
Report to: Clackmannanshire Council

Date of Meeting: 10 December 2020

Subject: Budget Strategy Update

Report by: Chief Finance Officer

1.0 Purpose

- 1.1 This paper provides an update on the Councils Budget strategy providing updates on the in-year forecasted financial outturn and progress on the 2021/22 budget process.

2.0 Recommendations

- 2.1 Council is asked to note:
- 2.1.1 the most recent forecasted financial outturn position for 2020/21 for the General Fund Revenue including the Clackmannanshire Locality of the Health & Social Care Partnership (HSC&P);
 - 2.1.2 progress in delivering the £3.343m savings programme (for 2020/21), is currently forecast as 87%, by 31 March 2021;
 - 2.1.3 the forecasted outturn on the Capital programme for 2020/21 and progress on the 2021/22 capital budget;
 - 2.1.4 the update on the approved strategy to deliver financial balance for the current financial year and the requirement to maintain a balanced budget;
 - 2.1.5 the significant impact of the Covid-19 pandemic on both capital and revenue outturns and the delivery of planned savings, alongside the range of continuing uncertainties in respect of localised outbreak impacts, potential additional funding and fiscal flexibilities;
 - 2.1.6 an update on the 2021/22 indicative budget gap;
 - 2.1.7 the impact of the UK Spending Review on the Scottish budget and timing of the 2021/22 draft Local Authority Settlement;
 - 2.1.8 the progress on the 2021/22 Budget Process and Timetable for key activities, and
 - 2.1.9 the underspend on both the HRA Revenue and Capital budgets and progress on the HRA budget for 2021/22.

3.0 Financial position for 2020/21

General Fund Revenue

- 3.1 The Covid-19 pandemic has had a significant impact on the councils financial position; with the Council incurring increased and additional costs, loss of income, and a delay in implementation of a number of the Council's agreed savings which are only partially offset by savings incurred during the pandemic response phase.
- 3.2 This situation is compounded by continuing uncertainty over additional funding, fiscal flexibilities and/or further additional 'unknowns' that may impact the Council's finances, such as the impacts of local outbreaks, changes in national guidance or local policy. As a consequence, it is anticipated that there will be fluctuations in forecasts throughout the year as the current situation develops, with regular review of assumptions being required. Regular updates will be provided to Council within routine Budget Strategy Update reports.
- 3.3 Further details on the financial impact of COVID-19 has been reported through Directorate Committees and a summarised Council position reported to the Audit Committee most recently on 3 December 2020.
- 3.4 The latest forecasted outturn position for the 2020/21 financial year as at 31 August 2020 is that the General Fund is forecasting an overspend of £2.220m. This excludes the Clackmannanshire element of the H&SCP which is forecasting an underspend of £(0.091)m, which brings the Council's overall position to a net overspend of £2.129m for the year to March 2021.

2020/21 Approved Savings

- 3.5 At its budget meeting in February 2020, Council approved savings of £3.343m. Table 1 below shows the distribution of these savings across Directorates and indicates the forecast achievement of those savings by 31 March 2021.

Table 1: General Services Revenue Budget 2020/21 distribution of planned savings by directorate and forecasted achievement.

Directorate	Approved Savings 2020/21 £'000	Achieved/ Likely to be achieved £'000	At risk or unlikely to be achieved £'000	Unlikely to be achieved due to COVID £'000
People	1,345	1,314	31	
Place	1,187	951	236	236
Partnership & Performance	811	653	158	-
Total	3,343	2,918	425	236
		87%	13%	7%

- 3.6 Despite challenging circumstances due to COVID, Table 1 shows that 87% of savings have been or are likely to be achieved, with the remaining 13% at risk

or unlikely to be achieved in 2020/21. The achievement of savings in relation to income generation has been significantly impacted by the COVID pandemic and as such £236k is forecast to be unachieved as a result.

- 3.7 Where savings are at risk or likely to be unachieved, Managers are maximising efforts to achieve the approved level of savings or identify compensatory savings to sustain a balanced budget position. During the 2021/22 budget process those savings forecast to be unachieved will be reviewed to establish of those savings not achieved, which still remain viable and can be deferred to deliver a financial benefit in future years.

General Fund Capital

- 3.8 Since the Council's budget was approved in February 2020, there have been a significant number of factors which have impacted on the Council's approved capital programme. As such Council approved a revised Capital budget for 2020/21 at its meeting on 24 September 2020.
- 3.9 The Capital programme for 2020/21 is currently forecasting an underspend of £1.956m with several projects facing delays due to the impact of COVID. Where projects are delayed, these will be reviewed and prioritised into next years budget as required.
- 3.10 As part of budget preparations for 2021/22 work is underway to review and prioritise future years' capital budgets in detail, given the impacts to date and uncertainty of further future impacts of the pandemic on costs and delivery. Capital bids are also being prepared for new projects and these are being considered by the Capital group for inclusion into the draft capital programme.

Clackmannanshire & Stirling Health and Social Care Partnership (H&SCP)

- 3.11 At its Board meeting in November, the H&SCP reported a forecasted overspend of £1.7m across the Partnership including the set aside budget. This forecast excludes additional COVID expenditure which is anticipated to be met from Scottish Governments Mobilisation funding.
- 3.12 Budget planning for 2021/22 is underway across the Partnership in line with the methodology set out in the Integration Scheme with updates due to the Finance and Performance Committee later this month. Similar to the Councils processes, savings proposals and demand pressures are being identified and evaluated for consideration by the Board.

2020/21 Funding Strategy Update

- 3.13 At its meeting in September Council approved a strategy to ensure that it meets its statutory requirement to maintain a balanced budget position. This paper has highlighted that, based on current information, the Council has a deficit on its current year's operations of £2.220m. This position assumes that,

as in 2019/20, the HSCP underspend of £(0.091)m is retained in the partnership as a contribution to the net operating deficit forecast for the current year.

- 3.14 This forecasted overspend is a slight movement on that reported in September. Through analysis of the overspends it has become apparent that there are costs included that relate to COVID. The Council has set aside monies to offset this both from funding received from the Scottish Government as well as earmarking £1.5m of its own revenue funds to mitigate these costs. Work is ongoing to identify and confirm the COVID related impact within this overspend and allocate funds accordingly.
- 3.15 At its meeting in September, Council also noted that spending restraint had been imposed to try and reduce expenditure within the remaining months of the year. As the forecasted overspend position has not improved significantly, it is proposed that this spending restraint remain in place and be reviewed within the next Budget Strategy Report.
- 3.16 As reported previously there still remains an unprecedented level of uncertainty over a number of elements that have the potential to positively or negatively impact the Council's financial performance and funding strategy. These include:
- ongoing discussions with Scottish Government about a range of potential fiscal flexibilities which may deliver revenue benefits in the current financial year;
 - ongoing discussion with Scottish Government about the likelihood of further additional funding to support ongoing response and recovery work, the impacts of local outbreaks and the additional costs of implementing aspects of Scottish Government and Public Health (Scotland) guidance. and
 - uncertainties over local conditions for the rest of the year, for instance the impact of any potential local outbreak(s) and the levels of restrictions that may need to be implemented.
- 3.17 As the impact of any changes in the above are known, these will be reflected in forecasted outturns as appropriate and reported in future updates to Council.

4.0 Indicative Budget Gap 2021/22

- 4.1 The indicative budget gap for 2021/22 and future years is set out in the table below. This is based on the assumptions previously set out in the 2020/21 Budget paper. As a result of the uncertainty around the assumptions contained within the gap there has been no change to these previously set out. These assumptions will be updated as information becomes known.

Table 2: Indicative budget gap 2021/22 to 2023/24

	2021/22	2022/23	2023/24
	£000	£000	£000
Net expenditure	133,727	139,657	145,727
Net Funding	125,811	125,145	124,501
Cumulative indicative Funding Gap	7,916	14,512	21,226
Annual indicative Funding Gap	7,916	6,595	6,714

Budget Settlement

- 4.2 In November the Chancellor announced the UK Spending Review and confirmed that this will be a 1 year review. This announcement indicated that Scotland would receive an additional £2.4bn in funding. This is made up of an additional £1.1bn towards core services, an additional £1.3bn for COVID priorities and a reduction of £0.3bn in the Capital budget. As the Scottish Budget covers more than just funding for Local Authorities we are not able to determine how this may directly impact the Council until the Draft Local Authority Settlement is released.
- 4.3 The Draft Scottish Budget and Local Authority Settlement is due to be announced on 28th January 2021. This is later than in previous years but around the same time as the draft settlement for 2020/21. This gives a short window to analyse the impact of the settlement on the Councils budget gap. Due to the timing of the settlement this may also impact on the timescales as to when Council can set its budget ensuring the statutory requirement for setting Council Tax is met.

Budget Strategies**Long Term Financial Sustainability**

- 4.4 To ensure Long term financial sustainability overall the Council either needs to reduce its net expenditure or funding needs to increase. There is much uncertainty around funding for future years and the assumptions remain that

over the longer term, core grant funding would reduce. Therefore the Council needs to prioritise reducing its expenditure on an ongoing basis.

Short Term Options

4.5 In the short term, reserves can be used to support the budget and close the budget gap. Reserves that can be used to support the budget are:

- Uncommitted general fund reserves above the minimum 3% level (3% of Net Expenditure)
- Capital receipts - these 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.

4.6 However, the use of reserves in this way to support continued service delivery 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.

4.7 In addition the Scottish Government has announced several Financial Flexibilities that can be used to support the budget process. Similar to the use of reserves, these flexibilities are short term solutions that only delay the impact and further reductions in net expenditure would need to be made in future years.

5.0 2021/22 Budget Process and Timeline

5.1 As described in the Budget Strategy Report to council in September, the budget process for 2021/22 is broadly similar to previous years, although activity is commencing slightly later.

5.2 As established in the 2020/21 budget paper, the budget process mainly focusses around the Be the Future programme and further details of this are set out in the Transformation updates reported to Council on a regular basis. In recognition of the longer term process for the Be the Future Programme, this approach is augmented by additional management efficiencies and policy proposals that arise through the year to close the gap as noted above.

5.3 Progress so far:

- In September an initial session was held with the Extended Strategic Leadership Group (ExSLG). This session was used to set the scene, outlining the budget gap and the process, highlighting key milestones for this group.
- During October and November a number of meetings were held with officers to review key elements of the budget.
 - Follow up sessions were held with ExSLG to consider draft business case proposals alongside proposed management efficiencies and policy savings. Further development of proposals is now taking place.

- The first round of Budget briefings was also held with all Members and Trade Unions at the start of October. These briefings set out the budget gap and assumptions and the budget process.
- Budget Briefings for all Members and Trade Unions were held in the week commencing 23 November providing an update on the budget gap and assumptions. Information on all Officer savings proposals for both Policy and Management Efficiency savings were also shared at this briefing.
- Demand pressures were collated and reviewed by SLG. From initial submissions the level of demand pressures for 2021/22 is significantly above the £2m assumed in the budget. As such further work is required by services and finance to review and validate the pressures.
- Initial work progressed to identify new capital project bids for consideration for inclusion into the capital programme. On 23rd November a Capital Workshop was held with officers to discuss new capital bids.

5.4 An indicative budget timeline for further budget activities is set out below.

- **December** – further planned engagement with ExSLG to review the current position and strategies for closing the budget gap.

Progress on Transformation projects to be reviewed by SLG and associated savings to be identified.

Work ongoing to refine proposed savings and identify any further savings.

Work ongoing to identify and refine capital bids and review and prioritise rollforward capital programme

Demand Pressures will be further reviewed by the Section 95 Officer and SLG.

- **January** – The roll-forward budget will be completed and the Budget gap updated.

Demand pressures finalised - Budget gap will be updated with approved bids.

Work with Administration Group to refine and prioritise the Capital budget.

Further work on refining and finalising savings proposals

Proposals requiring public engagement identified and consulted upon. Outcome of engagements to be reviewed and assumptions and savings updated as required.

Draft Scottish Budget to be released on 28 January. This will be reviewed and assumptions updated to reflect proposed settlement.

- **February**

Briefings will be held with elected members and trade union representatives to provide an update on: the Settlement impact, any changes to

assumptions, approved savings and demand pressures and the resultant budget gap.

A workshop will also be held with Senior Officers and the Administration Group to finalise the Administration's Budget.

Full Council meeting to set 2021/22 Budget (subject to timing of Local Authority Settlement)

- 5.5 This timeline will be further refined and updates provided at briefings and through future Budget Strategy reports to Council.

6.0 Housing Revenue Account (HRA)

- 6.1 For 2020/21 the HRA Revenue account is forecasting a surplus of £(6.480)m which is £(1.307)m above the budgeted surplus.

- 6.2 The HRA capital programme is also forecasting an underspend which is mainly due to delays in projects due to COVID which will be reprioritised into future years.

- 6.3 Work is progressing with the development of the HRA budget for 2021/22 for approval in February 2020. The proposed rent level for 2021/22 is currently being reviewed and is due to be issued to tenants shortly for consultation.

7.0 Sustainability Implications

- 7.1 There are no direct environmental sustainability implications arising from this report.

8.0 Resource Implications

8.1 Financial Details

- 8.2 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

- 8.3 Finance has been consulted and has agreed the financial implications as set out in the report. Yes

8.4 Staffing

- 8.5 There are no direct staffing implications arising from this report.

9.0 Exempt Reports

9.1 Is this report exempt? Yes (please detail the reasons for exemption below) No

10.0 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)

11.0 Equalities Impact

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

12.0 Legality

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

13.0 Appendices

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

none

14.0 Background Papers

14.1 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

- Audit Committee report - Council Financial Performance 2020/21 – August Outturn

Author(s)

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Approved by

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