
Report to: Clackmannanshire Council

Date of Meeting: 11 August 2022

Subject: Budget Strategy Update

Report by: Chief Finance Officer

1.0 Purpose

- 1.1 This paper provides an update on the Councils Budget Strategy and Financial Outlook for 2022/23.
- 1.2 This paper also sets out proposed changes to the approved Housing Revenue Account (HRA) Capital programme for 2022/23.

2.0 Recommendations

- 2.1 Council is asked to note:
 - 2.1.1 the financial impact of the Covid19 pandemic on council spend and the assumption that spend is absorbed into business as usual;
 - 2.1.2 the potential significant financial impact of the current cost of living crisis and inflationary increases on council spend;
 - 2.1.3 the potential financial impact of a pay rise above assumed 2% within the 2022/23 budget;
 - 2.1.4 the distribution COVID Support funds
 - 2.1.5 the key messages from the Scottish Government Resource Spending Review, and
 - 2.1.6 the approach to setting the 2023/24 budget to ensure a balanced position and the 2023/24 indicative budget gap.
- 2.2 Council is asked to approve:
 - 2.2.1 the revised profiling of the 2022/23 HRA Capital Budget in light of updated estimated project delivery due to the current economic climate.

3.0 Financial Overview 2022/23

General Fund Revenue - COVID Spend v Business As Usual

- 3.1 The Covid19 pandemic continued to have a significant impact on the Councils financial position for 2021/22. Most funds received in 2020/21 and 2021/22 have been offset against spend in those years and only specific earmarked funds remain to be used in 2022/23. Three of these are set out in paragraph 3.6 below.
- 3.2 We are now seeing the effects of the pandemic being embedded into business as usual and whilst this does not remove the additional pressures on services, it does make it much harder to distinguish between COVID and non COVID related pressures. On that basis financial outturn reports for 2022/23 will not separately identify COVID and non COVID spend as they have over the last two years unless a specific new event or pressure arises.

In Year Pressures

- 3.3 With the rising Cost of living, the Council along with individuals are seeing rising costs across many areas of spend since the 2022/23 budget was approved in March 2022. Inflationary increases are being felt on various contracts including utilities costs in Council buildings and direct fuel costs on Council vehicles as well as increases that are now being passed on through contractors. There are also indications of potential further increases to come.
- 3.4 In addition to this the Pay award for teaching and non teaching staff has not yet been agreed for 2022/23. The 2022/23 approved budget included an assumption equating to a 2% increase on the Council pay bill based on the Public Sector pay Proposal. Any amount agreed above 2% would result in an additional cost pressure to the Council if unfunded.
- 3.5 Work is being undertaken on the first outturn of the year as at June which will include forecasts on these pressures and the overall forecasted over or underspend for the year. As part of the budget, uncommitted reserves were utilised in full and reserves brought below their previous minimum level of 3%. There is therefore little scope to offset any additional in year pressures and these will need to be managed within existing approved budget. If Council spend is forecast over budget for the year, a management action plan to bring spend back in line with budget may be required and spending restraint may be considered. This position will be monitored through the year and updates reported through Committee and Council as appropriate.

Distribution of COVID Support Funds

- 3.6 As noted in paragraph 3.1, the Council received various COVID support funds during 2021/22. Each of which had specific guidance on their administration with the aim of supporting both individuals and businesses. These funds included:
- £271k - Financial Insecurity/Winter Wellbeing fund;
 - £33k - Family Wellbeing fund, and

- £771k – Local Authority COVID Economic Recovery Fund (LACER fund) - the agreed proposals for the distribution of this fund are set out in Appendix A.

Further information about each of these funds will be announced in due course.

4.0 Indicative Budget Gap 2023/24

4.1 The indicative budget gap for 2023/24 and future years is set out in the table below. This is based on the assumptions previously set out in the 2022/23 Budget paper approved by Council in March 2022 and remains unchanged. 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 these assumptions will be monitored through the year and updated when further information is known.

4.2 The table below shows the Current indicative budget gap for 2023/24 is £11.311m with a cumulative indicative gap of £32.955m looking forward across a 5 year time frame to 2027/28.

Table 1: General Services Budget 2023/24-2027/28 Indicative funding gap

	2023/24	2024/25	2025/26	2026/27	2027/28
	£000	£000	£000	£000	£000
Net expenditure	147,449	152,768	158,134	163,548	169,010
Net Funding	136,138	136,060	136,013	135,998	136,015
Cumulative indicative Funding Gap	11,311	16,708	22,121	27,550	32,995
Annual indicative Funding Gap	11,311	5,397	5,413	5,429	5,445

4.3 The main assumptions included within the indicative budget gap are:

Table 2: – Budget Gap Assumptions

Variables	2023/24	2024/25	2025/26	2026/27	2027/28
Pay Award	2%	2%	2%	2%	2%
Grant Funding	0%	-1%	-1%	-1%	-1%

Council Tax	3%	3%	3%	3%	3%
Demand Pressures	£3m	£3m	£3m	£3m	£3m

Pay Award

- 4.4 The current budget gap reflects inflation equivalent to approximately 2% based on the Scottish Public Sector Pay proposal for 2022/23. Additionally, 2% inflation is assumed for all salary levels each year thereafter. It should be noted, however, that the 2022/23 pay award has not yet been agreed and current requests by unions exceed this level which could have an impact on 2023/24 assumptions and future years.

Council Tax

- 4.5 The current gap reflects a 3% increase in the level of Council Tax for 2023/24 and 3% increase thereafter in future years. Each 1% change is equivalent to c£200k.

Grant Funding

- 4.6 The current gap is based on a flat cash settlement for general fund grant with a 1% reduction built in for future years. Each 1% change is equivalent to c£800k.

Demand Pressures

- 4.7 The current gap includes an amount for inflationary increases of £3m in all years. Due to increased inflation through 2021/22, this figure was only expected to offset Contract Inflation with General Inflation needing to be met through additional savings. Based on current continued rising inflation through the first half of 2022/23 it will be an area of significant financial challenge to meet all contract pressures within this figure.

Scottish Government Resource Spending Review

- 4.8 The Scottish Government published its Resource Spending Review on 31 May 2022. The spending review sets out the high-level parameters for resource spend within future Scottish Budgets up to 2026-27 and provides a long-term plan focused on delivering outcomes. The review outlines how more than £180 billion will be invested to deliver priorities for Scotland and how it will focus public finances.
- 4.9 Initial indications from the resource spending review are that Health and Social Care and Social Security Spending are being prioritised with increases to budgets resulting in flat cash and real term reductions for other areas. Local Government is included in these other areas therefore leading to suggest that Local Authorities budgets could see real time reductions in their revenue budgets over the 5 year term.
- 4.10 The resource spending review, as noted, is a high level plan for spending across Scotland. Individual Local Authority allocations for the coming year will be presented in the draft settlement due in December 2022 and these will be factored into the assumptions within the indicative budget gap.

- 4.11 There is much uncertainty around funding for future years and fluctuations in the main assumptions as set out in Table 2 can have a significant impact on the budget gap. Current in year inflation, pay award and the recent spending review announcement may significantly impact the grant funding, pay award and demand pressure assumptions. Further modelling scenarios and updates on planning assumptions will be prepared for future strategy updates to Council.

5.0 2023/24 Budget Strategy

- 5.1 As set out in the Chief Executive's report to this Council meeting (Agenda item 4), the extremely challenging context of service and financial sustainability with projected budgets and services unlikely to be able to meet demand in the medium to longer term, equates to a cumulative funding gap of £22.121m up to March 2026, with an expected gap of £11.311m for 2023/24 alone. The ongoing challenge of increasing demand for services post COVID, anticipated spending increases, energy, pay, and other inflationary costs, means that the Council needs to prioritise reducing its expenditure further on an ongoing basis. This has led to the Chief Executive introducing an enhanced Corporate budget process for 2023/24, in consultation with the Section 95 Officer, where the approach aims to ensure that the requirement for the Council to maintain a balanced budget position is met.
- 5.2 As part of this Corporate Budget Process, a new Budget Challenge Board is being introduced with effect of August 2022. This will be led by the Strategic Director, People and supported by the Chief Finance Officer. The Board will be incorporated within the existing financial budget approach and process, supplemented by additional informal meetings with Trade Union Colleagues, the Chair of the Budget Challenge Board and the Chief Executive. The current formal Trade Union/ Management engagement on the budget and transformation will continue as agreed and in line with existing arrangements.
- 5.3 The Board will provide robust challenge across all Directorates, taking a zero based budgeting approach, with forensic and detailed analysis of expenses and possible revenue sources. Comprehensive analysis and challenge will take place at each portfolio level against the Council's agreed strategic priorities, taking into account affordability and longer term sustainability, with each Directorate being challenged to justify and/or adjust every essential expense. Any possible savings or income arising from transformation will be considered as part of this challenge process as well as any consideration of adjustment in service delivery and standards, risk management and ensuring that funding is available to address the needs of the most vulnerable.
- 5.4 It is intended that this approach will contribute to addressing the existing budget deficit and address financial sustainability in the longer term with further decisions resulting from organisational redesign and digital transformation. This approach will support the proposed new Target Operating Model (TOM) for the Council as set out in the Chief Executive's TOM report (also on the agenda for this Council meeting). The Budget Challenge Board will begin to address and support all areas of the TOM: People, Process and Technology.

5.5 Updates on the work of the Budget Challenge Board will be provided to Elected Members, Trade Unions and Officers at various points in the year. As in previous years, these Budget Strategy Reports to Council will also provide regular updates on the budget process.

6.0 HRA Capital Budget

6.1 The HRA Capital Budget was approved as part of the Housing Revenue Account Budget 2022/23 and Capital Programme 2022/23 by Council at its meeting on 10th February 2022. This report asks Council to approve a number of changes to the approved Capital programme for the reasons outlined below.

6.2 The process of recovering from the impacts of the pandemic has been slower than would have been hoped and some specific issues have arisen that need to be addressed directly. In particular we have a significant backlog of bathroom adaptations to Council owned homes that should be reduced as a matter of some urgency. There have also been delays in the procurement process for the major element replacement programmes.

6.3 Work to progress the complete renewal of the Gypsy/traveller site at Westhaugh has continued and is progressing. This project is funded through both Scottish Government Grant funding and the HRA budget. The Scottish Government have asked that spend against grant funding is committed early in the construction phase and as such, the HRA element of the budget has been reprofiled later in the project phasing.

6.4 Council approved a budgeted spend for 2022/23 of £15.903m. The changes set out in the table below amount to a net reduction of £3.195m in capital spend for 2022/23, reducing spend to £12,708m. £1.695m of this relates to the Westhaugh project and has been added to the programme for 2023/24, increasing the total budget figure for that year to £13,547.

6.5 As the overall impact of these changes on the programme are a net reduction in spend, the amount of new borrowing in year will also reduce.

6.6 Table 3 – Capital Budget Amendments

Project	2022-23 Approved Budget £'000	Amendment £'000	Revised Budget 2022/23 £'000	2023/24 Revised Budget £'000
Roof & Render Upgrading 2019-23	2,500	(1,500)	1,000	3,000

Delays in concluding the procurement of this work mean that it will not be possible to achieve the current spending target in year. Once a contract is in place it is anticipated that the annual spending target of £2,500 for 2023/24 and beyond will be met until the whole programme of works is completed.

Kitchen Replacement 2017-20	1,250	(250)	1,000	1,250
Delays in concluding the procurement of this work mean that it will not be possible to achieve the current spending target. Once a contract is in place it is anticipated that the annual spending target of £1,250 for 2023/24 and beyond will be met until the whole programme of works is completed.				
Aids & Adaptations 2017-20	250	250	500	250
As at June 2022 around 110 bathroom adaptations are outstanding, this backlog has built up over the period of the pandemic and represents a significant risk to the Council and to the tenants waiting for accessible facilities. The additional funding is expected to be sufficient to eliminate the backlog during the current financial year. A review of the adaptations process is also underway to ensure that we adopt best practice and to support a better understanding of demand in the future. It is possible that additional resources may be required annually in future. The review and the HRA business plan review will confirm this ahead of the rent and budget process for next year.				
Westhaugh Travelling Site Alva	1,695	(1,695)	0	1,695
Work to progress the complete renewal of the site at Westhaugh has continued with a strong focus on engaging with the residents and developing a modern and high quality living environment. The project team still expect to have progressed to a site start this year. As noted at para 6.3, the funding has been reprofiled to prioritise spend against the grant funding provided by the Scottish Government with HRA funding being reprofiled to be spent later in the project. The project costs and spend profile overall have not changed but the council's own resources will not be called on until 2023/24.				

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".

Appendix A – Distribution of the Local Authority COVID Economic Recovery (LACER) Fund

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 2022/23
- Housing Revenue Account Budget 2022/23 and Capital Programme 2022/23

Author(s)

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

Approved by

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

Appendix A – Distribution of the Local Authority COVID Economic Recovery (LACER) Fund

Background

The Council was awarded £771k as part of a share of £80million from the Scottish Government LACER fund.

The guiding policy intent of this funding is to support local economic recovery and cost of living impacts on low-income households. The Council had discretion to choose how to use these funds within the boundaries set by joint guiding principles to support flexible usage.

The bulk of this funding will be targeted at low-income households facing the impact of the cost of living crisis as set out below:

- £539k to provide a **£100** cost of living payment to up to 5,390 Council Tax Reduction (CTR) claimants (including exempt categories as @ 1st July (the eligibility date)) – This aligns with the 894 families, eligible for free school meals. The award will be issued to align with the communications around challenge poverty week (3rd to 9th October). This timing also aligns, with the expected increase in the Energy Price Cap.
- £62k (uprated by £13k from the financial insecurity fund, to give a total fund of **£75k**). This is an initial seed fund for a further LENS event, which will focus on community aspirations around the fund criteria to come forward and seek funds for community support initiatives. This is a seed fund to attract further interest and sponsorship. This event will be launched at challenge poverty week.
- £170k Business support to compliment local economic recovery activity (see below)

Local Economic Business Support Proposal

Organisation Delivering	Activity	Amount
Clackmannanshire Council Economic Development)	Grant funding to businesses that have ambition to grow and are projecting growth in turnover and/or employee numbers. Grants will be used for several activities (to be agreed with the Clacks Business Support Partners) but will include: <ul style="list-style-type: none"> • Projects supporting a net zero agenda and energy efficiencies • Projects to increase digital capabilities of businesses 	Average grant of £5k to support around 24 businesses = £120,000

	<ul style="list-style-type: none"> • Projects which will support premises adaptation/expansion • New Product Development/Innovation • Business Planning and financial advice • Marketing/website support <p>We would propose a similar scheme to our current Discretionary Fund Phase 3, where businesses make application based on an appropriate growth project, have funding approved, carry out the project and grant is paid on proof of completion (and satisfactory feedback).</p> <p>We would also propose that businesses in receipt of this new grant funding are asked to commit to a small community benefit (e.g. Offering a work placement or work experience or taking part in the Career Ready or MCR Pathway mentoring programme) and are also asked to give support to our proposed Clackmannanshire Good Employment Charter.</p>	
Clackmannanshire Council (Economic Development)	Funding to support businesses with growth strategy workshops (continuation of our successful strategy support programme). Businesses will work with a strategy consultant to produce a growth action plan (including international growth).	Consultancy cost of approximately £1,500 per business. Support to 20 businesses = £30,000
Alloa First	Funding to support marketing and events for the Alloa First Town Centre BID (covering advertising costs, promotion of the Alloa First online shop and an events programme for 2022/23).	£10,000
Clacks First	Similar funding for marketing and website development for the Clacks First BID to showcase the BID business parks and Clackmannanshire as a place to locate your business.	£10,000
TOTAL FUNDING		<u>£170,000</u>

Considerations/Management of Fund

The above funds have been allocated in accordance with the grant conditions and guidance received from the Scottish Government. The overall management of funds will be monitored by the Family Wellbeing Partnership Programme Manager and any adjustments to funds, will be done in conjunction with the Section 95 officer. The impact and outcomes of the funding to local business will be monitored and reported to members at an appropriate committee.

