133
change		17	36	22	22
<i>2016 Budget consequ's</i>					
Business rates related		0	141	4	4
Non- business rates		(17)	15	9	2
<i>Tax related changes</i>					
Income tax change			(120)	(70)	(70)
Air Passenger Duty			0	-30	-30
Council Tax change			(100)	0	0
Non Protected	13,011	12,662	12,648	12,412	12,181
Non Protected change		-349	-14	-236	-231
% change		-2.7%	-0.1%	-1.9%	-1.9%
change exc Bus. Rates			-155	-240	-235
% change			-1.2%	-1.9%	-1.9%

- 3.4 The Scottish Government's Manifesto includes larger funding pledges in respect of capital when compared with revenue funds. These include:
- an additional £200 million for the NHS
 - infrastructure spend of over £20 billion over the term of the Parliament
 - £3 billion to deliver 50,000 affordable homes.

At present, no Scottish Budget figure has been set for either revenue or capital for 2020/21. However, in 2020/21, the UK capital budget is currently projected to increase by 25% in cash terms.

- 3.5 UK Budgetary decisions will continue to change depending on the economic and fiscal forecast which continues to be highly uncertain. This could result in increased or reduced spending levels as a consequence of the continued use of the Barnett formula. Having said this, at present, the resource Budget looks more optimistic than it did for 2016/17, especially in 2017/18.

4.0 Budget Strategy Implementation

- 4.1 At the reconvened Council meeting of 12 May, which was held on 2nd June 2016, Council was updated on the post-Budget setting indicative funding gap which was a cumulative funding gap of £18.263 million up to 2019/20 and £7.761 million for 2017/18. This is shown in Table 2 below.

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

	2017/18	2018/19	2019/20
	£000	£000	£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 During 2015/16, elected members have been provided with financial scenarios to provide a potential range of indicative funding situations that the Council might face depending on changes in the underlying assumptions. This work has been refreshed based on the most recent information available from Fiscal Affairs Scotland and Directors of Finance for this report. The approach aims to recognise the range of potential permutations of the key variables, with illustrative forecasts for a Low, Realistic and High position in respect of the key assumption factors. The underpinning assumptions for the three scenarios are summarised in Table 3 below and the

outcome for each scenario is set out in Tables 4 to 6:

Table 3: Underpinning assumptions for Tables 4 to 6

Assumption	Scenario 1 (Table 4) LOW	Scenario 2 (Table 5) REALISTIC	Scenario 3 (Table 6) HIGH
Income: Grant level	Flat cash in 2017/18 and cash reduction 1.6% in 2018/19 and 2019/20	Cash reduction 1.2% in 2017/18 and 1.9 % in 2018/19 and 2019/20	Cash reduction 3% in 2017/18 and 4.5% in 2018/19 and 2019/20
Income: Council Tax	0%	0% in 2017/18 and 2% in 2018/19 and 2019/20	3% each year 2017/18 to 2019/20
Pay inflation	0.5%	1%	1.5%
Inflation	£1m	£1.3m	£1.5m
Demand Pressures	£1m	£1.2m	£1.5m

4.3 This refreshed range of assumptions differs from previous versions particularly in respect of grant income levels and assumptions on Council tax income. However, there remains significant uncertainty over the precise impacts of such changes and it is likely that a further review of assumptions will be required following the Scottish Spending Review in the early Autumn. In addition, a significant factor in the final funding position in respect of the current financial year (2016/17) related to estimates on Non-Domestic Rates Income at the national level. It is intended that this will be reviewed at a local level and consideration given to further refinements to the assumptions based on the latest forecast position for the next Council meeting.

4.4 Tables 4 to 6 below set out the three scenarios. These suggest a potential range in the forecast gap of between £5,425m and £9.309m in 2017/18 and £13,238m to £23,202m cumulatively over the period to 2019/20. The most significant points to note when comparing Tables 2 and 5 (post Budget gap and the realistic scenario) are:

- Table 5 (realistic scenario) has revised assumptions on pay awards downwards, reducing the pressure on the indicative funding gap
- Table 5 assumes additional Council Tax income which also reduces the pressure on the indicative funding gap. However, in reality this additional income might be ringfenced and not available to offset general expenditure
- as yet unresolved UK budget issues, may result in a negative impact on Scottish funding levels, particularly for the latter years of the Spending review period. This has the potential to increase the indicative funding gap in the latter years.

Table 4: Scenario 1-LOW Indicative budget Gap based to 2019/20

	2017/18	2018/19	2019/20
	£000	£000	£000
Net expenditure	117,685	121,053	124,183
Net Funding	112,260	110,889	110,945
Cumulative indicative Funding Gap	5,425	10,164	13,238
Indicative Annual Gap	5,425	4,739	3,074

Table 5: Scenario 2- REALISTIC Indicative budget Gap to 2019/20

	2017/18	2018/19	2019/20
	£000	£000	£000
Net expenditure	118,572	122,837	126,873
Net Funding	111,190	109,950	110,007
Cumulative indicative Funding Gap	7,382	12,887	16,866
Indicative Annual Gap	7,382	5,506	3,979

Table 6: SCENARIO 3- HIGH Indicative budget Gap to 2019/20

	2017/18	2018/19	2019/20
	£000	£000	£000
Net expenditure	119,459	124,625	129,575
Net Funding	110,150	106,315	106,373
Cumulative indicative Funding Gap	9,309	18,310	23,202
Indicative Annual Gap	9,309	9,000	4,892

- 4.5 There is much more information required before the position can be forecast with any reliability, especially for the latter years. The Scottish Spending Review announcement is currently anticipated in early October and CoSLA is seeking to lobby for an announcement which provides figures for three financial years. This position may, however, be impacted by the availability of income tax figures and estimates for the Scottish Government for financial planning purposes. At a local level, both the assumptions and their impact will be kept under review, particularly as we get closer to

the SSR.

Management Information development

4.6 Since the Budget was set in February 2016, considerable investment has been made in developing the management information arrangements for:

- monitoring the management actions taken in respect of implementing 2016/17 agreed savings
- tracking the delivery of financial savings relative to management action in respect of 2016/17 savings
- identifying, recording and mitigating risks associated with savings implementation.

4.7 The Management information arrangements have been developed by the Programme Co-ordinator based on the Covalent Browser. This allows 'real time' information to be viewed collectively by service and corporate management teams or individually by service and senior management. The screens are user-friendly, clearly flagging where project milestone deadlines have been missed or where activity is on track. CMT is using the live data to collectively challenge progress every month. In addition, service management is regularly updating the information as actions are progressed. It is intended that the live system and data will also be used with elected members through the MCB Forum meetings.

4.8 Current development work is aligned with that of Service and Corporate management to develop Business Cases for consideration as part of the 2017/18 onwards budget preparations. Current management activity includes:

- review of the 'Plan B' management analysis of statutory and discretionary service delivery and the potential for further savings above those already implemented.
- the establishment of a number of strategic workstream groups focused on delivering transformational change of service delivery based on prioritized, integrated service delivery.

It is anticipated that by early July, management will have a schedule of the key areas proposed for Business case development and /or savings based on this activity. Business cases will then be prepared through the Summer with a view to further political engagement post Council recess. Once the schedule of proposed areas for review is in place, the Covalent management reporting tool will also consolidate the details of each proposal in order to keep a coherent and consistent corporate record of proposals and developments.

Managed contraction in the cost of employment

- 4.9 In the 12th May Council Budget Strategy Update report, elected members were asked to note the intention to progress formal discussions with trade union representatives in respect of maximising redeployment opportunities. At this stage, whilst discussions have taken place, and there is general and mutual agreement on the need to progress discussions with regards to redeployment, further discussion is required to examine the practical application of the Council's policy. A further update will be brought to the August Council meeting.
- 4.10 Since the last meeting of Council, almost all of the details on pension costs and entitlements have been received from Falkirk Pensions in respect of those staff who expressed an interest in Targeted Voluntary Redundancy (TVR). These figures have recently been shared with the Executive Team and in total 48 TVR out of 52 have currently been approved. These approved expressions of interest are now being discussed with individual members of staff to see if the terms of the offer are acceptable.
- 4.11 Now that the majority of TVR related pension details have been received, the next batch of forms (numbering 99) have been issued to Falkirk Pensions. These relate to expressions of interest in Voluntary Severance (VS). To date, 148 VS applications have been approved for discussion with members of staff.
- 4.12 In summary, at this stage 48 TVR and 31 VS applications have been approved for discussion with members of staff. To date this has resulted in 6 acceptances (2 TVR and 4 VS) and 20 refusals (10 TVR and 10 VS). This means that at this stage the Council has secured £84,655 of TVR savings and £99,292 VS savings against the budget savings of £1.154m and £400,000 respectively. The current year's savings were assumed to be achievable on the basis of implementation by 30 September 2016. At the current rate of turnaround, at this stage, it seems unlikely that the year's savings targets will be made.

5.0 Conclusions

- 5.1 This report reviews the latest analysis of Scotland's position following the election of the new Scottish Government. The report looks at potential funding scenarios for Local Government based on the relative priorities set out in the new Government's Manifesto.
- 5.2 The report refreshes previous scenario planning assumptions based on the latest Fiscal Affairs Scotland financial analysis. This suggests that the position for 2017/18 may be more positive than originally reported, when compared with greater funding reductions that are now anticipated for 2019/20 and 2020/21. There remains considerable uncertainty over many of the key financial planning factors and it is anticipated that the Scottish Spending Review in the early Autumn will provide further clarity. Further revisions to assumptions will be made as new information comes to light.
- 5.3 The report also provides an update on the implementation of the Council's agreed workforce related savings, ongoing discussions with trade union representatives in

respect of redeployment and the introduction of new monitoring and reporting tool to track progress with agreed savings and the development of new business cases.

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. *Staffings 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 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 2016/17
Fiscal Affairs Scotland
TVR/VS Clearing stage 3

February 2016
May 2016
June 2016

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Nikki Bridle	Depute Chief Executive	01259 452373
Lindsay Sim	Chief Accountant	01259 452078

Approved by

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Depute Chief Executive	Signed: N Bridle
Elaine McPherson	Chief Executive	Signed: E McPherson

