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**Report to: Clackmannanshire Council**

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**Date of Meeting: 19 August 2021**

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**Subject: Budget Strategy Update**

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**Report by: Chief Finance Officer**

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## **1.0 Purpose**

- 1.1 This paper provides an update on the Councils Budget strategy and the proposed process for setting the 2022/23 General Fund and HRA Revenue and Capital Budgets to ensure a balanced position.

## **2.0 Recommendations**

2.1 Council is asked to note:

2.1.1 the potential impact of the Covid-19 pandemic on both capital and revenue outturns and the delivery of planned savings for 2021/22 and the 2022/23 budget gap,, alongside the range of continuing uncertainties in respect of localised outbreak impacts, potential additional funding and fiscal flexibilities;

2.1.2 an update on the current level of reserves and the 2022/23 indicative budget gap;

2.1.3 the impact of the UK Spending Review on the Scottish budget and expected timing of the 2022/23 draft Local Authority Settlement;

2.1.4 the indicative budget timeline for the 2022/23 GF and HRA Budget Process, and

2.1.5 an outline of the proposed consultation and engagement approach for the 2022/23 Budget.

## **3.0 Financial Overview 2021/22**

### **General Fund Revenue/ Reserves**

- 3.1 The Covid-19 pandemic has had a significant impact on the Councils financial position for 2020/21. Particular areas included:
- additional costs as additional support services were delivered and existing service provision was modified,

- loss of income as many chargeable services offered by the Council such as leisure services, were closed during the lockdown,
  - delay in implementation of some of the Council's agreed savings as officers time was diverted onto support and recovery activities.
- 3.2 A number of funding streams have been made available to the Council from the Scottish Government and these have been used to minimise the financial impact to the Council.
- 3.3 For 2021/22 the Council faces continuing uncertainty due to easing of lockdown through the Scottish Governments route map for recovery. However, there is a risk of further waves with potential for further restrictions which may give rise to additional costs and reprioritising of Council services.
- 3.4 Other associated uncertainties surrounding fiscal flexibilities, additional one off and recurring funding and/or further additional 'unknowns' may impact the Council's finances and budget gap. As a consequence, it is anticipated that there will be fluctuations in forecasts throughout the year as the current situation develops, with a regular review of assumptions being required and an assessment of the potential impact on 2023/23 Budget Gap and beyond. Regular updates will be provided to Council within routine Budget Strategy Update reports and monitoring reports to Committees.
- 3.4 Further details on the financial impact of COVID-19 for 2020/21 have been reported through monitoring reports and a summarised Council position is reported within the Draft Financial statements.
- 3.5 Forecasted outturn positions for 2021/22 will be reported through Service Committees and to the Audit Committee during the year.

#### 4.0 2022/23 Budget Strategy

- 4.1 Following the preparation of the draft 2020/21 Annual Accounts, the Council held the following reserves as at 1 April 2021:

	£m	£m
<b>General Reserves</b>		<b>19.686</b>
- Committed	13.384	
- Uncommitted	6.302	
<b>Capital Receipts</b>		<b>1.333</b>
<b>Transformation Fund</b>		<b>2.607</b>

- 4.2 At 1 April 2021, the Council held general reserves of £19.686m, an increase of £7.831m from those held from April 2020. £13.384m of those are committed to fund specific items of expenditure including areas that are ring-fenced. Within this committed figure is £4.407m that has been earmarked for COVID support

and recovery. The Councils policy is to retain uncommitted reserves at a level of 3% of net budgeted expenditure. For 2021/22 this equates to £3.956m, therefore, uncommitted general reserves are £2.346m above this minimum level. This means that the Council has some reserves above the minimum level available to fund additional unbudgeted priorities through the year.

- 4.3 Capital Receipts can be used for Capital Expenditure and permitted elements of revenue expenditure including voluntary severance and loans fund repayments. The Scottish Government had also awarded a flexibility for Capital Receipts to be used to fund transformation activity. This flexibility is due to end on 31 March 2022.
- 4.4 The use of reserves 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.
- 4.5 Uncommitted reserves could, however, be used to fund one off events such as the financial impact of COVID-19. Several funding streams received by the Scottish Government in 2020/21 have been earmarked within Committed Reserves to support further activity and recovery activities. Further funding is due to be received in 2021/22, however, there is still much uncertainty around the future impact of COVID-19; further waves, localised lockdown and long term recovery and the ability of Scottish Government to fund any associated further expenditure and therefore if this funding will be sufficient.
- 4.6 There is 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 budget 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.
- 4.7 Any financial impact will be reflected in forecasted outturns as appropriate and reported in future budget strategy updates to Council. To mitigate any adverse impacts, reports will consider further financial strategies including in-year strategies to ensure the requirement of the Council to maintain a balance budget position is met.

## **5.0 Indicative Budget Gap 2022/23**

- 5.1 The indicative budget gap for 2022/23 and future years is set out in the table below. This is based on the assumptions previously set out in the 2021/22 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 further information is available.

**Table 2: Indicative budget gap 2022/23 to 2024/25**

	2022/23	2023/24	2024/25
	£000	£000	£000
Net expenditure	136,945	141,834	146,109
Net Funding	130,965	131,698	132,453
Cumulative indicative Funding Gap	5,980	10,136	13,656
<b>Annual indicative Funding Gap</b>	<b>5,980</b>	<b>4,156</b>	<b>3,520</b>

5.2 The main assumptions included within Table 2 are:

- 3% increase in the level of Council Tax for 2022/23 with compensatory amount for 2021/22 baselined and 3% increase thereafter in future years;
- Pay inflation equivalent to approximately 2% for 2021/22 based on the Scottish Public Sector Pay proposal of £800 flat payment for those earning up to £25k, 2% for those earning between £25k and £40k, 1% for those earning between £40k and £80k and a flat payment of £800 for those earning above £80k. Additionally, 2% inflation is assumed for all salary levels each year thereafter;
- Contract inflation and general demand pressures have been estimated at £2.500m in all three years based on current and previous data on bids and approvals;
- Estimated flat cash settlement for general fund grant in each of the three years based on prior years settlements;
- share of the additional social care funding of £72.6m in 2021/22 has been baselined; and
- maintenance of the commitment to implement the Scottish Local Government Living Wage, currently £9.54 per hour from 1 April 2021.

5.3 Future budget strategy reports will provide and update on the planning assumptions based on any further information that becomes known. As in previous years a low, medium and high scenario will also be provided showing the range of possible scenarios depending on the major variables such as Pay inflation and General Grant Funding.

## **Budget Settlement**

- 4.1 At this time there is no indication when the Chancellor will announce the UK spending review which sets out indicative funding figures for Scotland as a whole. This review also sets out whether it is a one year or multi year settlement and is usually announced in November.
- 4.2 In recognition of this, there is no date set for receipt of the Draft Scottish Budget and Local Authority Settlement as this usually follows the UK Spending Review announcement. In previous years this has been issued mid December however, this has been later in the last two years with last years issued on the 28 January 2021.
- 4.3 Once the Draft Scottish Budget and Local Authority Settlement is announced the 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.

## **5.0 2022/23 Budget Process and Timeline**

- 5.1 The full approach to setting the 2022/23 budget is currently being developed and detail will be included in the next Budget Strategy report to Council. The budget process however, will include key milestones and activities similar to previous years, although as was the case for the 2021/22 budget, activity is commencing slightly later in the year due to the ongoing impact of the COVID pandemic.
- 5.2 For 2022/23, as in previous years, it is proposed that the Council aims to bridge its funding gap by:
  - undertaking a thorough review of all service budgets to establish the budget requirement for future years. This review includes a review of under and overspends to ensure the resultant budgets are aligned with activity to facilitate meaningful monitoring and scrutiny of service delivery and financial performance;
  - a review of previously agreed savings that are anticipated to deliver a financial benefit in 2021/22 to ensure that these can still be delivered and to confirm the value of the associated savings;
  - evaluation of the reasons for savings not being achieved in the current financial year to establish whether these can still be delivered, albeit on a delayed basis;
  - the identification of management efficiencies in the light of changes in service operational practice/requirements
  - specific policy savings linked to investment priorities, and
  - savings and efficiencies from agreed transformational business cases.

- 5.3 All council members will receive information on all officer proposals as part of the routine budget engagement.
- 5.4 As established in the 2020/21 budget paper and reaffirmed in the 2021/22 budget paper, financial sustainability continues to be one of the key drivers of the Be the Future programme, alongside improved outcomes, 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 budget gap as noted above.

### **Demand Pressures**

- 5.5 In calculating the revised budget gap, Contract and General inflation pressures are currently assumed at £2.5m based on previous trends of bids and approvals. Demand pressure bids will be prepared by Services during the next few months in conjunction with Finance and will be reviewed by the Strategic Leadership Group and the S95 Officer. Bids that are agreed will be included within the budget gap assumptions.

### **Budget Timeline**

- 5.7 An indicative budget timeline is set out below:
- **August** – Templates will be issued to Strategic Directors to capture savings proposals and demand pressures. An initial session has been scheduled with the Strategic Leadership Group (SLG) on 18 August. Thereafter Budget will become a standing agenda item for the ExSLG fortnightly meetings where progress and updates on the 2022/23 Budget will be discussed. The initial session on the 18 August will be used to set out the current budget gap and latest assumptions identifying the estimated level of savings required so set a balanced budget. The session will also set out the budget approach for identifying and reporting savings. Following this session the group will be tasked with developing business cases in conjunction with the relevant support services: Finance, HR and Legal as required.
  - **September/October** – Initial sessions will be held with elected members and trade union representatives. These sessions will set out the current budget gap and assumptions and provide an update on the budget process including early sight of any savings proposals.
  - **October** – A follow up session with ExSLG will be held to consider draft business case proposals alongside proposed management efficiencies and policy savings. The level of savings identified will be compared against the budget gap to identify whether additional proposals are required. Further development of proposals will take place if required.

Services will be asked to prepare any capital bids for consideration at the Capital workshop to be held in November.

- **November** - Briefings for Members and Trade Unions will be held providing information on any 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 Be the Future Board.

Capital Workshop (officers) to be held to review and revise the agreed capital budget and to scrutinise new capital bids.

Demand pressures to be financially verified and a challenge session held by SLG to review and refine.

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

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

- **December** – further planned engagement with ExSLG to review the current position and remaining budget gap after applying approved savings.

At the time of writing this report, the timescales for the Draft Scottish Budget are unknown. However, the most up to date information in relation to the settlement will be reviewed to inform assumptions in respect of funding and keep Council informed of the indicative Budget Gap.

Demand Pressures will be further reviewed by the Section 95 Officer and SLG and the Budget gap will be updated with approved bids.

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

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

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

Consultation and engagement activity to be concluded and feedback incorporated into savings proposals.

Further work on refining and finalising savings proposals

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.

Estimated release of the Draft Scottish budget. This will be reviewed and assumptions updated to reflect the proposed settlement

- **February/March** - A workshop will also be held with Senior Officers and the Administration Group to finalise the Administration's Budget.

The 2022/23 budget proposal will be finalised and Full Council meeting will be held to set the 2022/23 Budget.

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

### **Consultation and Engagement**

- 5.10 Consultations will also be carried out during the year on specific proposals as part of the business case development. The consultation will be targeted at affected groups and outputs of the consultation will be used to shape the final proposals. Additionally, targeted budget consultation will be undertaken where indicated by the equalities impact assessment in respect of policy saving proposals prior to submission to the Council for approval as part of the Budget setting arrangements.
- 5.11 As part of the Be the Future programme, there will be on-going communications and engagement with staff on the financial and other benefits that the transformation programme will deliver. The Communications and Engagement working group will be established as laid out in the Be the Future update paper to Council on 24 June 2021 and this group will provide oversight, guidance and support for projects, the strategic workstreams and the Transformation programme overall. Further information is provided in the Be the Future update paper which is also on the agenda for this meeting.

### **6.0 Housing Revenue Account (HRA)**

- 6.1 The Housing Revenue Account Revenue and Capital Budget will be prepared alongside the General Fund budget with key milestones below:
- draft budget preparation work to start in October including review of rent level and proposals with the tenants federation. This will also include, where possible, external scrutiny of affordability;
  - capital investment plan to be reviewed and brought to the Capital workshop in November. This will include consideration of the Energy Efficiency Standard for Social Housing (EESH) implication, new bids, phasing of the existing programme and in-house vs. external delivery;
  - the proposed rent level for 2022/23 to be issued to tenants for consultation in December with feedback reviewed in January, and
  - 2022/23 HRA budget to be finalised and presented to Council for approval no later than Thursday 10 February 2022. This is to enable compliance with the mandatory notice period to tenants of any rent change.



## 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)

General Services Revenue and Capital Budget 2021/22

### Author(s)

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Lindsay Sim	Chief Finance Officer	2022

### Approved by

NAME	DESIGNATION	SIGNATURE
Lindsay Sim	Chief Finance Officer	
Stuart Crickmar	Director of Partnership & Performance	