

CLACKMANNANSHIRE COUNCIL

Report to Clackmannanshire Council

Date of Meeting: 24 October 2019

Subject: Budget Strategy Update

Report by: Chief Finance Officer

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 Budget process for 2020/21.

The report sets out:

- progress on delivery of 2019/20 approved savings;
- update of indicative funding gap;
- expected timing of draft Scottish Budget;
- Current levels of Reserves;
- progress on Budget Process and timeline, and
- approach for setting Capital budget.

2.0 Recommendations

Council is asked to:

- 2.1.1 note updated annual and cumulative budget gap after reduction in assumptions on demand pressures;
- 2.1.2 note impact of a change in core grant funding;
- 2.1.3 note that spending restraint has been imposed for the remainder of 2019/20;
- 2.1.4 approve additional funding towards resources to carry out 2 reviews within Health & Social Care Partnership and authorise the S95 Officer to agree the basis of cost allocation, and
- 2.1.5 otherwise note the contents of the report.

3.0 Progress on 2019/20 Approved Savings

- 3.1 At its budget meeting in March 2019, Council approved savings of £4.810m. The table below shows the split of these savings across Directorates and indicates the forecasted achievement of those savings by 31 March 2020.

Table 1: General Services Revenue Budget 2019/20 distribution of planned savings by directorate and forecasted achievement.

Directorate	Approved Savings 2019/20 £'000	Achieved/ Likely to be achieved £'000	At risk £'000	Unlikely to be achieved £'000
People	1,626	1,489	97	40
Place	562	411	-	151
Partnership & Performance	2,622	2,107	63	452
Total	4,810	4,007	160	643
		83.3%	3.3%	13.4%

- 3.2 The above table indicates that 83.3% of savings have been or are likely to be achieved, with a further 16.7% unlikely to be achieved in 2019/20. Managers will work towards achieving the approved level of savings or identify compensatory savings to ensure a balanced budget.
- 3.3 Appendices A to C provide a breakdown by division of those savings that are currently being forecast as unlikely to be achieved.
- 3.4 Within Partnership & Performance, £0.363m of the saving for Organisational Redesign is unlikely to be achieved due to the deferment of the implementation of the Corporate redesign the People directorate. This was noted to Council at its meeting in June 2019.

4.0 Budget gap 2020/21 – 2022/23

- 4.1 The indicative funding gap for 2020/21 to 2022/23 as agreed at the budget setting meeting in March 2019 is detailed in the table below. This shows an indicative gap of £10.257m in 2020/21 rising to £23.472m by 2022/23.

4.2 Table 2: General Services Budget 2020/21-2022/23 Indicative funding gap

	2020/21	2021/22	2022/23
	£000	£000	£000
Net expenditure	132,157	138,067	143,798
Net Funding	121,900	121,117	120,326
Cumulative indicative Funding Gap	10,257	16,950	23,472
Annual indicative Funding Gap	10,257	6,693	6,522

Demand Pressures

- 4.3 Included in the indicative funding gap are demand pressures of £3m. This is to cover both contract Inflation and general Inflation. This assumption has been based on the level of pressures received in previous years and is reviewed annually.
- 4.4 Demand pressures are submitted by services annually and are assessed by Senior Leadership Group and Chief Finance Officer. For 2020/21 bids of £1.7m for both Contract and General inflation have been submitted for pressures across services. Bids of £1.4m were approved in 2019/20. As a result of the reduced level for both the current and previous year, the assumption of £3m for pressures has been reduced to £2m for 2020/21 and future years. The impact on the annual and cumulative funding gaps of this reduction in assumption is set out in the table below.

Table 3: General Services Budget 2020/21-2022/23 Indicative funding gap adjusted for Demand Pressures £2m

	2020/21	2021/22	2022/23
	£000	£000	£000
Net expenditure	131,157	136,067	140,798
Net Funding	121,900	121,117	120,326
Cumulative indicative Funding Gap	9,257	14,950	20,472
Annual indicative Funding Gap	9,257	5,693	5,522

- 4.5 Demand pressures for Health and Social Care Partnership are also being prepared. These will be considered alongside consideration of the Councils budgeted contribution towards the Partnership.

Grant Funding

- 4.6 One of the biggest factors which affect the indicative funding gap is the assumption on the level of core grant funding.
- 4.7 The Scottish Government had previously announced its intention to publish a 3 year settlement, however, this was dependent on the UK Government doing the same. In August the Chancellor announced that there would be a 1 year spending round with a Spending Review in 2020. The Scottish Government has indicated that as a result they would announce a 1 year Scottish Budget with indicative figures produced for future years. This is also the case for Capital grant funding.
- 4.8 Indications from the UK settlement were that there was an increase in funding of 6% (4.1% real term). When passed through the Barnett consequentials this was expected to translate to a real term increase of around 2.1% for Scotland. However this increase is across all public sector funding. It is expected that some of this additional growth will be for services such as the Police and NHS. The expected increase for local authorities is therefore between flat cash and a 2% reduction.
- 4.9 The current assumption included within the indicative funding gap is a reduction in core grant funding of 2% for 2020/21 and future years. For every 1 % change in the core grant this would equate to approximately £750k. The impact of a change in funding is set out below:

Table 3: Impact on gap of a change in grant funding

	Reduction of 2% (already assumed) £'000	Reduction of 1% £'000	Flat Cash £'000
Adjustment to funding	-	750	1,500
Revised funding gap 2020/21	9,257	8,507	7,757

- 4.10 The exact level of funding will not be known until after the draft Scottish Budget has been announced. Derek Mackay has confirmed his intention to announce the draft Scottish Budget on 12 December 2019. Following this, officers will work through to update the assumptions included in the indicative gap.

5.0 Council Reserves

- 5.1 Following the audit of the 2018/19 Annual Accounts, the Council held the following reserves as at 1st April 2019:

	£m	£m
General Reserves		8.6
- Committed	3.8	
- Uncommitted	4.8	
Capital Receipts		3.6
Transformation Fund		0.5

- 5.2 At 1st April 2019, the Council held general reserves of £8.6m. £3.8m of those are committed to fund specific items of expenditure including on areas that are ring-fenced. The Councils policy is to retain uncommitted reserves at a level of 3% of net budgeted expenditure. For 2019/20 this equates to £3.8 therefore uncommitted general reserves are £1m above this minimum level. This is before the consideration of any in year outturn position and means that the Council has little reserves above the minimum level available to fund additional unbudgeted priorities through the year.
- 5.3 Capital Receipts can be used for Capital Expenditure and permitted elements of revenue expenditure including voluntary severance and loans fund repayments. Recent flexibility by the Scottish Government has also allowed Capital Receipts to be used to form a Transformation Fund. The Council created a Transformation Fund of £500k as part of the 2019/20 Budget setting Process. It is intended that this fund will be used to support the Councils Transformation Plan and commitments against this fund will be brought to Council for approval.
- 5.4 The use of reserves to support the budget is not recommended as this position would not be sustainable over the longer term. Reserves are one-off sources of funding and would add to the gap in future years.

Spending Restraint

- 5.5 The indicative funding gap set out above assumes that 2019/20 expenditure is met within budget and all savings are achieved. In preparing the August financial outturn, early indications are that there are several emerging pressures that may cause the Council to overspend on its approved budget.
- 5.6 The position reported to Audit Committee in September based on the June financial outturn was a projected overspend of £0.038m. This was exclusive of the £1.7m projected overspend on the Clackmannanshire locality of the Health and Social Care Partnership.
- 5.7 Due to this forecasted overspend position and the level of reserves as noted above, I have instructed that a spending restraint be put in place for the remainder of the financial year. This means that only essential spend should be undertaken and services should work to reduce costs as much as possible.

5.8 The financial situation will be monitored closely and reviewed as further forecast information becomes available.

6.0 Health and Social Care Partnership

6.1 At the IJB Board meeting in September, it was agreed that the Chief Officer would produce a report to be brought back to the Board identifying the resource requirements for the Partnership to address Service and Financial sustainability.

6.2 From this work, 2 specific reviews have been identified that would require additional resource; a Best Value review of Care at Home and a review of Adult Social Care. Estimated costs to carry out these reviews are £40k for both. It is anticipated that this cost will be shared between the two Local Authority Partners, the basis of which is still to be agreed. Council is asked to approve additional budget for the reviews and authorise the S95 Officer to agree an allocation of costs between this Council and Stirling Council on a proportionate basis.

6.3 Council should note that this contribution would increase the agreed budgeted contribution for the partnership for 2019/20 and add to the financial pressure currently faced by this Council.

6.4 A number of other proposals have also been identified by the Chief Officer and Partners are working together to provide support within existing resources on a short term basis. This will include support to finalise the 3 year recovery plan and develop a new operating structure within the Partnership.

7.0 Budget Process 2020/21

7.1 In line with the timetable set out in this report to Council in June budget sessions have been held with officers in July, August and September and a workshop session was held with the Administration Group in September.

7.2 An initial session was held with the Extended Strategic Leadership Group (ExSLG) on 3rd July. This session set out the current budget gap and latest assumptions identifying the estimated level of savings required to set a balance budget. Directors were tasked with identifying savings of 8% within their portfolio. This session also set out the budget approach and how this would work alongside the Transformation Board.

7.3 A further session for the ExSLG was held in August, facilitated by the Transformation Programme Manager. At this meeting the group reviewed initial Transformation and savings proposals and demand pressures. Officers were asked to refine savings proposals and identify further proposals.

7.4 On the 11th September, a budget workshop was held with senior officers. This session gave an update on budget gap and assumptions after the current level of savings and demand pressures, set out the transformation visions for each of the service areas identifying future pressures and considered case studies of transformations within other organisations.

- 7.5 A budget workshop was held with the Administration Group on 30th September. This set out the current level of transformation proposals and demand pressures and the model behind them. The workshop also generated further ideas and agreed the approach towards formulating a draft budget in November.
- 7.6 At this session it was agreed that management efficiencies and savings requiring a policy decision would come forward through Budget Strategy reports to Council for approval during the year. This is a move away from the annual Budget process and will allow decisions to be taken as and when they arise to maximise savings. The gap will also be adjusted to ensure a focus on level of savings required.
- 7.7 This is seen as a hybrid process with the management efficiencies and policy savings addressing the short term gap until savings are generated from the transformation plan. Over the medium to long term these savings will not be required as transformation is embedded and Council moves towards financial sustainability.
- 7.8 The future timeline for the budget process is set out below:
- | | |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| October | Briefings for Members and Trade Unions will be held providing information on new savings proposals, progress on previously approved savings, and an update on the budget gap. This will also include savings that have come through the change board. |
| November | meeting with Administration Group setting out draft budget |
| December | Draft Scottish Budget expected, impact on Budget Gap to be calculated.

Demand Pressures to be reviewed by Section 95 Officer and SLG. |
| January | Briefings to be held with Members and Trade Unions providing a progress update from ExSLG and the Change Board on Settlement impact, refreshed assumptions, approved savings and demand pressures and resulting budget gap.

A workshop will also be held with Senior Officers and the Administration Group to finalise outstanding items. |
| February | Full Council meeting to set 2020/21 Budget. |
- 7.9 Alongside the specific sessions detailed above, consultation and engagement has been carried out with stakeholder through various channels including; Change Board meetings, Officer meetings with Conveners, Shadow Conveners and trade unions to update on proposals. Specific engagements have also been held with specific user groups and young people.
- 7.10 Each business case will include stakeholders and user groups affected and embed the consultation and engagement process. This will ensure it is targeted to the affected groups and outputs of the consultation will be used to shape the final proposals. Equalities impact assessments and Fairer Scotland Duty assessments will also be carried out for each Transformation proposal.

8.0 Capital Budget Approach

- 8.1 At the budget workshop with the Administration it was agreed that a zero-based approach would be taken in formulating the Councils capital budget. This will involve a full review of existing projects and committed spend over the next 10-15 years.
- 8.2 Directors and Convener will work together to agree priorities to formulate the capital budget. This will be aligned with the new divisional strategic plans and incorporate the requirements of new priorities including City Deal, Town Centre Regeneration, and asset plans including the Learning Estate Strategy and Leisure Strategy.
- 8.3 This review will be supported by the Capital Operations Group (COG) who will take an overall view of the programme to support the development of the Capital Strategy and provide scrutiny of new Bids.
- 8.4 The borrowing and investment strategy will also be reviewed to align with the capital programme. To inform this, a review of the loans fund is also being undertaken with support of the Councils treasury advisors.
- 8.5 A workshop with officers and elected members will be set up over the coming months to produce a draft capital budget.

9.0 Sustainability Implications

- 8.1 The Councils risk in relation to financial sustainability remains high.

10.0 Resource Implications

10.1 Financial Details

- 10.2 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes
- 10.3 Finance has been consulted and has agreed the financial implications as set out in the report. Yes

11.0 Exempt Reports

- 11.1 Is this report exempt? No

12.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

- (1) **Our Priorities** (Please double click on the check box)

Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all

- Our families; children and young people will have the best possible start in life
- Women and girls will be confident and aspirational, and achieve their full potential
- Our communities will be resilient and empowered so that they can thrive and flourish

(2) **Council Policies** (Please detail)

13.0 Equalities Impact

- 13.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations? Yes No

14.0 Legality

- 14.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

15.0 Appendices

- 15.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

none

16.0 Background Papers

- 16.1 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)
 Yes (please list the documents below)
- Council Financial Performance 2019/20 – June Outturn presented to Audit Committee on 26th September 2019;
 - Local Government Finance Circular 2/2019, and
 - General Services Revenue and Capital Budget 2019/20.

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Lindsay Sim	Chief Finance Officer	2022

Approved by

NAME	DESIGNATION	SIGNATURE
Lindsay Sim	Chief Finance Officer	

