

CLACKMANNANSHIRE COUNCIL

Report to Council

Date of Meeting: 31 August 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 provides an update on the fiscal outlook and focuses on the Budget 2018/19 preparation process and timetable.
- 1.2. Importantly, at the start of the new Council, the report summarises some key financial planning messages, it details the progress made to date, alongside plans and areas for improvement and aims to facilitate Council decision making for the future.

2.0 Recommendations

- 2.1 It is recommended that Council notes:
- a. the fiscal outlook and information on the UK election outcome impacts set out in paragraphs 3.1 to 3.4
 - b. the key messages from the three CIPFA Insight papers on medium term financial planning, financial resilience and balancing local authority budgets set out in paragraph 3.7, 3.10 and 3.14
 - c. Council's progress in implementing initiatives in support of medium term financial planning and financial resilience (paragraphs 3.8, 3.11 and 3.12)
 - d. key next steps/actions required to further refine and develop key corporate and financial strategies in support of medium term planning (paragraphs 3.9 and 3.12)
 - e. the high level budget preparation timetable based on a budget being agreed during February 2018
 - f. the arrangements in respect of elected member, trade union representative, stakeholder and staff consultation (paragraphs 4.3 to 4.5)
 - g. the updated *Taking Clackmannanshire Forward Framework* which further develops the approved *Making Clackmannanshire Better* approach (Appendix B).

3.0 Fiscal outlook

- 3.1 The June 2017 Fiscal Affairs Scotland briefing focuses mainly on the Brexit, economic and fiscal implications of the UK election result.
- 3.2 The paper suggests that a 'soft' Brexit now seems more likely than pre election. Additionally concerns over prospective staff shortages in areas like the NHS may lead to a softening in the UK Government's immigration approach. For example, new figures show a decline of 96% in the number of nurses from the EU, registering to practice in the UK in 2016. There are currently almost 40,000 EU nurses on the UK register, which is up from 10,000 in 2010, and the Health Foundation estimate is that there is already a shortage of 30,000 nurses in England alone.
- 3.3 Following the UK General Election, the value of Sterling initially fluctuated before settling with an overall slight fall in value. However, other key economic indicators such as inflation have shown more movement. In the 12 months to April 2017, there was a rise in UK inflation to 2.7% and this is partly attributed to Brexit. This led to the Bank of England's Monetary Policy Committee (MPC) only narrowly voting against raising interest rates. Such a close vote suggests that caution is required as City analysts had recently predicted that it was unlikely that the MPC would raise rates before 2019.
- 3.4 Most commentators have reacted to the election result by suggesting that future UK fiscal plans will be looser than at present. However, the degree to which this materialises remains uncertain. At present, some future UK budget cuts remain undefined and it has been suggested that these may be dropped. In order to continue budget rebalancing, future increases in taxation may be required.
- 3.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) regularly produces its Insights reports which aim to provide detailed commentary and analysis on current issues and developments affecting public sector financial management and governance. As Council steps up its Budget preparation arrangements for 2018/19 budget setting, the key messages from three key papers have been summarised to provide context and assistance to Council in the next budget setting round. An indication of the Council's progress against some of these issues is also provided. The three CIPFA Insight papers are as follows:
 - **Looking Forward:** Medium-term financial strategies (MTFS) in the public sector
 - **Building Financial Resilience:** managing financial stress in local authorities
 - **Balancing Local Authority Budgets.**

These papers have been provided as background papers to all elected members ahead of this meeting.

- 3.6 The **Looking Forward** paper describes the now familiar public sector context of reductions in funding settlements since 2010 and the ever increasing challenge that is now evident in respect of balancing council budgets.
- 3.7 CIPFA recognises the following key attributes of effective medium term financial planning:
 - both revenue and capital investment should be driven by the MTFS and aligned with clearly stated strategic planning ambitions and priorities

- whilst the timescale for MTFS will to some extent be dependent on the operating environment of the individual organisations, they are typically 3 years with a detailed annual budget and/or three year rolling budget plans
- the budget will be balanced, in that expenditure matches resources plus any planned borrowing or use of reserves
- stakeholder consultation is a key aspect of strategic planning
- the underlying demand for services is forecast within the context of currently agreed policies and reflected in clear service plans
- effective public financial management is one part of good governance by which financial resources are planned and controlled to enable and influence the efficient and effective delivery of public service goals.

3.8 The Council is making progress with embedding its medium term financial planning approach. This progress is summarised against some of the key factors highlighted by CIPFA as follows:

- a three year medium term strategy is regularly refreshed for Council using scenario planning based on a range of key financial planning assumptions
- the indicative gap for each financial year is presented alongside options for redesign, budget efficiencies and the current reserves position
- each Council meeting receives a report updating on the latest position
- aligned revenue and capital budgets have been prepared in respect of both General Services and the Housing Revenue Account for a number of years with the aim of providing a more holistic approach to financial planning for services and guiding decisions about savings and investment priorities
- significant investment has been made in improving stakeholder consultation over a number of years using different approaches. The outputs of the consultation exercises are provided to all elected members ahead of taking decisions at budget setting. Consultation feedback has also been used to tailor proposed options submitted to Council, for instance the development of the hub model
- a key focus of attention has been on improving forecasting for significant services such as Social Services which has experienced significant overspends. A one off zero based exercise was undertaken to realign the budget with forecast demand. However, work is also in hand to procure a new Social Work Case Management system to improve the management information and reporting facilities available to the service and accountants in supporting the service. It is anticipated that this will improve the ability to track and forecast demand in the service
- work continues with the aim of improving financial governance across the Council with the support of elected members through the Committee system. A new finance system has been implemented which improves many historic

control environment weaknesses with respect to the purchase and authorisation of goods and services. With the establishment of the new Council, all major financial policies are also scheduled for refresh which will also allow for the changes in arrangements made as a consequence of the new system implementation, to be reflected.

- 3.9 The key action/next step for the Council is to refine and develop plans already approved by Council to undertake a corporate redesign. As the details of this are further developed and agreed, it will be possible to populate key plans such as the MTFs and the Workforce Strategy with the explicit objectives, priorities and structures required to operationalise the Council's ambitions. These plans have the aims of developing better, more integrated and cost effective services within the available resources. This is a critical step for the Council, requiring potentially challenging decisions about the relative priority of individual services and options for new ways of delivering services. It is intended that the developing plans and priorities will also be reflected into the planned refresh of the Council's Corporate Plan, *Taking Clackmannanshire Forward*.
- 3.10 CIPFA's **Building Financial Resilience** paper reaffirms the local government operating context and the need for difficult decisions to be made. Additionally, it indicates that these decisions will be taken locally and that these difficult choices are facing every local authority. The paper also highlights:
- the warning signs of financial stress as: running down reserves; failure to plan and deliver savings; a reduction in the medium-term planning horizon; greater 'still to be found gaps' on savings plans; a growing tendency for unplanned overspends and/or carry forward of undelivered savings
 - the need to focus on delivering medium term savings rather than the 'annual gap'
 - the importance of aligning capital and revenue to ensure the impact of decisions is known and understood
 - the need to plan savings over at least three years to allow for policy decisions to be agreed and delivered
 - the need for 'honesty' about the organisational capacity and capability to deliver transformative results, including project management capacity
 - the potential for an 'optimism bias' around the terminology of transformation and the need for clear communication with local people about the nature of changes and what it will mean for them.
- 3.11 The Council is exhibiting many of the warning signs of financial stress as defined by CIPFA. These have been regularly reported to Council and Committees, for instance failing to deliver planned savings, unplanned overspends, carrying forward undelivered savings and an increasing future years' funding gap.
- 3.12 Critical to the management of this position, is the development of the detailed proposals supporting organisational redesign which will provide corporate priorities and the detailed programme of activity from which key strategic plans such as the

MTFS can be further refined. A key part of this programme is the need to involve and engage service users, communities, partners and our staff in the identification and implementation of the changes required.

- 3.13 CIPFA's paper on **Balancing Local Authority Budgets** suggests that a prudent definition of a sustainable balanced budget for local government would be:

"A financial plan based on sound assumptions which shows how income will equal spend over the short and medium term"

The paper is based on round table discussions with many local government chief financial officers who have been highlighting increasing concerns about the ability to fund services in the coming year(s).

- 3.14 The paper reflects many of the messages of the two previously quoted papers. Additionally CIPFA states that:

- the best local budget plans are those owned and articulated by the whole council and its senior leadership, not simply the CFO.....everyone has a role to play
- Financial crises do not appear overnight. What may start as a small problem, can worsen as a result of a combination of factors including:
 - Denial
 - overly short term tactics
 - overly optimistic longer term solutions
 - insufficient monitoring
- There are over 1,000 statutory duties for a local authority to carry outsome of these duties are purely administrative and would have little impact on the lives of the ratepayers but provide important functions around governance, accountability and transparency. Others, such as the provision of care for children, are high risk and form the basis of citizen's expectations of the state
-very few of these statutory duties are prescribed in detail in the legislation and this is where there is flexibility for local authorities to consider how local services are delivered
- A lower cost service does not always equate to the minimum level of provision for statutory services
- In....local government, it may be the robustness of the cost savings plan that will ultimately determine a balanced budget. For some councils income generation plays a more important role, although the amount of income that is generated can vary.

- 3.15 These messages are not new- they have been presented and debated many times by

Council and in elected member forums and briefings. However, at the start of the new Council, summarising these key messages, and the progress made to date alongside plans and areas for improvement aims to better support the critical decision making which is likely to be undertaken by Council in the near future.

4.0 Budget Strategy Implementation

4.1 At the June meeting of Council, refreshed financial planning assumptions and scenarios were presented. There has been no new information since that update, therefore, the forecast remains as previously reported. Exhibit 1 shows the median scenario which indicates a funding gap of £13.6m for 2018/19 and £28.9m for the three years cumulatively to March 2021.

Exhibit 1: 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

Budget preparation 2018/19

4.2 Work is also progressing to develop the Council's proposed Budget for next year. Appendix A sets out the high level budget preparation timetable. Based on the experience of recent years, the timetable is based on a budget being presented to Council for approval in February 2018.

4.3 The Budget timetable also includes a significant range of consultation activity. It is proposed that monthly member meetings will take place as in previous years. The first of the substantive meetings is scheduled for the end of September. At this point a first tranche of feedback will have been collated from services in respect of:

- compensating savings for 2017/18 where previously approved savings have been identified as unachievable
- confirmation of 2017/18 'year 2' savings which will deliver a benefit in 2018/19 budget alignment efficiencies
- budget efficiencies based on current and forecast activity
- areas for potential redesign/ options appraisal.

- 4.4 In addition to the routine meetings which start in September, an initial *Taking Clackmannanshire Forward* briefing took place prior to this Council meeting on the 29th August. This meeting summarised the TCF objectives, priorities and processes which are based on, and further develop, the agreed *Making Clackmannanshire Better* Framework (Appendix B).
- 4.5 Consultation meetings are also scheduled to take place on a bi-monthly basis with trade union representatives. Staff and stakeholder engagement will be scheduled on a case by case basis i.e. as early as possible in the formulation of options to ensure that consultation is specific, targeted and relevant.

5.0 Conclusions

- 5.1 This report provides an update on the fiscal outlook following the recent UK election. Commentators are currently forecasting a potential softening of the UK Government's approaches to both Brexit and austerity, though this has yet to crystallise.
- 5.2 The report is focused on the work that is required to prepare the Council Budget for 2018/19 and beyond. To assist and support the new Council in this process, a range of key messages have been summarised in respect of CIPFA recommendations on effective financial planning and resilience. A brief summary of how the Council compares with these recommendations is also provided, alongside detail on the key actions and next steps that are required to improve on current approaches and arrangements.
- 5.3 The report also provides details of the key consultation forums to take forward Budget preparation. These arrangements largely reflect those in place in previous years.

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 Budget 2018/19 Key milestones, timeline and outputs

Appendix B Taking Clackmannanshire Forward Framework

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
Fiscal Affairs Scotland	June briefing
CIPFA Insights	Looking Forward
CIPFA Insights	Building Financial Resilience
CIPFA Insights	Balancing Local Authority Budgets

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Nikki Bridle	Depute Chief Executive	01259 452373

Approved by

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

APPENDIX A

Budget 2018/19 Key Milestones, timeline and outputs

Task/ milestone	Timing	Stakeholders/ attendees	Output
Ts&Cs consultation	ongoing	TUs, Management. Led by Head of Resources & Governance	Proposals for efficiency/ redesign linked to MCB Ts& Cs proposals
2017/18 savings implementation	Outturn monitoring ongoing	Administration, Executive Team; Heads of Service; Service Management Teams/ Budget holders; Chief Accountant, Team Leader (Accountant)	2017/18 Outturn position Compensatory savings as required
Administration vision and political priorities	July and August 2017	Administration; Executive Team; CMT	Vision Political and priorities
Collation of tranche 1 efficiencies and redesign options	July and August 2017	Executive Team; Chief officers; Service Management Teams; Chief Accountant, Team Leader (Accountancy)	Tranche 1 Efficiency savings Tranche 1 Budget realignment Tranche 1 areas for Business cases
Corporate Management Team Strategic Workshops	August 2017	CMT	Redesign options and models Vision and values refinement
Making Clackmannanshire Better briefing	August 2017	All elected members, Executive Team	Reaffirmation of objectives, principles and processes
HSCP Strategic Plan: Review of Priorities and Funding	September 2017	HSCI Chief Officer, IJB, Chief Executive, Leader and Depute Chief Executive, Chief Accountant	HSCI Strategic Plan priorities linked to resource transfer and savings requirement Demand pressures Service/ locality impact assessment
Elected Member Forum	September 2017 (monthly)	Elected members, Executive Team, Chief Accountant, Service representatives	Change Proposals, Business cases Elected member feedback

Task/ milestone	Timing	Stakeholders/ attendees	Output
Trade Union Forum	September 2017	TU reps, Executive Team, Chief Accountant	Change Proposals, Business cases Feedback from TUs
Capital Bid process	September 2017	Capital Investment Group (officer operational group)	Draft capital bid preparation
Budget consultation: Outline approach internally and externally	September 2017	Head of Strategy & Customer Services, Depute Chief Executive, Team Leader (Communications), Chief Accountant	Consultation outline approach and action plan
Business case development	September 2017	Executive Team; Chief officers, Chief Accountant, Team Leader (Accountancy)	Business cases incorporating options appraisals; saving proposals, investment requirements and timescales.
Elected Member Forum	October 2017 (monthly)	Elected members, Executive Team, Chief Accountant, Service representatives	Change Proposals, Business cases Capital Bid development Elected member feedback
Capital Bid process	October 2017	Capital Investment Group	Draft capital bid schedule
HSCP Resource Transfer	October 2017	HSCI Chief Officer, IJB, Leader of the Council and Depute Chief Executive, Chief Accountant	Completion of draft resource transfer figure linked to agreed Strategic Plan priorities
External consultation and engagement	October-December 2017 and January 2018	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	Mid November 2017	CMT, Executive Team, Chief Accountant	Draft Capital bids
Income and Charging Strategy Refresh	Mid November 2017	Chief Accountant, Accountancy Team Leader, Chief Officers/ services	Income and Charging Strategy proposals/revisions
Demand Pressures	Mid November 2017	Chief Accountant, Accountancy Team Leader,	Collate draft demand pressures

Task/ milestone	Timing	Stakeholders/ attendees	Output
		Chief Officers/ services	
Member dialogue on budget preparation (detailed evaluation)	September 2017 onwards	Administration and political grouping as appropriate	Indicative budget including necessary savings proposals, policy decisions and prioritisation
Elected Member Forum	November 2017 (monthly)	Elected members, Executive Team, Chief Accountant, Service representatives	Change Proposals, Business cases Capital Bid development Elected member feedback
Trade Union Forum	November 2017	TU reps, Executive Team, Chief Accountant	Change Proposals, Business cases Capital Bid development Elected member feedback
Draft Demand pressures review	Start December 2017	Executive Team	Refined schedule of demand pressures, clarification query schedule
Income and Charging Strategy Refresh	Start December 2017	Chief Accountant, Team Leader (Accountancy)	Refreshed Income and Charging Strategy scenarios
Elected Member Forum	December 2017 (monthly)	Elected members, Executive Team, Chief Accountant, Service representatives	Change Proposals, Business cases Capital Bid development Elected member feedback
Capital Bids: Consultation	Mid-December 2017	Capital Investment Group and Elected Member and Trade Union Forum	Finalised capital bids
HSCP Resource Transfer	January 2017	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	January 2017	Elected members, Executive Team, Chief Accountant,	Indicative potential savings Draft capital bid

Task/ milestone	Timing	Stakeholders/ attendees	Output
		Service representatives	proposals Elected member feedback
Trade Union Forum	January 2017	TU reps, Executive Team, Chief Accountant	Indicative potential savings Draft capital bid proposals Feedback from TUs
Finalise demand pressures	Early January 2017	Executive Team	Finalised demand pressures to incorporate within budget
Income and Charging Strategy	Early January 2017	CMT, Chief Accountant	Finalised schedule of charges and refreshed Strategy.
Consultation	January- early February 2017	Head of Strategy & Customer Services, Depute Chief Executive, Team Leader (Communications), Chief Accountant	Aggregated Consultation responses from stakeholders for inclusion in the Budget
Pre consultation draft Budget	January 2017	Administration, Depute Chief Executive, CMT, Chief Accountant	Draft Budget subject to consideration of consultation responses.
Budget setting	By end of February 2017	Special Council	Final Budget

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

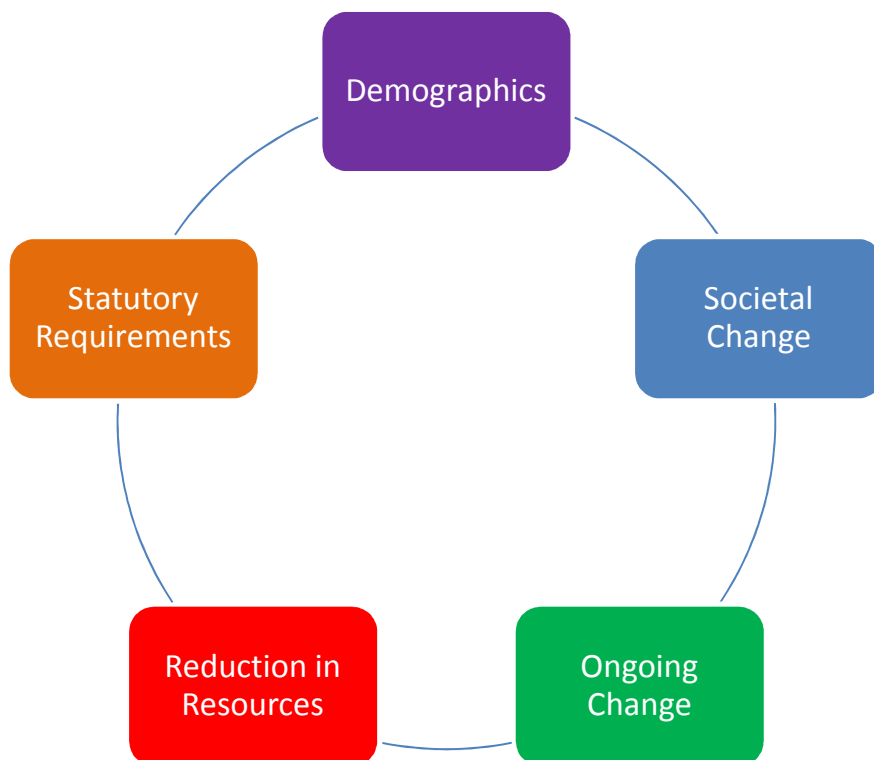
TAKING CLACKMANNANSHIRE FORWARD

The Council is a multi-million pound business which delivers a wide range of services for communities across Clackmannanshire.

The Council wants Clackmannanshire to be a great place to live, work and visit; a place where:

- children and young people have the best possible start in life
- the most vulnerable people are supported
- communities are resilient and empowered
- the environment is healthy and attractive.

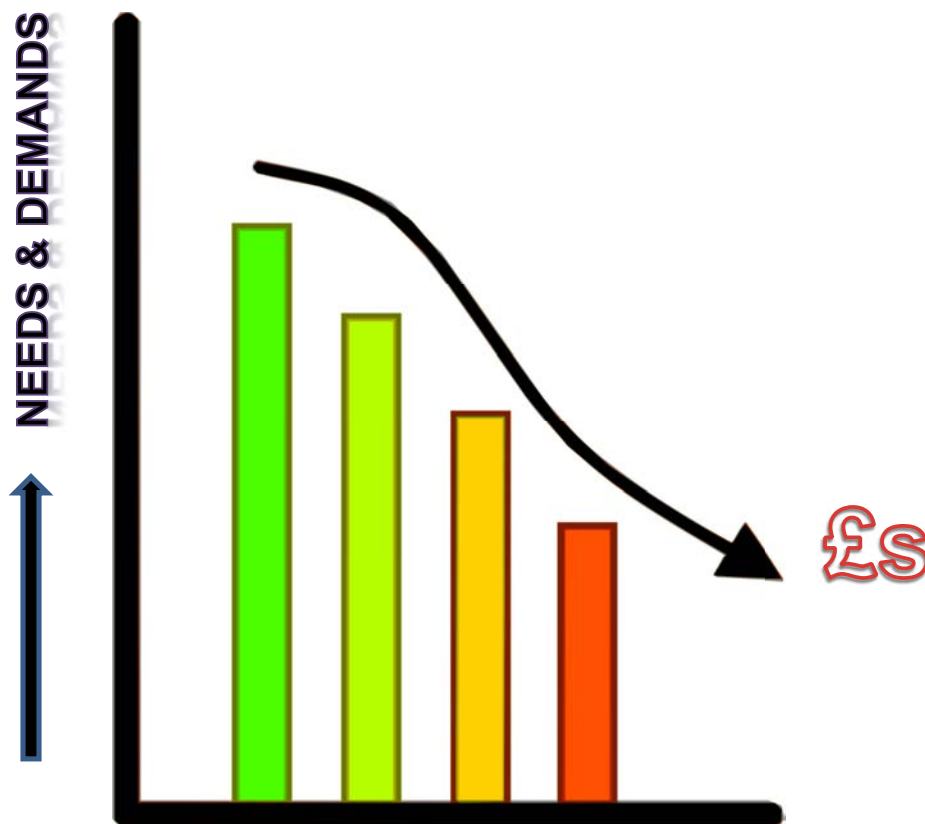
The contexts which the Council operates in are ever-changing but characterised by greater demands for services and increasing budget gaps:



As contexts change, the Council has to change with them to make sure that it is providing the best services it can within available resources.

Reductions in public sector funding have been a key issue facing all local councils for a number of years and will continue to impact on what councils do and how they do it going forward.

Since 2011-12, Clackmannanshire Council has had to make savings of £52 million to its base budget and it is projected that a further £28 million will need to be found over the next 3 financial years.



The combination of increased demand for services and reductions in public spending means that the Council can't carry on doing everything it currently does in the same way it currently does.

To get maximum benefit from available resources and to have a sustainable cost base, the Council's approach to *Taking Clackmannanshire Forward* is to:

- focus on **clear priorities** and **target resources** to greatest effect
- **transform services**, to improve their responsiveness and accessibility
- be as **efficient and effective** as possible in everything that we do.



Clear Priorities

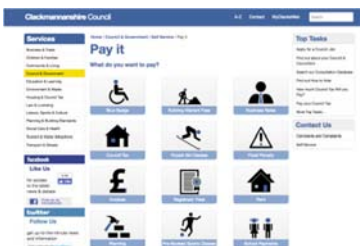


Target resources on defined statutory requirements and priority discretionary services

Focus on prevention and early intervention

Have defined service standards which are well communicated

Transforming Services



Focus on integration and take a corporate and partnership approach to all customers

Introduce different models of delivery

Support communities which want to provide services or take over assets

Use digital solutions

Effectiveness & Efficiency



Get things right the first time and do things once

Have high standards of customer service

Make sure we get value for money for the goods and services we buy and the assets we have

While there are significant financial challenges, there are also opportunities to protect and improve service if the Council and its partners work in a more integrated way and pool their resources better.

New opportunities also exist for voluntary and community groups to take over Council assets and to have an active role in planning and delivering services.

There is a lot to be proud of in Clackmannanshire and lots of ambition. *Taking Clackmannanshire Forward* is what we want to do in partnership with all those who have a commitment to making the area a great place to live, work and visit.

