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**Report to: Clackmannanshire Council**

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**Date of Meeting: 21 October 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 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 financial impact of the Covid19 pandemic on projected revenue outturns;

2.1.2 the 2022/23 indicative budget gap and illustrative Low, Medium and High scenarios;

2.1.3 the approach to setting the 2022/23 budget to ensure a balanced position;

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

2.1.5 the ongoing commitment to Participatory Budgeting (PB), and

2.1.6 progress on the GF and HRA budget process for 2022/23 and timeline of key activities.

2.2 Council is asked to approve:

2.2.1 allocation of the remaining 2020/21 earmarked Covid19 discretionary funding, after commitments, to offset the General Fund projected overspend attributable to Covid19 (paragraph 3.4).

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

### **General Fund Revenue**

- 3.1 The Covid19 pandemic continues to have a significant impact on the Councils financial position for 2021/22. The latest forecast outturn report as at June presented to the Audit Committee in September 2021 indicated a projected overspend of £2.5m as a result of Covid19.
- 3.2 There are various areas of pressure due to Covid19 in the form of additional costs and loss of income. The table below sets out the projected overspend for each Directorate and the related overspend due to Covid19 with £2.155m of the £2.552m projected overspend attributable to Covid19.
- 3.3 The majority of this projected overspend sits within the People Directorate with £1.525m attributable to Social Services Childcare. This mainly relates to Residential placements (£1.100m) and Corporate Parenting (£0.425m).

**Table 1 – 2021/22 Projected outturn as at June**

<b>Directorate</b>	<b>Projected Outturn 2021/22 £000</b>	<b>Covid19 Impact £000</b>
People	2.149	1.792
Place	(0.056)	0.047
Partnership & Performance	0.459	0.316
<b>Total</b>	<b>2.552</b>	<b>2.155</b>
Covid19 Funding (estimated allocation)	1.500	1.500
<b>Revised Outturn</b>	<b>1.052</b>	<b>0.655</b>

Source: 'Council Financial Performance 2021/22 – June Outturn' presented to the Audit Committee on 30 September 2021

- 3.4 At the end of 2020/21, unspent Covid19 discretionary funding was earmarked for use in 2021/22. After known and estimated commitments, £1.5m remains uncommitted at the time of writing this report. On that basis it is proposed that the remaining earmarked Covid19 discretionary funding from 2020/21 (currently estimated at £1.5m) be allocated to the projected overspend as shown in table 2 above. This would reduce the projected overspend due to Covid19 to £0.655m and the overall projected overspend to £1.052m. However, there may be fluctuations in forecasts throughout the year and the estimated overspend due to Covid19 may go up or down. Similarly, the commitments against the discretionary funding may also fluctuate increasing or reducing the committed balance. This will be monitored and the allocation adjusted to reflect the final uncommitted discretionary funding at 31 March 2022. The allocation of any further funding will also be considered and offset against Covid19 spend as appropriate.
- 3.5 Further details on the financial impact of COVID19 for 2021/22 will continue to be reported through monitoring reports to Service Committees with a summarised Council position reported to the Audit Committee.

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

- 4.1 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 and this report to Council in August 2021. 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. As a result of this uncertainty a range of possible scenarios for the main variables are shown in table 2 reflecting Low, Medium and High outcome positions.
- 4.2 The current indicative budget gap remains unchanged and is shown alongside these scenarios. The main variables included within Table 2 and 3 are:

### **Pay Award**

The current budget gap reflects inflation equivalent to approximately 2% based on the Scottish Public Sector Pay proposal for 2021/22 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. In the Low Medium and High Scenarios pay inflation is increased to 3% in the low scenario to take account of the increase in employers NI related to the employee NI increase which at present is not known if this will be fully funded or not. Medium and High scenarios reflect a further 1% change to 4% and 5% however it should be noted that requests by unions exceed this 5% level before the additional cost to employers of the NI increase is applied.

### **Council Tax**

The current gap reflects a 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. Low, Medium and High scenarios consider a range from 0% to 3% with each 1% change equivalent to c£200k.

### **Grant Funding**

The current gap is based on a flat cash settlement for general fund grant in each of the three years based on prior years settlements. The Low, Medium and High Scenarios consider a 1% increase, 1% decrease and 3% decrease with each 1% change equivalent to c£800k.

### **Demand Pressures**

The current gap includes an amount for both Contract and General inflation increases of £2.500m in all three years based on current and previous data on approved bids. Low, Medium and High scenarios range from £2m to £4m to reflect levels of previously approved and submitted bids.

**Table 2: Indicative budget gap 2022/23 to 2024/25 – Low, Medium & High**

<b>Annual Indicative Funding Gap</b>	<b>Current £000</b>	<b>Low £000</b>	<b>Medium £000</b>	<b>High £000</b>
2022/23	<b>5,980</b>	5,508	9,206	13,142
2023/24	<b>4,156</b>	3,684	7,382	11,318
2024/25	<b>3,520</b>	3,048	6,746	10,682
<b>Cumulative Indicative Funding Gap</b>	<b>13,656</b>	<b>12,240</b>	<b>23,334</b>	<b>35,142</b>

**Table 3 – Budget Gap Variables**

<b>Variables</b>	<b>Current £000</b>	<b>Low £000</b>	<b>Medium £000</b>	<b>High £000</b>
Pay Award	2%	3%	4%	5%
Grant Funding	0%	+1%	-1%	-3%
Council Tax	3%	3%	2%	0%
Demand Pressures	£2.5m	£2m	£3m	£4m

4.3 The table above shows the Current indicative budget gap for 2022/23 is £5.980m with a cumulative indicative gap of £13.656m upto 2024/25. The indicative gap across the Low, Medium and High scenarios for 2022/23 ranges from £5.508m to £13.142m with a cumulative indicative gap of between £12.240m and £35.142m.

4.4 It should be noted that the Low, Medium and High scenarios are illustrative of a possible range of outcomes for each variable and it is unlikely that all variables will realise as they are set out in one scenario. As further information becomes known on each variable, this will be factored into the scenarios and planning assumptions and reported through briefings and/or future budget strategy reports.

## **5.0 2022/23 Budget Strategy**

5.1 The Budget Approach for 2022/23 aims to ensure that the requirement for the Council to maintain a balanced budget position is met.

5.2 There is much uncertainty around funding for future years and fluctuations as set out in Table 2 can have a significant impact on the budget gap. Therefore in order to offset these inflationary increases and maintain a balanced budget

the Council needs to prioritise reducing its expenditure further on an ongoing basis.

- 5.3 The approach to setting the 2022/23 budget has been reviewed and developed and is set out below. This will focus on budget analysis to identify and prioritise investment for future years. For 2022/23 it is proposed that the Council aims to bridge its funding gap by:

1 – Historic trend analysis - undertaking a thorough review of all service budgets to establish the budget requirement for future years. This review includes analysing historic trends of under and overspends over a 5 year time period to ensure the resultant budgets are aligned with activity to facilitate meaningful monitoring and scrutiny of service delivery and financial performance;

2 - Reviewing 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. The reasons for savings not being achieved in the current financial year will also be investigated to establish whether these can still be delivered, albeit on a delayed basis.

3 - Identifying new savings - 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 Be the Future business cases.

4 - Revised approach to demand pressures – covering a 5 year horizon and identifying key pressure areas within services and their drivers.

- 4.4 Further detail on the approach and progress will be presented at Budget Briefings and within future Budget Strategy reports.

### **Budget Settlement**

- 5.5 The UK spending review which sets out indicative funding figures for Scotland as a whole is expected to be announced in late October. This review is hoped to be a multi year settlement rather than a one year settlement which will give some indication of funding in future years.

- 5.6 Following the UK spending review the Draft Scottish Budget is expected to be issued on 9 December with the Local Authority Settlement being issued before Christmas. This timescale is earlier than the last two years bringing it back in line with previous years announcements.

- 5.7 Once the Draft Scottish Budget and Local Authority Settlement is announced this will be analysed to assess the impact of the settlement on the Councils budget gap. As the draft settlement is expected earlier this year, it is hoped that Council can set its budget ensuring the statutory requirement for setting Council Tax is met.

## **Demand Pressures**

- 5.8 In calculating the indicative budget gap, Contract and General inflation pressures are currently assumed at £2.5m based on previous trends of approved bids. However, in light of significant service pressure bids received last year and indicative further pressures across service areas, Directors have been asked to take a different approach to demand pressures this year.
- 5.9 As such, Contractual pressures will be identified initially at Portfolio level to be reviewed and submitted by Directors. These will then be verified by Finance and reviewed and challenged by SLG to form a proposed list and quantum.
- 5.10 General demand pressures will then be prepared at a portfolio level focusing on significant service areas rather than small areas of pressure. Consideration of data emphasising past trends, future estimated demands, proposed mitigating actions will be used to formulate the pressures. Considerations of best value, risk and service impact will also be assessed and noted. After Portfolio level challenge and Financial verification, Directors will then submit these for SLG review and challenge.
- 5.11 SLG supported by the S95 Officer will then finalise the list of pressures to be considered for inclusion in the budget.

## **General Fund Capital**

- 5.12 In the 2021/22 Budget, Council set an ambitious 20year programme of capital investment. As part of budget preparations for 2022/23 the programme will be reviewed and updated for any known changes in phasing, changes in estimated costs and for any new investment priorities. Project phasing and budgets will be reviewed to reflect any known impacts to date of delays and costs due to COVID and Brexit and potential uncertainty of further impacts on future costs and delivery. Any new Capital bids will also be prepared for projects emerging from emerging investment priorities. These will be considered by the Capital Operations group for inclusion into the draft capital programme. Any changes to the existing programme must ensure that the programme remains affordable, prudent and sustainable.

## **Participatory Budgeting**

- 5.13 COSLA had previously agreed that from 2020/21, Local Authorities were to commit at least 1% of their budget to Participatory Budgeting (PB). For Clackmannanshire this equates to c£1.3m and since 2020/21, the Council has made good progress in identifying opportunities for PB. For 2022/23 the Council will continue this commitment to PB through the budget setting process and the Be the Future programme, building on existing proposals and identifying further opportunities where the Council can work with communities and involve them in the decision making on the allocation of budgets for specified Council services and projects.

## 6.0 2022/23 Budget Process and Timeline

6.1 The budget timeline was set out in the Budget Strategy Report to council in August. This section sets out the progress so far and updates the indicative timeline.

6.2 Progress so far:

- **August** An initial session was held with the Extended Strategic Leadership Group (ExSLG) on 25 August. Budget is now a standing item on the agenda for the ExSLG fortnightly meetings where progress and updates on the 2022/23 Budget will be discussed. At the initial session on the 25 August a presentation was given setting out the current budget gap and latest assumptions identifying the estimated level of savings required to set a balanced budget.
- **September** A follow up session was held with ExSLG setting out the budget approach for identifying and reporting savings. Templates were issued to Strategic Directors to capture savings proposals and demand pressures. Following this session the group was tasked with completing these templates and developing business cases in conjunction with the relevant support services: Finance, HR and Legal as required.

Trade Union (TU) representatives were given an overview of the budget gap and the budget approach at the TU Management meeting on 8 September.

Weekly budget updates from the S95 Officer and the Chief Executive with the Leader and Depute Leader commenced from 7 September.

A budget workshop was held with SLG and the S95 Officer on 29 September. This session focussed on setting out the detailed budget approach including developing the strategic narrative, reviewing Transformation Business Cases and their financial benefits, identifying areas of future benefit realising transformation opportunities, setting out the main areas for saving investigation and the revised approach to pressures for this budget.

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

- **October** – Initial session to be held with Administration Group. This session will set out the current budget gap and assumptions, present financial outturn trend data to inform investment focus and pressures and savings activity and to provide an update on the budget approach including early sight of any savings proposals.

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.

HRA - draft budget preparation work including review of rent level and proposals with the tenants federation. This will also include, where possible, external scrutiny of affordability.

- **November** - Briefings for Members and Trade Union representatives 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.

HRA capital investment plan to be reviewed and brought to the Capital workshop. 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.

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

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

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 for both GF savings proposals and HRA rent levels.

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.



- **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.

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.

- 6.4 Updates on progress on this timeline will be provided at briefings and through future Budget Strategy reports to Council.

## 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
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