

CLACKMANNANSHIRE COUNCIL

Report to Council

Date of Meeting: 28th June, 2017

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 approved Budget Strategy. This report also provides an update on the fiscal outlook, the UK Chancellor's March Budget, medium term financial planning forecasts and implementation of the 2017/18 Budget, agreed in March 2017.

2.0 Recommendations

2.1 It is recommended that Council notes:

- a. the fiscal outlook and information on the UK and Scottish Budgets set out in Section 3
- b. the refreshed financial planning assumptions and resulting High, Median and Low financial planning scenarios (Exhibits 3 to 6)
- c. progress with the implementation of 2017/18 Budget savings (Appendices A to C and paragraphs 4.5 to 4.8)
- d. progress with regards the implementation of workforce related savings in 2017/18 in respect of Targeted Voluntary Redundancy (paragraphs 4.9 to 4.11)
- e. budget preparation activity (paragraph 4.12).

3.0 Fiscal outlook

3.1 There have been several briefings prepared by Fiscal Affairs Scotland since the preparation of the Council's Budget for 2017/18. This report covers the following:

- Brexit impacts update
- UK Government Budget 2017
- Scottish Budget considerations
- Accounts Commission report: 'Local government in Scotland- Performance and

challenges 2017'.

- 3.2 A key economic variable is the impact of Brexit on the UK economy. Thus far, the impact has been muted if the initial impacts on exchange rates are put aside. However, it is still very early in the process and it remains likely that uncertainty will continue to prevail until Brexit actually commences in more practical terms, though the timescales for this remain uncertain too.
- 3.3 In February 2017, the Office for National statistics (ONS) reported UK price inflation of 2.3% which is above the Government's 2% target for the first time since September 2013. Future inflation rates are difficult to predict. However, it is clear that Brexit and the consequential devaluation of the pound have made imports more expensive. As a consequence, there is economic evidence to suggest that businesses have been passing on some of their increased costs to consumers. These conditions suggest that inflation is likely to increase further during 2017.
- 3.4 As well as the potential impact on the prices of procured and commissioned goods and services, further increases in inflation also has implications for future wages. After a period of low wage increases for a number of years, particularly in the public sector, it is likely that workers, through pay negotiations, will be seeking higher wages to compensate for increasing prices.
- 3.5 The UK Government's Budget for 2017/18 was published on 8th March. This is the last planned UK Budget in March. From now on there will only be one (Autumn) Budget each year, and this is likely to be in November.
- 3.6 The Office for Budget responsibility (OBR) forecasts that:
- the UK economy will grow at a faster pace in 2017/18, offset by slower growth thereafter
 - public finances have improved during 2016/17 but largely due to one-offs rather than fundamental reprioritisation
 - the UK Government has still not met its target of a balanced budget by 2021/22 and there are suggestions that more difficult decisions are to come.
- 3.7 As a consequence of the UK Government Budget, Scotland will receive an extra £350 million in Barnett consequentials and the medium term profile of this additional funding is set out in Table 1 below.

Table 1: Barnett Consequential's from UK Budget 2017, £ million

	2017-18	2018-19	2019-20	2020-21	Total
Resource	21	22	24	23	90
Capital	124	85	51	-	260
Total	145	107	75	23	350

Source: SPICe

Much of this additional funding relates to schools and social care which are administered by local government in Scotland. However, it is for the Scottish Government to prioritise where any additional funding will be invested and to date local government has featured as an 'Unprotected Budget' in the wider public sector.

3.8 Scottish economic performance has been weaker when compared with the UK as a whole. In 2016, the Scottish economy grew by 0.4% compared with 1.8% in the UK as a whole. This in turn suggests a poorer short to medium term economic outlook for Scotland, largely down to a poorly performing economy resulting in lower tax revenues with a consequential knock on impact of lower public spending.

3.9 Some of the key uncertainties for the Scottish local government outlook relate to:

- whether Business rates income will make a positive contribution to LG budget. It seems more likely should relatively poorer economic growth continue in Scotland, that there will be a low or negative contribution to the Budget.
- the extent to which Council Tax levels will/ can be used locally to increase income for public spending
- the relative profile of local government in settlement negotiations and the potential impact of further political lobbying to protect local government settlements for future years
- any potential changes in the control of education and social work budgets.

3.10 The next Scottish Budget seems likely to be a one year settlement which makes it difficult to undertake medium term financial planning and get a clearer sense of the Scottish Government's spending priorities. Post Brexit, there will need to be a revised UK Spending Review. This will, in particular need to consider the budgets associated with returned spending areas such as Agriculture and Regional Assistance. From a Scottish perspective, many of these returned powers may become the responsibility of the Scottish Parliament.

3.11 On 7 March 2017, the Accounts Commission published its report: 'Local government in Scotland- Performance and challenges 2017'. The report emphasises three key areas:

- the scale of long term decline in revenue funding over time
- the variation in funding and performance across Scottish councils
- the need for clear priorities, supported by long term strategies and medium term plans covering finances, services, performance and workforce.

3.12 The Accounts Commission report highlights a 9.2% real terms reduction in total revenue funding for LG between 2010/11 and 2017/18. This overall reduction is made up of a 16.3% reduction in revenue grant funding, offset by a 16.5% increase in Non domestic Rates Income (NDRI). It should be noted that the positive contribution of NDRI over this period is unlikely to be sustained for the future as recent years have seen the level of income reducing.

4.0 Budget Strategy Implementation

4.1 On the 27th March 2017, the Council approved its budget for 2017/18. At that time, Council was also provided with updated details of the indicative funding gap for three years from 2018/19. This information is reproduced at Exhibit 2 below and shows an indicative funding gap of £13.7 million for 2018/19 and a cumulative gap of £28.5 million over the three year period to March 2021.

Exhibit 2: General Services Budget 2018/19-2020/21 Indicative funding gap

	2018/19	2019/20	2020/21
	£000	£000	£000
Net expenditure	123,859	128,424	133,014
Net Funding	110,190	107,230	104,450
Cumulative indicative Funding Gap	13,669	21,194	28,564
Annual indicative Funding Gap	13,669	7,525	7,370

4.2 The main assumptions included within Exhibit 2 are as follows:

- a 1% increase in the level of Council Tax in each year
- 1.25% pay inflation in each year
- cash reduction in General Revenue Grant of 5% in each year
- that the additional £1.217 million received for 2017/18 has not at this stage been baselined
- recurrent share of £250 million additional social care funding now baselined each year

- maintenance of the commitment to implement Minimum Living Wage.

4.3 As previously provided to Council the fuller range of financial scenarios have been refreshed based on a High, Medium and Low impact categorisation. Whilst it is unlikely all key financial planning variables will fall neatly into a single category, the scenarios provide a useful indication of the potential range of likely outcomes for financial planning purposes. Exhibit 3 summarises the underpinning assumptions for each of the three scenarios.

Exhibit 3: Financial Planning Scenarios: Assumptions for 2018/19 to 2020/21

	Low	Medium	High
General Revenue Grant Reduction	3%	5%	7%
Council Tax	0%	2%	3%
Non-Domestic Rates Income	3.5%	0%	-3.5%
Additional share of £130m revenue	100%	50%	0%
Pay award (teaching and non-teaching staff)	1%	1%	1.25%
Demand pressures (General and contract inflation)	£2.5m	£3.5m	£4.0m
Fees and charges	1%	2%	3%

4.4 The application of these assumptions results in the three scenarios summarised in Exhibits 4 to 6 for High, Median and Low impact categorisations respectively. These scenarios result in a range of potential indicative funding gaps from £10.5 million to £16.6 million for 2018/19 and £21.2 million to £36.2 million for the three years cumulatively to March 2021. It is considered prudent to plan for the High scenario outcome, though in practice the Median scenario is typically used as the most likely/realistic outcome.

Exhibit 4: HIGH SCENARIO: Indicative funding gap 2018/19 to 2020/21

Year	2018/19	2019/20	2020/21
Net expenditure	125,296	130,798	136,326
Net funding	108,675	104,204	100,093
Annual Indicative funding gap	16,621	9,973	9,639
Cumulative Indicative funding gap	16,621	26,594	36,233

Exhibit 5: MEDIAN SCENARIO: Indicative funding gap 2018/19 to 2020/21

Year	2018/19	2019/20	2020/21
Net expenditure	124,624	129,447	134,286
Net funding	111,006	108,059	105,289
Annual Indicative funding gap	13,618	7,770	7,609
Cumulative Indicative funding gap	13,618	21,388	28,997

Exhibit 6: LOW SCENARIO: Indicative funding gap 2018/19 to 2020/21

Year	2018/19	2019/20	2020/21
Net expenditure	123,645	127,489	131,349
Net funding	113,129	111,592	110,136
Annual Indicative funding gap	10,516	5,381	5,316
Cumulative Indicative funding gap	10,516	15,897	21,213

Implementation of 2017/18 Budget

- 4.5 The delivery of savings approved in the 2017/18 budget is being closely monitored. This is particularly important, given the more challenging experience of the Council in delivering its 2016/17 budget savings, and the potential scale of the indicative funding gap for 2018/19.
- 4.6 Detailed information on delivering the Council's General Services and Housing Revenue Account revenue and capital budgets will continue to be provided in the Council's corporate monitoring outturn reports. However, this report focuses on the implementation of Council approved savings. To obtain the full picture it is necessary to consider these two sources in parallel.
- 4.7 Progress in delivering approved savings is summarised in paragraph 4.8, and Appendices A, B and C provide additional detail in relation to policy savings, management efficiencies and the delivery of savings previously agreed in 2016/17 respectively. The Appendices provide a Red, Amber or Green flag which denotes:
- RED: Not implemented/ not possible to implement
 - AMBER: Work progressing to implement saving/ partial saving
 - GREEN: Saving implemented in full/ anticipated to be implemented in full.

Commentary is also provided for all Amber and Red flagged savings to provide further explanation of current progress for elected members.

4.8 To date a total of £2.6m (44%) of the £5.95m approved saving figure is on track to be delivered in full (Green) and a further £3.1m (52%) of savings where work is progressing to implement saving/ or a partial saving will be delivered (Amber). This leaves £0.25m (4%) of savings which are being forecast as unachievable (Red). The progress with delivering these savings will continue to be monitored especially in the case of Amber classified savings, where partial achievement of savings can only be quantified with greater certainty for future outturns. Officers are also endeavouring to find compensating savings wherever agreed savings are now forecast as unachievable. Summarised details of progress set out in Appendices A, B and C is as follows:

- 29% (£552K) of policy savings have been/ are expected to be implemented in full **(Green Appendix A)**
- 54% (£1.484m) of management efficiencies have been/ are expected to be implemented in full **(Green Appendix B)**
- 44% (£558k) of 2016/17 savings have been/ are expected to be implemented in full **(Green Appendix C)**
- 71% (£1.379m) of policy savings are in the process of being implemented and/ or will result in a partial saving **(Amber Appendix A)**
- 46% (£1.253m) of management efficiencies are in the process of being implemented and/ or will result in a partial saving **(Amber Appendix B)**
- 36% (£452k) of 2016/17 savings are in the process of being implemented and/ or will result in a partial saving **(Amber Appendix C)**
- 0% (£0) of policy savings have not been implemented and/ or will not be possible to implement **(Red Appendix A)**
- 0% (£0) of management efficiencies have not been implemented and/ or will not be possible to implement **(Red Appendix B)**
- 20% (£253k) of 2016/17 savings have not been implemented and/ or will not be possible to implement **(Red Appendix C)**.

Managed Contraction in the Cost of Employment

4.9 Another significant focus of review activity is the monitoring of progress with regards the implementation of Targeted Voluntary Redundancy (TVR) savings. The budget incorporated savings of £391k which has at this stage resulted in a potential impact for 75 members of staff (this includes both staff approached as part of a pool as their role has been identified as 'at risk' and individual members of staff within specified roles that are not part of a pool).

4.10 To date the following progress has been made:

- 62/ 75 affected members of staff received personal letters and met with their managers to discuss the offer of TVR with the balance of staff discussions delayed due to annual leave, absence or further work being needed to confirm staff in the 'pool'.
- 3/75 members of staff have accepted the offer of TVR
- 34/75 members of staff have either rejected or not taken up the offer of TVR
- 25 staff are awaiting further information on their individual offer (from Falkirk Pensions)
- vacancies are being scrutinised to maximise the potential pool of roles available to staff who are placed on redeployment
- a number of other temporary roles have been identified for staff on redeployment.

4.11 In addition the budget included £463k from service redesign. To date, £278k has been or is projected to be achieved based on vacancies and/or take up of voluntary redundancy. The achievement of the balance of £185k savings is dependent on further interest and/or take up of VR or vacancies.

Budget preparation 2017/18

4.12 Work is also progressing to develop the Council's proposed Budget for next year, though at this stage, this has been primarily officer driven whilst the new Council has been formed post the May 2017 Local Government elections. Work will continue through the summer, prioritising the necessary political input and direction to further develop the strategy and approach. It is intended that the next Budget Strategy report will set out the high level Budget preparation timetable.

5.0 Conclusions

5.1 This report provides an update on the fiscal outlook, impact of the UK and Scottish Budgets and details of the Accounts Commission's 'Local Government Performance and Challenges 2017' report.

5.2 On the basis of this wider fiscal and economic update, Council is also presented with refreshed financial planning assumptions and recalculated High, Medium and Low impact financial planning scenarios.

5.3 The report also provides a summary of progress in implementing the 2017/18 Budget savings approved by Council at the end of March 2017. These savings include those for TVR as part of the Council's ongoing aim to deliver a managed contraction in its costs of employment.

6.0 Sustainability Implications

6.1. N/A

7.0 Resource Implications

7.1 Financial Details

7.2 Accountancy has been consulted and has agreed the financial implications as set out in the report.

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)

Budget 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

Appendix A 2017/18 Schedule of policy saving proposals

Appendix B 2017/18 Schedule of management efficiencies

Appendix C 2017/18 savings approved in 2016/17

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 2017/18 March 2017

Author(s)

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

Approved by

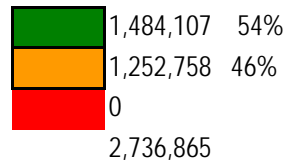
NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Depute Chief Executive	
Elaine McPherson	Chief Executive	

Covalent Code (Reference)	Saving Description	Year One Saving (201718)	RAG	Service Comments for REDs & AMBERS
SW 178 001	Respite care for adults	50,000	G	
SW 178 002	Adult social work	542,000	A	Proceeding. Review activity underway. Can be impacted by unforeseen changes in demand for services.
	Childrens Social Work	150,000	A	Proceeding - can be impacted by unforeseen events; plans in place for a further 3 young people to return from high cost placement home.
DAE 178 011	Review of Council Depots	135,000	A	Delay in implementing contracts. Service reviewing options.
DAE 178 004	Street Lighting	110,000	A	Slightly behind planned implementation due to supplier issues so will achieve £82,500. Service pursuing compensatory options for the remainder.
DAE 178 001	Glenochil Prison Partnership Working.	6,000	A	Reallocated to KI. SCO has met with Glenochil Governor. Scope of work being developed to take this forward.
HCS 178 001	B&B Places	78,000	G	
HCS 178 008	Harmonise TU facilities time	11,236	G	
EDU 178 005	School crossing patrols	2,789	G	
EDU 178 006	Sports Development Charges (academic year)	18,750	G	
EDU 178 011	Music Tuition Fees	2,818	G	
EDU 178 006	School efficiencies	200,000	G	
COU 178 013	Capital Programme	129,000	G	
COU 178 019	Refresh Income and Charging Strategy and Rates	60,000	G	
RAG 178 006	School meals	12,000	A	Implemented but saving may be impacted if take-up of school meals is reduced.
MCB RAG 039	Review of working week, role flexibility and other terms and conditions	363,000	A	Unsocial hours expenditure in 2016/17 was approx. £320k indicating potentially lower saving value. Council will have to dismiss and re-engage staff.
SCS 178 001	Review and target funding to voluntary organisations	37,500	A	Working group set up, CTSI & procurement manager included. Specific savings have now been identified - issue with IJB overlap, now resolved. Currently working through impacts and procurement issues - remain confident that saving will be achieved,.
MCB SCS 006a	Roll out of hub model:Community and leisure Facilities	23,000	A	Working group set up to progress. Design and timeline issues being worked through. There will be a need for community engagement.
		1,931,093		

	552,593
	1,378,500
	0
	1,931,093

Covalent Code (Reference)	Saving Description	Year One Saving (201718)	RAG	Service Comments for REDs & AMBERs
HCS 178 003	Housing Budget realignment	53,543	G	
HCS 178 004	Staffing: Housing	46,128	G	
HCS 178 005	Housing budget realignment	600,000	G	
HCS 178 006	Housing Staffing costs	29,000	G	
HCS 178 007	CCTV	15,000	G	
HCS 178 008	Budget realignment (assets)	67,000	A	Implemented. However full year saving value may be impacted by the work undertaken during the year- currently being monitored via time recording.
DAE 178 002	Environmental Health efficiencies	10,000	G	
DAE 178 003	Trading Standards efficiencies	8,000	G	
DAE 178 005	Fleet Review	83,720	G	
DAE 178 010	Review of Street Care	12,280	G	
DAE 178 023	Business Loans fund	40,000	G	
DAE 178 015	Waste treatment and refuse collection	110,000	A	Saving based on historic trend data and projections. Team Leader monitoring actual vs forecast position during year..
DAE 178 020	Standby for School Alarms	20,000	A	Delay in implementation due to staff absence. Interim staff cover being recruited.
DAE 178 018	Catering Service efficiency and income	300,000	G	
DAE 178 009	Building Standards Efficiencies	59,594	G	
DAE 178 013	D&E Vacancy management	70,000	G	
DAE 178 014	Storage lease (Meals on Wheels)	8,000	G	
DAE 178 016	Modern Apprentice	40,000	G	
COU 178 017	Business process efficiencies	200,000	A	Scope agreed focussed on income maximisation and commissioning and procurement efficiencies. Project lead to be identified
EDU 178 017	Education staff budget	605,758	A	Revised secondary school management structures have been agreed. Discussions are ongoing with staff in central education team about changes in structure
SCS 178 002	Strategy & Customer Services vacancy management	11,242	G	
SCS 178 003	Strategy & Performance grant finder	3,600	G	
RAG 178 001	Technology efficiency	40,000	G	
RAG 178 002	Training Budget	30,000	G	

RAG 178 003	Voluntary Severance	250,000	A	This is corporate saving and will come from approved VSs in all services not already provided for in agreed savings. VS is still open to any staff coming forward. Relaunch of VS under MCB workstream will take place by June 30th
RAG 178 004	Flexible working	20,000	G	
RAG 178 005	External Audit Fee	4,000	G	
		2,736,865		



BUDGET SAVINGS 2017//18 YEAR 2 APPROVED IN 2016/17 APPENDIX C

Service	2017/18 Saving £	2017/18 Saving Green £	2017/18 Saving Amber £	2017/18 Saving Red £
Resources & Governance	398,953	49,541	174,028	175,384
Development & Environment	430,038	224,286	155,590	50,162
Housing & Community Safety	55,587	55,587		
Strategy & Customer Services	127,138	83,966	43,172	
Social Services	192,293	122,651	58,809	10,833
Education	58,073	21,500	20,210	16,363
TOTAL	1,262,082	557,531	451,809	252,742

