

**CLACKMANNANSHIRE COUNCIL**

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**Report to Council**

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**Date of Meeting: 11<sup>th</sup> August, 2016**

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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 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 timetable for the preparation of the 2017/18 Budget.

## **2.0 Recommendations**

- 2.1 It is recommended that Council notes:
- a. the economic and fiscal outlook update from Fiscal Affairs Scotland and CIPFA following the EU referendum (section 3)
  - b. the revised timing of the Scottish Spending Review and local government settlement in December 2016 at the earliest (paragraph 4.5)
  - c. the revised 'realistic' indicative funding gap scenario, should Council tax increases be maintained at 0% (Table 2 and paragraph 4.3)
  - d. progress with budget preparation including arrangements in place for briefing elected members and trade union representatives (Paragraphs 4.5- 4.8)
  - e. the high level indicative Budget preparation timeline (Appendix A and paragraph 4.9)
  - f. the outcome of recent discussions with trade union representatives in respect of maximising redeployment opportunities (paragraph 4. 10)
  - g. the current position with regards both Targeted Voluntary Redundancy and Voluntary Severance (paragraphs 4.11 to 4.14 and Exhibits 1-4 ).

### **3.0 Economic and Fiscal outlook**

- 3.1 Following the EU referendum in June 2016, the UK voted to leave. This has a number of potential implications for the Scottish Government's future budget, though many of these will not be known for some time.
- 3.2 Most independent economic commentators predicted that an exit from the EU would have a negative impact on the UK economy in the short, medium and long term. In the immediate aftermath of the referendum, sterling and share prices both fell sharply with subsequent recovery seen in terms of share prices. However, in reality the economic implications remain highly uncertain and will take time to become clear, this will likely be in terms of years rather than months and in the interim, ongoing volatility is to be anticipated.
- 3.3 The UK financial implications are similarly highly uncertain. In the short term the UK's fiscal position could improve, as the net contribution to the EU of around £8 billion ends and the additional money is potentially available to fund UK services or to cut taxes. However, if the economy slows down, this benefit could be lost, even in the short term.
- 3.4 At present, some commentators are suggesting that it seems unlikely that there will be an emergency Budget. There is, however, also speculation that the new Prime Minister may decide to have an election to confirm their position. This demonstrates the considerable conflict in views and information that exist at this time, making it very difficult to forecast with any reliability timescales or details of key factors which will need to be considered. When a Spending Review does take place, areas which are likely to come under particular scrutiny are those where EU support and policy play a major role, for instance Agriculture and Regional Development.
- 3.5 Whilst the referendum vote was to leave, Fiscal Affairs Scotland has suggested that an exit is not, at this point, certain. This view is not shared by other commentators for instance Rob Whiteman, CIPFA's Chief Executive has concluded that the UK is set to exit the EU and that this is demonstrated by nearly all the main UK-wide political parties announcing their respect of the electorate's verdict. Many commentators are suggesting that once EU leaders have worked out the implications and internal political risks, there is the possibility of a second vote as the implications of leaving the EU have been demonstrated or have become more defined.
- 3.6 The Scottish economy is likely to be affected in a similar way to that of the UK in general terms, though some risks may be less acute in Scotland, for instance in respect of City of London financial sector activities. If, as indicated at paragraph 3.4, the next UK Spending Review is not immediate, the Scottish Government will go ahead with its planned Spending Review announcement, though the timing of this has already been impacted given concerns about the impact of Brexit on the Chancellor's Autumn Statement (Paragraph 3.10).
- 3.7 Elected members will recall that the public sector was optimistic of a three year funding announcement at the time of the Autumn Spending review. However, on the 30<sup>th</sup> June, the Cabinet Secretary for Finance and Constitution gave evidence to the Scottish Parliament's Finance Committee regarding the timetable for the Scottish Draft Budget for 2017/18. At this time, the Cabinet Secretary also confirmed that the Scottish Government will be setting a one year budget for 2017/18.
- 3.8 In his letter to the Finance Committee, the Cabinet Secretary also highlights in greater

detail the process and timescale for the development and scrutiny of the Draft Scottish Budget 2017/18. A key consideration is the fact that new Scotland Act 2016 powers are in place for the first time, including the ability to vary income tax rates and bands. He highlights the consequential importance of the role of forecasts of Scottish and rest of the UK tax receipts and demand led social security spending, and the relationship between the Chancellor's (UK) Autumn Statement and the calculation of the annual Block Grant Adjustment (BGA).

- 3.9 Having considered the timing and availability of key statistics and returns in the early Autumn period, the Cabinet Secretary concludes that on balance, it is more efficient to publish the Scottish Government's Draft Budget 2017/18 after the UK Autumn Statement to minimise the potential level of volatility that might need to be managed, especially with regards the potential for additional parliamentary scrutiny of revisions being required, should there be changes between the Draft Budget and Budget Bill.
- 3.10 In specific terms this has been confirmed by the Cabinet Secretary to give rise to a similar position to that experienced in respect of 2016/17 Budget setting. That is, the Scottish Spending Review and Local Government settlement announcement will be made at the same time and this will be after the Chancellor's Autumn Statement. As yet, there is no set date for the Chancellor's Autumn Statement as this will be a decision for the new Prime Minister and Chancellor. On this basis, the Cabinet Secretary has indicated that the Scottish announcement will be in December at the earliest. This presents a significant challenge to councils from a financial planning perspective given the lack of consistent information on the potential or likely impacts of Brexit on the Autumn Statement.

#### 4.0 Budget Strategy Implementation

- 4.1 On the 23<sup>rd</sup> June 2016, Council was presented with updated financial planning scenarios and the realistic scenario is set out in Table 1 below. This forecasts an indicative cumulative funding gap of £18.1million up to 2019/20 and £7.4 million for 2017/18.

**Table 1: REALISTIC** Indicative budget Gap to 2019/20

	2017/18	2018/19	2019/20
	£000	£000	£000
<b>Net expenditure</b>	<b>118,572</b>	<b>122,837</b>	<b>126,873</b>
<b>Net Funding</b>	<b>111,190</b>	<b>109,950</b>	<b>108,750</b>
<b>Cumulative indicative Funding Gap</b>	<b>7,382</b>	<b>12,887</b>	<b>18,123</b>
<b>Indicative Annual Gap</b>	<b>7,382</b>	<b>5,506</b>	<b>5,236</b>

- 4.2 The key financial assumptions applied were:
- Cash reduction in General revenue Grant of 1.2% in 2017/18 and 1.9 % in 2018/19 and 2019/20
  - a 0% increase in Council Tax income in 2017/18 and an increase of 2% in

2018/19 and 2019/20

- pay inflation of 1% in all three years
- an allowance of £1.3m per annum for contractual inflation and £1.2m for general pressures in each of the three years.

4.3 Given the lack of additional information, the scenarios have not been significantly revised since the last update provided to Council. However, in the report on the 23<sup>rd</sup> June, assumptions were made in respect of council tax income and the potential to increase this by up to 3% in future years. The scenarios presented had treated this as income which could be used to offset general expenditure, though the point was highlighted that should this additional income be ringfenced in line with the Scottish Government's manifesto commitments, this position would not be sustained. Table 2 shows the revised position if assumptions of 0% additional council tax income are used. As previously indicated, this increases the indicative funding gap, resulting in a revised cumulative indicative funding gap of £18.9m up to 2019/20 and £7.4m in 2017/18.

**Table 2:** Indicative budget Gap to 2019/20 maintaining 0% increase in Council tax income (Realistic scenario)

	2017/18	2018/19	2019/20
	£000	£000	£000
<b>Net expenditure</b>	<b>118,572</b>	<b>122,837</b>	<b>126,873</b>
<b>Net Funding</b>	<b>111,190</b>	<b>109,572</b>	<b>107,986</b>
<b>Cumulative indicative Funding Gap</b>	<b>7,382</b>	<b>13,265</b>	<b>18,887</b>
<b>Indicative Annual Gap</b>	<b>7,382</b>	<b>5,883</b>	<b>5,622</b>

4.4 There is much more information required before the position can be forecast with any reliability. The Scottish Spending Review announcement and local government settlement announcement will now be simultaneous, and in December at the earliest. Budget preparation will be significantly progressed at this point meaning that it will be extremely challenging to forecast with any reliability the likely funding for 2017/18 as a minimum.

#### **Budget preparation**

4.5 Following the appointment of the new Administration in May, a new Strategy and Resources Group has been established comprising all members of the Administration, the Chief Accountant and chief officers. The forum considers key policy changes and their financial impacts and benefits. The group also receives regular updates on progress with implementing 2016/17 savings.

4.6 It is also intended that monthly briefings for all elected members and Trade Union representatives on Budget preparation and the development of Business case

proposals will continue, and these will be scheduled from the end of August 2016.

4.7 Work continues to monitor the implementation of 2016/17 agreed savings. Recent activity has suggested there is the potential for a shortfall in the delivery of savings at this point in the year. The reasons cited include: refusal of Targeted Voluntary Redundancy, change in circumstances since budget setting and greater than anticipated impacts on service users/ service delivery. The opportunity for elected members to scrutinize these variations in more detail is provided through routine financial monitoring information which will be presented to the Audit and Finance Committee. Executive Team has taken the following early action to improve on this situation:

- Met with each Head of Service to discuss compensatory savings
- Identified those areas where a partial saving is possible with remedial management intervention and giving rise to the potential for a consequential 2017/18 saving
- Set up challenge meetings between the Administration and each Head of Service
- Reviewed senior capacity to provide additional support in areas where significant savings can be delivered with additional leadership capacity and momentum.

4.8 Current management work to develop new Business Cases continues. Initial high level themes have been discussed with the Administration, alongside some specific proposals. It is intended that all elected members will receive an update on progress at the August briefing meeting.

4.9 The high level Indicative Budget Preparation timetable has been refreshed for the 2017/18 Budget setting round. This is set out at Appendix A. Given the uncertainty over the likely timing of the Scottish Spending Review and Local Government settlement announcements, timescales will be kept under review and any significant changes notified to Council as they are known.

### **Managed contraction in the cost of employment**

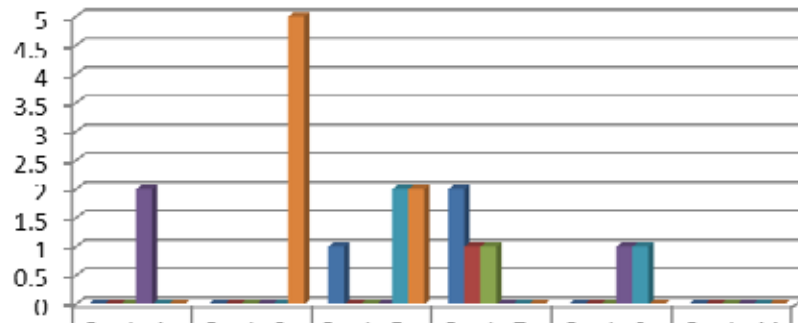
4.10 On the 14<sup>th</sup> July, senior management met with Trade Union representatives to progress formal discussions with trade union representatives in respect of maximising redeployment opportunities. The key points from this meeting were:

- Trade union representatives are broadly supportive of a position where a post is identified as being at risk, the member of staff is moved into redeployment as a result of redundancy;
- Both management and trade union representatives agree that a key objective is to maximise the redeployment opportunities for staff who hold posts identified as at risk;

- Management and trade union representatives share the view that where a member of staff is offered a 'suitable alternative employment' through redeployment, refusing an offer of 'suitable alternative employment' may impact on the rights to statutory redundancy pay if a member of staff unreasonably turns down suitable alternative employment;
- The definition of 'suitable alternative employment' will continue to be discussed between management and trade union representatives as part of ongoing discussions on Council Policy;
- There is a divergence of views between management and trade union representatives on what would happen at the end of the specified redeployment period;
- A further meeting is scheduled for the week commencing 1 August 2016. It is intended that at the meeting a formal documented management proposal will be discussed. This will take the form of revisions to the existing Redeployment Policy. This will then be considered by the Joint Trade Union Committee (JTUC) and consideration given to balloting trade union members;
- A staff consultation and ballot would take approximately one month; and
- A further update will be submitted to the September Council meeting.

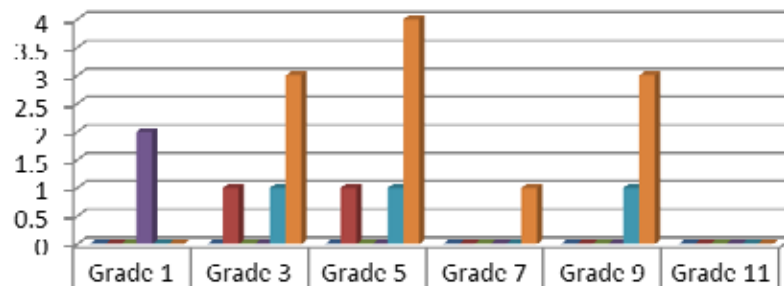
4.11 Since the last meeting of Council, almost all of the details on pension costs and entitlements have been received from Falkirk Pensions in respect of those staff who expressed an interest in Targeted Voluntary Redundancy (TVR). At present 55 TVR proposals have been approved by Executive Team for discussion with members of staff. These approved expressions of interest have now all been discussed with individual members of staff and this has resulted in 18 acceptances, 18 rejections and 19 staff remaining to advise of their intentions. A breakdown of the acceptances and rejections by service and grade is set out in Exhibits 1 and 2 below.

## Voluntary Redundancy - Acceptances



	Grade 1 2	Grade 3 4	Grade 5 6	Grade 7 8	Grade 9 10	Grade 11 -12
Development and Environmental	0	0	1	2	0	0
Education Services	0	0	0	1	0	0
Housing and Community Safety	0	0	0	1	0	0
Resources and Governance	2	0	0	0	1	0
Social Services	0	0	2	0	1	0
Strategy and Customer Services	0	5	2	0	0	0

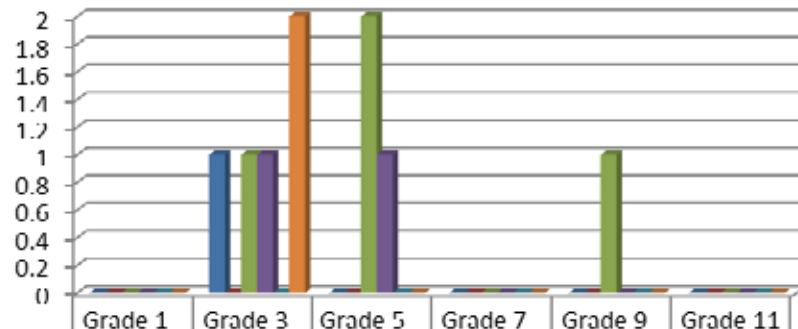
## Voluntary Redundancy - Declined



	Grade 1 - 2	Grade 3 - 4	Grade 5 - 6	Grade 7 - 8	Grade 9 - 10	Grade 11 - 12
Development and Environmental	0	0	0	0	0	0
Education Services	0	1	1	0	0	0
Housing and Community Safety	0	0	0	0	0	0
Resources and Governance	2	0	0	0	0	0
Social Services	0	1	1	0	1	0
Strategy and Customer Services	0	3	4	1	3	0

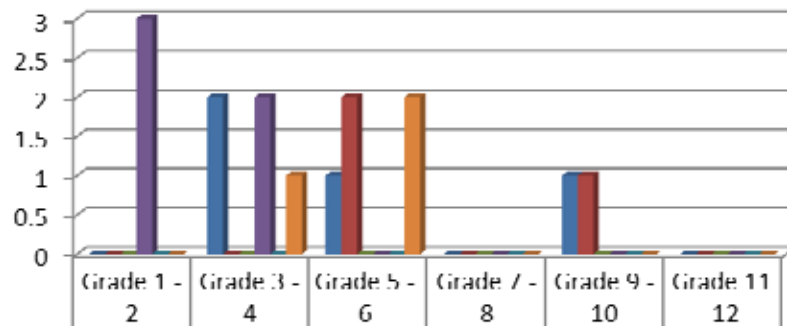
- 4.12 Now that the majority of TVR related pension details have been received, the next batch of forms (numbering 155) have been issued to Falkirk Pensions. These relate to expressions of interest in Voluntary Severance (VS). To date, 35 VS applications have been approved for discussion with members of staff and to date there have been 9 acceptances and 15 rejections. The breakdown of VS acceptances and rejections by service and grade are set out in Exhibits 3 and 4 below.

## Voluntary Severance - Acceptance



	Grade 1 - 2	Grade 3 - 4	Grade 5 - 6	Grade 7 - 8	Grade 9 - 10	Grade 11 - 12
Development and Environmental	0	1	0	0	0	0
Education Services	0	0	0	0	0	0
Housing and Community Safety	0	1	2	0	1	0
Resources and Governance	0	1	1	0	0	0
Social Services	0	0	0	0	0	0
Strategy and Customer Services	0	2	0	0	0	0

## Voluntary Severance - Declined



	Grade 1 - 2	Grade 3 - 4	Grade 5 - 6	Grade 7 - 8	Grade 9 - 10	Grade 11 - 12
Development and Environmental	0	2	1	0	1	0
Education Services	0	0	2	0	1	0
Housing and Community Safety	0	0	0	0	0	0
Resources and Governance	3	2	0	0	0	0
Social Services	0	0	0	0	0	0
Strategy and Customer Services	0	1	2	0	0	0

4.13 In summary, at this stage 55 TVR and 35 VS applications have been approved for discussion with members of staff. To date this has resulted in 27 acceptances (18 TVR and 9 VS) and 33 refusals (18 TVR and 15 VS). This would equate to annual savings of £435,475 of TVR savings and £195,423 VS savings. These annual savings will be delivered over two financial years (2016/17 and 2017/18) and the incidence of the savings will be dependent on confirmation of each individual member of staff's leaving date. This refined detail is currently being prepared to facilitate a comparison with the agreed 2016/17 budget savings of £1.154m and £400,000 for TVR and VS respectively.



- 4.14 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 appears unlikely that the full savings will be delivered, though this is being carefully monitored and prioritised to secure the maximum potential from those who have expressed an interest in VS or made an offer in respect of TVR.

## **5.0 Conclusions**

- 5.1 This report reviews the latest economic and fiscal outlook following the EU Referendum. It is clear that there is significant uncertainty and many conflicting views of the likely impacts and their associated timescales following the result.
- 5.2 The report highlights an immediate local impact of the Referendum as the deferred Scottish Spending Review and local Government settlement announcement. This is significant given the anticipation of yet unquantified and unspecified impacts arising from the Referendum result. It will be very late in the 2017/18 Budget preparation process before these details are available.
- 5.3 The report refreshes the previously reported 'realistic' financial planning scenario to demonstrate the impact of additional council tax income being ringfenced and not being available to fund general expenditure. This results in a revised cumulative indicative funding gap of £18.9m up to 2019/20 and £7.4 million in 2017/18.
- 5.4 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 high level indicative Budget preparation timescales.

## **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 Appendix A High level Indicative Budget Preparation timeline

### 13.0 Background Papers


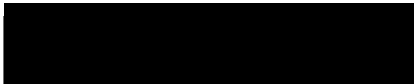
13.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Council Budget 2016/17	February 2016
Fiscal Affairs Scotland	June and July 2016
TVR/VS Clearing stage 3	June 2016
Public Finance, CIPFA CE	July 2016

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**APPENDIX A**

**Budget 2016/17 Key Milestones, timeline and outputs**

<b>Task/ milestone</b>	<b>Timing</b>	<b>Stakeholders/ attendees</b>	<b>Output</b>
Ts&Cs consultation	ongoing	TUs, Management. Led by Head of Resources & Governance (and Depute Chief Executive- redeployment and unsocial hours)	Proposals for efficiency/ redesign linked to MCB Ts& Cs proposals
2016/17 savings implementation Challenge Sessions	July and August 2016	Administration, Executive Team; Heads of Service; Chief Accountant, Team Leader (Accountant)	2016/17 Compensatory savings Change proposals New savings Proposals for new business cases Policy decisions Alternative delivery models
Administration political priorities	July 2016	Administration; Executive Team; CMT	Political priorities
HSCI Strategic Plan: Review of Priorities and Funding	August 2016	HSCI Chief Officer, IJB, Chief Executive, Leader and Depute Chief Executive, Chief Accountant	Preparation of HSCI Strategic Plan priorities linked to resource transfer Demand pressures
Elected Member Forum	August 2016 (monthly)	Elected members, Executive Team, Chief Accountant, Service representatives	Change Proposals, Business cases Elected member feedback
Trade Union Forum	August 2016 (monthly)	TU reps, Executive Team, Chief Accountant	Change Proposals, Business cases Feedback from TUs
Capital Bid process	Late August 2016	Capital Investment Group (officer operational group)	Draft capital bid preparation
CMT review and refresh of 'Plan B' proposals (in 2016/17 based on proposed reductions of 10%)	Late August 2016	Individual Service MT, Executive Team, Chief Accountant, Team Leader (Accountancy), Service Accountants;	Proposals for service reduction/alternative delivery models in respect of discretionary service

<b>Task/ milestone</b>	<b>Timing</b>	<b>Stakeholders/ attendees</b>	<b>Output</b>
and 15% of 2015/16 service budgets) and previously rejected business cases			provision and potential savings in respect of reduction in the level of statutory service performance standards.  Refreshed Business cases
Budget consultation: Outline approach internally and externally	August 2016	Head of Strategy & Customer Services, Depute Chief Executive, Team Leader (Communications), Chief Accountant	Consultation outline approach and action plan
Business case development	August and September 2016	Executive Team; Chief officers, Chief Accountant, Team Leader (Accountancy)	Business cases incorporating options appraisals; saving proposals, investment requirements and timescales.
Elected Member Forum	September 2016 (monthly)	Elected members, Executive Team, Chief Accountant, Service representatives	Change Proposals, Business cases  Capital Bid development  Elected member feedback
Trade Union Forum	September 2016 (monthly)	TU reps, Executive Team, Chief Accountant	Change Proposals, Business cases  Capital Bid development  Feedback from TUs
Capital Bid process	30th September 2016	Capital Investment Group	Draft capital bid schedule
Business case development	30th September 2016	Executive Team; Chief officers, Chief Accountant, Team Leader (Accountant), Service Accountants	Business cases incorporating options appraisals; saving proposals, investment requirements and timescales.
HSCI Resource	October 2015	HSCI Chief Officer, IJB,	Completion of draft

<b>Task/ milestone</b>	<b>Timing</b>	<b>Stakeholders/ attendees</b>	<b>Output</b>
Transfer		Leader of the Council and Depute Chief Executive, Chief Accountant	resource transfer figure linked to agreed Strategic Plan priorities
External consultation and engagement	September-December 2016	Head of Strategy & Customer Services, Chief Officers, Team Leader (Communications), Chief Accountant	Areas of business case development and emerging options Feedback
Capital Bid Corporate Round Table	31st October 2016	CMT, Executive Team, Chief Accountant	Draft Capital bids
Income and Charging Strategy Refresh	31st October 2016	Chief Accountant, Accountancy Team Leader, Chief Officers/ services	Income and Charging Strategy proposals/revisions
Demand Pressures	31st October 2016	Chief Accountant, Accountancy Team Leader, Chief Officers/ services	Collate draft demand pressures
Member dialogue on budget preparation (detailed evaluation)	October 2016 onwards	Administration and political grouping as appropriate	Indicative budget including necessary savings proposals, policy decisions and prioritisation
Elected Member Forum	October 2016 (monthly)	Elected members, Executive Team, Chief Accountant, Service representatives	Change Proposals, Business cases Capital Bid development Elected member feedback
Trade Union Forum	October 2016 (monthly)	TU reps, Executive Team, Chief Accountant	Change Proposals, Business cases Capital Bid development Elected member feedback
Draft Demand pressures review	November 2016	Executive Team	Refined schedule of demand pressures, clarification query schedule
Income and Charging Strategy Refresh	30th November 2015	Chief Accountant, Team Leader (Accountancy)	Refreshed Income and Charging Strategy scenarios
Elected Member	November 2016	Elected members, Executive	Change Proposals,

<b>Task/ milestone</b>	<b>Timing</b>	<b>Stakeholders/ attendees</b>	<b>Output</b>
Forum	(monthly)	Team, Chief Accountant, Service representatives	Business cases Capital Bid development Elected member feedback
Trade Union Forum	November 2016 (monthly)	TU reps, Executive Team, Chief Accountant	Change Proposals, Business cases Capital Bid development Elected member feedback
Capital Bids: Consultation	Mid-December 2016	Capital Investment Group and Elected Member and Trade Union Forum	Finalised capital bids
HSCI Resource Transfer	Mid December 2016	HSCI Chief Officer, IJB, Leader of the Council and Depute Chief Executive, Accountant	Resource transfer position consolidated for integration with Council budget
Elected member Forum	December 2016	Elected members, Executive Team, Chief Accountant, Service representatives	Indicative potential savings Draft capital bid proposals Elected member feedback
Trade Union Forum	December 2016	TU reps, Executive Team, Chief Accountant	Indicative potential savings Draft capital bid proposals Feedback from TUs
Finalise demand pressures	Mid December 2016	Executive Team	Finalised demand pressures to incorporate within budget
Income and Charging Strategy	Mid December 2016	CMT, Chief Accountant	Finalised schedule of charges and refreshed Strategy.
Consultation	December and January 2016	Head of Strategy & Customer Services, Depute Chief Executive, Team Leader (Communications), Chief	Aggregated Consultation responses from stakeholders for

Task/ milestone	Timing	Stakeholders/ attendees	Output
		Accountant	inclusion in the Budget
Pre consultation draft Budget	December 2016	Administration, Depute Chief Executive, CMT, Chief Accountant	Draft Budget subject to consideration of consultation responses.
<b>Budget setting</b>	<b>By end of January 2016</b>	<b>Special Council</b>	<b>Final Budget</b>

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

