
Report to Council

Date of Meeting: 29 September 2011

Subject: Budget Strategy Update

Report by: Director of Finance and Corporate Services

1.0 Purpose

- 1.1. The purpose of this report is to update Council on its approved Budget Strategy which was agreed in August 2010. The report updates aspects of the strategy in respect of 2012/13 onwards. 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. notes the ongoing uncertainty and unpredictability of forecasting in the current operating environment and the potential impact of this on Scottish and hence Local Government's budgets
- 2.2. notes the Council's potential funding gap based on updated scenario planning
- 2.3. endorses the proposal to present refreshed figures on the Council's funding gap following the imminent Spending review announcement
- 2.4. endorses the proposed October Challenge event approach to test the robustness of savings delivery in respect of 2011/12 budget
- 2.5. notes the intention to prepare a progress report for Council on the implementation of the Scottish Government's specified commitments
- 2.6. approves the continuation of the Spend to Save Fund to fund non recurring costs of business change initiatives
- 2.7. approves the preparation of an appropriate carry forward scheme as part of the 2012/13 Budget setting process
- 2.8. approves the establishment of a cross party member and officer Capital Investment Forum (CIF)

- 2.9. approves the workplan for the CIF as the identification of the broad investment priorities and classifications to inform the development of a corporate asset management plan and to revisit the existing Capital Programme applying the agreed parameters/priorities.
- 2.10. approves the proposed consultation approach for 2012/13 budget setting.

3.0 Background

- 3.1. The recession continues to have a significant impact on the UK economy. The most recent Bank of England report highlights the challenges facing those responsible for setting UK interest rates. The Consumer Price Index rate in July 2011 was 4.4%, more than double the target rate of 2%.
- 3.2. This position is exacerbated by the fact that there remains a significant degree of uncertainty and rapid unexpected change across the economy which makes forecasting problematic- the Monetary Policy Committee (MPC) attached a probability of less than 5% to an outturn as high or higher than the 4.4% actually experienced. Consequently planning spending activity in such an uncertain and unpredictable context represents an additional challenge for all spending authorities.
- 3.3. The relevance of the changed inflation projections over the last 12 months is significant in respect of the value of the Scottish Government's budget. In August 2011, the Centre for Public Policy for the regions estimates that the real terms budget cut is likely to be between £250 million and £800 million more than anticipated depending which CPI projections are used and which budget baseline year is used (2010/11 when the budget was set, or 2011/12).
- 3.4. Alongside this work, COSLA in consultation with local government has reviewed the financial model which it developed as part of the 2011/12 settlement and Spending Review discussions. The model was developed to estimate the potential extent of the funding gap facing local government by 2016/17 if:
 - local government services continue to be delivered as at present
 - future costs of current service delivery are met
 - funding was constrained by the current economic climate.
- 3.5. The 2011/12 model indicated a funding gap in cash terms of around £3.8 billion by 2016/17. The refreshed model estimates the revenue funding gap to be £3.7 billion by 2016/17, most of which is largely driven by increasing demand. The main assumptions are that there will be a:
 - projected flat cash based local government settlement
 - pay freeze until 2013, thereafter an inflationary pay freeze
 - £50 million reduction in Council Tax Benefit arising from Welfare reforms
 - £70 million additional annual funding to meet the ongoing Council Tax Freeze commitment.

Any variation from these assumptions will clearly impact on the funding gap estimated in the current exercise and continue to present a major challenge for the public sector in sustaining current levels of service provision and quality.

4.0. **Assumptions on General Services Revenue Funding 2012-2015**

- 4.1. In January 2011, the Cabinet Secretary for Finance and Sustainable Growth provided illustrative budget figures for 2012/13 to 2014/15. The figures for Local Government are set out at Table 1 below. The Table reflects a flat cash settlement in respect of revenue funding and reducing levels of capital grant over the Spending Review period to 2015.

Table 1: Local Government Illustrative Settlement 2011 to 2015

Budget	2011/12	2012/13	2013/14	2014/15
Local Government Resource (£m)	8,354.7	8,354.7	8,354.7	8,354.7
Local Government capital (£m)	691.8	683	617	640
Total	9,046.5	9,037.7	8,971.7	8994.7

- 4.2 In addition the Cabinet Secretary made a number of key statements and/or observations in his January 2011 correspondence which included:
- the requirement for fundamental public sector reform (Christie Commission, health and social care, police and fire and rescue services and higher education arrangements)
 - the likelihood of revisiting Table 1 figures to reflect the recommendations arising from above reviews
 - a commitment to ring fencing Health budgets (though the timescale or duration of this was not explicit)
 - Local Government receiving a flat cash settlement for the Spending Review period at the same level as allocated for 2011/12
 - transfer of £150 million from resource (revenue) into capital to support infrastructure investment in 2011/12 (and to possibly repeat this transfer in future years)
 - the importance of the Non Profit Distributing (NPD) programme to sustain the Scottish Capital programme.
- 4.3 In February 2011, the Council approved the 2011/12 Budget based on the approved Budget Strategy which aims to:
- *reduce expenditure*
 - *maximise income*
 - *redesign service provision, and*
 - *implement other targeted initiatives to deliver high quality services from a sustainable cost base.*

The 2011/12 Budget met the objectives and framework set out within the Council's approved Financial and Budget Strategies respectively. The budget proposed expenditure of £118.494m against income of £118.494m providing a balanced position. The proposed expenditure reflected savings of £8.068 million.

- 4.4 At the same time as the budget was presented to Council, assumptions in respect of the estimated funding gap were also provided. There has been little new formal information on which to base revisions of these estimates since February. However, estimates based on our most up to date information are shown in Tables 2 below. This is based on the settlement of flat cash being delivered adjusted for the potential local impact of some of the assumptions set out below the table.

Table 2: Indicative funding gap 2012-2015

	2012/13 £000	2013/14 £000	2014/15 £000
Net expenditure	120,605	123,424	128,112
Funding:			
Government Grant	93,833	93,683	93,433
Council Tax	21,600	21,727	21,854
Cumulative Funding Gap	5,172	8,014	12,825
Indicative Annual Gap	5,172	2,842	4,811

NB: These figures do not take account of the February 2010 proposed savings in respect of 2012 onwards as these were not formally approved at the time.

These scenarios present a potential funding gap of approximately £5.2 million in 2012/13. The main assumptions are as follows:

- the Scottish Government will seek a commitment to a continuation of the council tax freeze
- Scottish Government will continue to provide additional funding to secure its existing commitments to maintaining teacher numbers and for probationer teachers
- councils will be required to contribute to Change Fund(s) arrangements with a strong focus on early intervention/ preventative spend
- the Scottish Government will seek to maintain police numbers
- Health budgets are likely to continue to be ring fenced
- The Scottish Government will seek to maintain Local Government's capital resources at 28% of the Scottish Block grant, though this may be not be delivered annually but over the duration of the Spending Review period.

The Scottish Government's Spending Review announcement is imminent and these positions will be updated following any new information received. In

particular greater clarity should be available with regards other potential impacts on the settlement, for instance in respect of pensions reform.

- 4.5 One of the most critical areas of uncertainty has been the likely incidence of the reduction in funding over the Spending Review period, especially given that only one year's settlement figures had been provided for 2011/12. The Centre for Public Policy for the regions (CPPR) suggested that the reduction in funding was likely to be weighted towards the earlier years of the Spending Review period which was consistent with the UK Government's priority of reducing the UK budget deficit at the earliest opportunity. In practice, this appears to have been the case in England but not in Scotland.
- 4.6 This position will be considerably assisted by the emerging suggestion that the Scottish Government is likely to provide individual councils with 3 year settlement figures when it makes its announcement in December. This should assist councils in better planning and managing savings requirement over the remainder of the spending review period and had not been anticipated until very recently.
- 4.7 In addition to the identification of the indicative funding gap, it is important to consider progress in implementing the approved savings target within the current year's (2011/12) budget. The most recent financial monitoring information indicates that the Council is on track to deliver the planned level of savings. However, in order to ensure that this assessment is robust, a corporate challenge process is planned for October to ensure that all scheduled savings will be delivered. This will also provide the opportunity to update elected members in advance of Budget setting in February 2012 and identify whether any remedial action is required.
- 4.8 As part of the proposed October challenge event, work will also be undertaken to prepare an update for Council on progress made in meeting the Scottish Government's specified commitments as agreed by Council on 16 December 2010.

Incentivisation

- 4.9 Managers are working in extremely challenging circumstances to deliver savings targets. Progress so far indicates that there has been a high degree of corporate ownership of this process and it is important that manager's efforts are recognised and rewarded by reinvestment in enhancing and improving service quality and performance wherever possible.
- 4.10 In September 2010, Council approved the creation of a Spend to Save Fund. This fund was established to cover non-recurring costs associated with significant business change projects. A range of underpinning principles and qualifying eligibility criteria are also in place. The Fund totals £1million and is resourced from reserves - it is proposed that this level should be sustained for 2012/13 subject to the requirement to maintain reserves in line with the council's approved Finance Strategy.
- 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 committed to review the development of such a scheme as part of its 2012/2013 Budget setting process and this work will be commenced during Autumn 2011 following the Spending review announcement.

5.0 Capital Budget 2012/13 onwards

- 5.1 Table 1 above sets out the scenario of reducing capital grant for the duration of the Spending Review Period. In November 2010, following the announcement of the UK Spending Review outcome, the Budget Update report to Council highlighted that CPPR was indicating the potential for a real term reduction of up to 38% in capital funding to 2015.
- 5.2 In Scotland, the 2011/12 settlement incorporated a 17.9% reduction in capital funding. This was implemented through a reduction in supported borrowing which aimed to reduce the impact of reductions in cash grant and maintain existing levels of capital investment. The Government also proposed it will maintain loan charge support at existing levels, though clearly over time, this initiative results in a real terms reduction in the level of support and over time existing loan charges will become a higher proportion of General Fund expenditure as revenue resources reduce.
- 5.3 As is the case for revenue resources, the profile and incidence of income streams is critical to allowing councils to plan effectively. At paragraph 4.4 above, the emerging suggestion that capital resources may be reprofiled over the Spending Review period is significant. Depending on the level of existing capital programme commitments, this could result in additional borrowing requirements for some councils. Clearly this would also indicate the potential for additional revenue funding consequences for affected councils. It is not clear yet, should such a situation arise whether additional revenue support would be available. It is intended that Council will be updated following the Spending Review announcement.
- 5.4 Overall, it is clear that there is likely to be a further reduction in the level of capital funding available to the Council. This places a clear onus on the Council to maintain a robust Investment Strategy and to ensure that borrowing is maintained within prudential levels. Furthermore, it will be important for all councils to be clear about how they wish to invest resources in priority initiatives and how they will identify these priorities.
- 5.5 In determining council priorities, elected members will want to take account of how well capital investment is balanced between maintenance of existing assets and resources and investment in new and sustainable assets and infrastructure for the future. This picture becomes more complex when other local factors such as the level of historic investment, levels of deprivation, new government initiatives, and geographical factors are taken into account.
- 5.6 The Council has made a good start in this respect, having agreed its Investment Strategy in December 2010 which adopted CIPFA's Prudential Code. In addition, the Capital Budget 2011/12 set out two clear drivers: affordability as determined by the Investment Strategy and the ongoing commitment to reduce the Council's levels of borrowing (and which has been achieved in 2010/11); and priorities as indicated by the council's asset management strategies.

- 5.7 In order to provide a sustainable approach to capital investment in the future, it is proposed to build on the existing approach by:
- establishing a cross party member and officer Capital Investment Forum
 - agreeing broad classifications/ priorities for capital investment for the council in the medium to long term, incorporated within a Corporate Asset Management Plan
 - reviewing and reclassifying the existing Capital programme in line with the approved priorities and principles
- 5.8 Once Council approval is obtained for the proposed approach, clear terms of reference for and the constitution of the CIF will be prepared. Work will then commence through the Autumn to review the existing Capital Programme in anticipation of setting the 2012/13 budget in February 2012.

6.0 Consultation

- 6.1 To ensure that the council's approach to addressing potential funding reductions and identifying budget savings is as effective as possible and considers all feasible means of balancing the budget, it is essential that appropriate arrangements are in place to engage stakeholders. This provides 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.
- 6.2 In Autumn 2010, an extensive stakeholder consultation exercise was undertaken which significantly informed the Council's budget setting process for 2011/12. In the February 2011 Budget report to Council, some initial savings proposals were also submitted to elected members in respect of the 2012/13 budget. These proposals were also derived from the consultation exercise that was undertaken in Autumn 2010.
- 6.3 To facilitate the 2012/13 budget setting process, it is proposed that this information will be reviewed in consultation with elected members to identify further savings opportunities. In addition to this, a streamlined Budget challenge process will be established to engage council managers in prioritising areas of greatest importance and identifying where further efficiencies can be made.
- 6.4 In addition, consultation arrangements will be put in place to engage key external stakeholders, communities and the public. This work aims to build on, but not duplicate, the work undertaken in 2010.
- 6.5 Alongside this work, it is also proposed to develop an appropriate media strategy to communicate with and engage relevant internal and external stakeholders. Work is already in hand to develop this approach.

7.0 Conclusions

- 7.1 The level of ongoing uncertainty and financial pressure on public sector budgets continues to represent a level of unprecedented universal challenge. Clackmannanshire Council has a track record of proactively addressing such challenging financial situations and has a sound basis on which to build for the next Spending Review period. This updated Budget Strategy aims to assist

both elected members and officers in bridging the significant budget gap which could occur.

- 7.2 The proposed strategy aims to deliver stability and continuity in terms of the approach approved by Council in August 2010. It also aims to remain sufficiently flexible in the face of high levels of uncertainty in terms of both potential levels of reductions in funding and the impact of significant reviews of elements of the public sector such as police, fire, the NHS and social services.
- 7.3 The difficulties experienced in accurately forecasting in the current operating environment are also clear. As a consequence of this, there remains a strong underpinning commitment in this updated Strategy to provide regular updates for Council in respect of the emerging picture. In addition, assumptions and projections will be reviewed on a regular basis to ensure they remain as relevant and up to date as possible.
- 7.4 This updated Strategy has also aimed to refocus attention on particular areas of enhanced priority as a consequence of developing thinking. In particular, to further build on the work to review and potentially reprioritise future capital investment.

8.0 Sustainability Implications

8.1 N/A

9.0 Resource Implications

9.1 *Financial Details*

9.2 There are no financial implications directly from this report.

9.3 *Staffing*

9.4 There are no staffing implications directly from this report.

10.0 Exempt Reports

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

11.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities 2008 - 2011** (Please tick ☒)

The area has a positive image and attracts people and businesses	<input type="checkbox"/>
Our communities are more cohesive and inclusive	<input type="checkbox"/>
People are better skilled, trained and ready for learning and employment	<input type="checkbox"/>
Our communities are safer	<input type="checkbox"/>

Vulnerable people and families are supported	<input type="checkbox"/>
Substance misuse and its effects are reduced	<input type="checkbox"/>
Health is improving and health inequalities are reducing	<input type="checkbox"/>
The environment is protected and enhanced for all	<input type="checkbox"/>
The Council is effective, efficient and recognised for excellence	X

(2) Council Policies (Please detail)

12.0 Equalities Impact

- 12.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations? N/A

13.0 Legality

- 13.1 In adopting the recommendations contained in this report, the Council is acting within its legal powers. YES

14.0 Appendices

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

None.

15.0 Background Papers

- 15.1 Have you used other documents to compile your report?

16.0 Background Papers

- 16.1 Clackmannanshire Council Financial Strategy: December 2009
- 16.2 CIPFA Long term financial planning- good practice checklist
- 16.3 Clackmannanshire Council Indicative General Services Revenue Budget 2011/12: Feb 2011
- 16.4 Clackmannanshire Council Capital Budget 2011/12: Feb 2011
- 16.5 Clackmannanshire Council Budget Strategy: Aug 2010
- 16.6 Clackmannanshire Council Spend to Save Fund: Sept 2010
- 16.7 Clackmannanshire Council Budget Update: Nov 2010
- 16.8 Illustrative Budgets to 2015: Cabinet Secretary for Finance and Sustainable Growth, Jan 2011
- 16.9 CPPR Briefing: Aug 2011
- 16.10 COSLA updated financial model: Aug 2011

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Nikki Bridle	Director Finance & Corporate	01259 452030
Martin Dunsmore	Accountancy Manager	01259 452041

Approved by

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Director Finance & Corporate	Nikki Bridle (signed)