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**Report to Council**

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**Date of Meeting: 12 August 2010**

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**Subject: Budget Strategy**

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**Report by: Director of Finance and Corporate Services**

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**1.0 Purpose**

- 1.1. The purpose of this report is to update the indicative General Services Revenue Budget 2010-2013 considered by the Council at its meeting in February 2010. The report summarises the most up to date projections of Council funding for the period 2011-2014 and sets out the main cost pressures identified so far. The report also seeks approval to put in place arrangements for the further development of the strategy, pending the outcome of the Comprehensive Spending Review in the Autumn.

**2.0 Recommendations**

It is recommended that the Council:

- 2.1. approves the recommended corporate savings targets for 2011-2014 as a basis for the preparation of three year provisional Revenue Budgets and detailed savings options, subject to further announcements by the UK and Scottish Governments in the Autumn;
- 2.2. agrees the current planning assumptions in relation to the future year budget strategy;
- 2.3. approves the framework for the budget strategy set out in section 6;
- 2.4. approves the consultation arrangements proposed to inform the development of detailed options appraisal by council officers;
- 2.5. approves the creation of an Invest to Save Fund to cover non-recurring costs associated with business change projects;
- 2.6. agrees that officers will prepare a statement of principles and eligibility criteria to govern the allocation of the Invest to Save Fund;
- 2.7. agrees to review the adoption of a budget carry forward scheme as part of the 2012/13 Budget setting process (Year 2 of the Comprehensive Spending Review period).

### 3.0 Background

- 3.1. The current recession is having a significant impact on the UK economy with the UK experiencing deterioration in public sector finances worse than the majority of other Organisation for Economic Co-operation and Development (OECD) countries. The UK Government's additional borrowing, to support the economy through increased public sector spending, has increased debt payments. Public sector borrowing has increased dramatically from £36 billion in 2007/08 to £175 billion in 2010/11.
- 3.2. Over the short, medium and longer terms, the UK Government will need to significantly reduce public spending, increase taxes or apply a combination of both measures to reduce the national debt. This projected reduction in public spending will have a significant impact on the amount of money available throughout the UK's public sector.
- 3.3. The Scottish public sector is facing the biggest squeeze on budgets since devolution with the financial year, 2009/10, likely to represent the peak year for public spending for some time to come. The overall Scottish budget will be significantly lower in real terms by 2013/14 than in 2009/10. Reductions of this size will present a major challenge for the public sector in sustaining current levels of service provision and quality.
- 3.4. In February 2010 the Council's General Services Revenue Budget summarised the following medium term financial position:

	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Net Expenditure	119,179	119,943	122,389
Funding	119,179	116,379	113,578
Cumulative Gap	0	3,564	8,811

- 3.5. This outlook was based on the following assumptions:
- 1% inflation on pay and other costs
  - reduction in central government grant funding of 12% in real terms
  - no significant specific service growth
  - increase of capital financing cost of £1.75m across the 3 years
  - contribution of £1.5m to reserves
  - cumulative increases of c£250k per annum to fund Schools PPP per model (formerly 1% on council tax)
  - Scottish Government continues to freeze council tax (this amounts to £644k per annum - equivalent to c 3% on council tax)

- concordat commitments on provision of school meals and reduction in class sizes addressed in 2010/11
- 3.6 The Council has also recently approved the following key elements of its financial strategy:
- Revenue Budget 2010/11 (February 2010)
  - Capital Budget 2010/11-2014/15 (February 2010)
  - Reserves Strategy (Corporate Strategies report to Council 17 December 2009).
  - Annual Treasury Strategy (Annual Treasury Report to Council 24 September 2009 and Treasury Management Strategy Statement Report to Council 4 June 2009) and Prudential and Treasury Management Indicators 2010/11-2012/13 (Report to Special Council 11 February 2010).
  - Annual Treasury Investment Strategy (pending: September 2010)
  - Housing Revenue Account 2009/10 Budget Monitoring (Report to Scrutiny 21 January 2010) and Housing Investment Programme (HRA Capital Programme Report to Council 4 June 2009).
  - Strategic Housing Investment Plan 2009/14 (Report to Council 29 January 2009).
- 3.7. Following the UK elections in May 2010, as part of its Emergency Budget set on the 22 June 2010, the new UK coalition Government announced £6.2 billion of public expenditure savings in 2010/11. This is in addition to the £5 billion of existing measures set out in the March Budget Statement.
- 4.0. Assumptions on General Services Revenue Funding 2010-2014**
- 4.1. The impact of the Emergency Budget savings requirement on the Scottish Budget is a net £332 million in the current year. The Cabinet Secretary for Finance and Sustainable Growth has announced that the Scottish Government intends to defer the implementation of these additional savings until 2011/12.
- 4.2 On this basis, it is assumed that the Council's Revenue Funding will remain unchanged in 2010/11 at approximately £97 million.
- 4.3 The overall impact of deferring the savings requirements from 2010/11 to 2011/12 will simply increase the scale of savings needing to be realised by the public sector next year. As a consequence, senior management are seeking to maximise opportunities to reduce expenditure within the current financial year to offset pressure on future year's expenditure.
- 4.4 During 2009 and 2010 the Council has already undertaken a review of the management structure which has resulted in the number of Chief Officer posts reducing by 5. As the Council is focused on front line delivery and has always sought to minimise the costs of supervision and management , examination of the management structure is ongoing to ensure that service groupings reflect

the need of customers and clients and that any duplication and overlap is identified in order to capture further savings.

- 4.5 In addition to these changes, much progress has been made in developing workforce management policies and management practices which support the level of transformational change and reduction in staff numbers that will be required over the next four years. The performance, dedication and flexibility of the council's employees are a key strength and the Council aims to manage staffing changes with fairness, consistency and equality. In order to reduce the potential need for future redundancies, during 2010/11 the Council has sought to manage staff vacancies and numbers prudently.
- 4.6 CoSLA, local authority Chief Executives, Directors of Finance and the Improvement Service have together produced a suggested common planning assumption for Government funding for Scottish local authorities over the three years of the next spending review period. Their recommendation is that local authorities should assume that the starting point for financial planning for 2011/12 to 2013/14 is a 12% real terms reduction in Scottish government grant funding over this period. This planning assumption is also endorsed by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 4.7 On this basis, Clackmannanshire has used the assumption of a 12% real terms reduction in Scottish Government Revenue Funding for 2011/12-2013/14 as the starting point for its budget projections. In line with CIPFA good practice recommendations we have also extended the financial planning period to include 2013/14 in line with the duration of the imminent Comprehensive Spending Review period.
- 4.8 The financial assumptions made in paragraph 3.5 also continue to provide the basis for the development of the Council's Budget Strategy. However, all of these assumptions are subject to a greater degree of uncertainty than in previous years. Furthermore, the 12% projected reduction in funding levels does not take account of any new/ revised policy requirements the UK Government may implement, or the protection of significant areas of public expenditure such as the Health Service. Such initiatives also have the potential to significantly increase the impact of public sector savings targets on local government expenditure.
- 4.9 It is therefore prudent for the Council to plan for a higher level savings target over the period. It is recommended that budget planning is undertaken on the basis of a 12% reduction in the level of funding, phased over the three year period plus an allowance for further expenditure growth, shifts in inflation and/ or demographic change. This results in a recommended corporate savings requirement of £18 million between 2011 and 2014.
- 4.10 One of the most critical areas of uncertainty is the likely incidence of the reduction in funding over the three years. The Centre for Public Policy for the regions (CPPR) suggests that the reduction in funding is likely to be weighted towards the earlier years of the next Spending Review period. This is consistent with the UK Government's priority of reducing the UK budget deficit at the earliest opportunity. On this basis, we have planned for the need to address a higher savings target in 2011/12. This equates to the following: £7.5 million in 2011/12; £5.5 million in 2012/13 and £5 million in 2013/14.

4.11 To facilitate the smoothing of potential over and underspending year on year, CIPFA recommends the adoption of a formal budget carry forward scheme. Some councils have implemented, or are considering, such arrangements to provide greater flexibility in managing savings requirements over the next few years. The Council has prioritised the need to improve the frequency and reliability of financial information and work has recently commenced to look at corporate budget monitoring arrangements and information collation. These building blocks are viewed as a pre requisite to implementing a budget carry forward scheme. On this basis, the Council will review the development of such a scheme as part of its 2012/2013 Budget setting process.

## 5.0 Assumptions on demographic changes and demand growth

5.1 These expected funding reductions will have to be addressed against a background of an expected longer term increase in population in Clackmannanshire coupled with a change in demographics. The following table shows the increased population projections using 2008 as the base year.

	2013	2018
All Ages	5%	10%
0-15	3%	8%
Working Age	4%	10%
Pension Age	8%	11%
75+	15%	32%

5.2 As a result of population change and other factors such as the impact of the recession there will be an increased demand for public services which will affect service affordability. The main factors are identified as:

- Increasing demand for social work services, including residential care and nursing placements, resulting from youth and older people demographics;
- Increases in the number of children who have additional learning needs resulting in an increased requirement for support, more residential places & higher transport costs;
- Increasing number of looked after children
- The requirement to invest to meet carbon targets and efficiencies;
- Road maintenance - ensuring steady state (i.e. no increase in maintenance backlog)
- Increases in the number of secondary school pupils staying on at school due to the economic downturn

- Increases in housing and council tax benefits for people who are out of work
- Increase in demand for housing, social care and other services to support those in financial difficulty.

### 5.3 A number of cost increases will also impact on the Council's budget

- Increases in operating costs such as fuel costs
- Additional cost of waste treatment, recycling and landfill
- Teachers Maternity Pay Costs

The council's budget will need to accommodate all of these inflationary increases in costs as well as the increased demand for services.

## 6.0 Proposed Strategy

6.1 Budget pressures are likely to continue over the medium to long term and Sir John Elvidge, the Permanent Secretary of the Scottish Government, has indicated that the aggregate funding gap may be as much as 20% by 2018.

6.2 As a result of these projections Audit Scotland in a report published on 25th February 2010 entitled "Improving public sector efficiency" identified the type of options that Councils will need to examine to address the financial challenges over the next 3/5 years. The report identified more flexible deployment of staff, reduced staffing levels, rationalising assets and seeking alternative ways of providing services as options which need to be examined. The report states "The scale of the financial challenges facing the Scottish public sector means that a new approach is needed that fundamentally reviews priorities and delivery of services".

6.3 Although the issues facing the Council are far more challenging than ever before, the Council has developed or is working towards a number of strategies which will facilitate the achievement of appropriate service levels during a time of recession in public sector finances. Progress is being made in the Council's aim of achieving Investors in People status and in achieving Customer Service Excellence. The Clackmannanshire Improvement Model is well established and focuses the Council on providing a high level of customer service.

6.4 The strong focus on delivering improved outcomes for people who live in the area through the delivery of the Clackmannanshire Alliance Community Plan and Single Outcome Agreement is set to continue and will be a significant factor in the development of detailed options appraisals which will be undertaken to inform the Council's decision making processes in setting the 2011/12 budget.

6.5 On 17 December 2009 the Council approved a Financial Strategy which contained seven objectives and this budget strategy will ensure compliance with these objectives:

- Budgets are prudent and sustainable in the long term,

- Financial plans recognise corporate priorities and objectives,
- Significant risks are identified and factors to mitigate against risks are identified,
- The Capital Programme is planned over a 5 year rolling programme, with "unsupported" borrowing minimised, other than where there are clear financial or economic benefits for the Council,
- Constraints on capital and revenue resources, including the uncertainties around future government funding, are recognised and taken into account,
- Council Tax increases will be kept to a minimum, within the current constraints agreed with the Scottish Government,
- Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the Council

6.6 The proposed budget strategy is to retain the best of our current approach, and to concentrate our reduced resources on delivering key priorities. It is recommended that this is achieved through a combination of:

- *reducing expenditure*: for instance sustaining the focus on corporate efficiency targets and initiatives with a view to discontinuing activities which make a limited contribution to our key priorities; reviewing mandatory and discretionary service provision; promoting mobile and flexible working practices for staff; maximising the contribution of other sectors to the achievement of improved outcomes and local priorities and rationalising the Council's property portfolio on the basis of a/the corporate Asset Management Plan
- *increasing income*: for instance by improving arrears management and debt recovery arrangements; reviewing policy in relation to future council tax increases; removing subsidies in whole or part for certain services; introducing new or revised charging policies for council services.
- *redesigning our service provision*: for instance as a consequence of Corporate Improvement Model (CIM) initiatives; the implementation of Customer Service Excellence; improved use of technology; the impact of revisions to council structures; and through innovative approaches to service provision such as voluntary and community led initiatives or involving the private sector
- *Other initiatives*: for instance by actively pursuing integrated partnership working with public sector partners; cutting back the capital programme; improving corporate procurement arrangements.

## 7.0 Invest to Save Fund

7.1 Some of the savings options presented to the Council are likely to require up-front investment to meet the costs of implementation. As a consequence the delivery of the full range of potential benefits from both business

transformation through CIM and other savings initiatives is dependent on the creation of a funding mechanism to meet such costs.

- 7.2 The uncommitted balance on General Fund Reserves at 31 March 2010 is £2.8 million. This is in line with the recommended minimum level of uncommitted reserves of 2-4% of uncommitted non-HRA Reserves as set out in the Council's approved Reserves Strategy (Finance Strategy 2010-2013).
- 7.3 The indicative General Services Revenue Budget for 2010-2013 is based on an assumption of an earmarked contribution to reserves of £1.5 million. It is proposed that £1 million of this is diverted to establish an Invest to Save Fund which will meet any non-recurring costs associated with the delivery of longer term transformation projects. This allocation is dependent on the maintenance of minimum levels of reserves in line with approved strategy and will be subject to annual review by the Council through the Budget process from 2012-2014.
- 7.4 Allocations from the Fund will need to be made on the basis of agreed criteria and these will be presented to a future Council meeting subject to the Council's agreement to create the Fund.
- 7.5 In addition the Council has the option of borrowing to meet the capital costs associated with proposed projects. The Council aims to minimise additional borrowing for such activities and where it is utilised such exceptional borrowing would be in line with the Council's prudential indicators and on the basis of a robust business case and options appraisal process.

## **8.0 Wider Engagement/Awareness Raising**

- 8.1 To ensure that the council's approach to addressing the reduction in funding and identifying budget savings initiatives is as effective as possible, and identifies all feasible means of balancing the budget, it is essential that all of the council's stakeholders- including citizens, service users, community councils, staff and trade unions- have the opportunity to gain an understanding of the council's financial position and to contribute ideas on how the council should approach the challenges faced.
- 8.2 The Council has already started this process and a budget engagement leaflet has been produced which will provide the basis for a variety of events during August and September. These events are planned for a number of locations including schools, council buildings, town centre supermarkets and local community bases. The activities seek to reach as wide a range of service users, partners residents and staff and trade union as possible and take their views, suggestions and ideas to inform the identification of potential areas for more detailed consideration through the Autumn.

## **9.0 Conclusion**

- 9.1 Firm government funding figures in relation to the next Spending Review period (2011/12 to 2013/14) will not be known until later in 2010. However based on a nationally agreed planning assumption, of a 12% real terms reduction in Scottish government grant funding over this period, in conjunction with the provision of some headroom to offset the higher than usual degree of

financial and planning uncertainty that exists, the Council will require to find budget savings in the region of £18 million.

9.2. The level of anticipated savings in public sector budgets represents a level of unprecedented universal challenge. Clackmannanshire Council has a track record of proactivity in addressing such challenging financial situations and this Budget Strategy aims to assist both elected members and officers in bridging the significant budget gap which could occur.

9.3 The proposed strategy aims to make the most of our current approach, and to concentrate our reduced resources on delivering key priorities. We will do this through a combination of strategic and operational activities and specific projects which are focused on maximising our income, minimising expenditure and where ever possible considering alternative and improved means of delivering services.

## 10.0 Appendices

10.1 None.

## 11.0 Background Papers

11.1 Clackmannanshire Council Financial Strategy

11.2 Audit Scotland - Improving Public Sector Efficiency

11.3 CIPFA Long term financial planning- good practice checklist

11.4 Clackmannanshire Council Indicative General Services Revenue Budget 2010-13

11.5 Clackmannanshire Council Reserves Strategy (Finance Strategy 2010-2013)

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