
Report to Council

Date of Meeting: 28 June 2012

Subject: Budget Strategy Update

Report by: Director of Finance and Corporate Services

1.0 Purpose

The purpose of this report is to update Council on progress made in delivering its approved Budget Strategy. A particular focus of this report is on the process for developing savings proposals and on the outcome of the first round of this year's budget challenge events.

2.0 Recommendations

Council is asked to:

- 2.1. note the updated position on the UK and Scottish economic outlook for 2012;
- 2.2. note the work in hand to update the Council's scenario planning and the associated indicative funding gap prior to the next Council meeting in August;
- 2.3. note the enhancements implemented to the process for identifying, developing, monitoring and implementing proposals to reduce expenditure and/or increase income (Appendix A);
- 2.4. note the discussions initiated with all elected members at the briefing of 26th June 2012 which focus on the identification of areas for corporate, cross cutting and individual service business case development and consultation, and provide the opportunity for elected members to augment the proposals made by council officers;
- 2.5. note the proposal for approved Spend to Save bids to be reported on a quarterly basis to the Resources and Audit Committee;
- 2.6. endorse the proposal to seek nominations to the Capital Investment Forum.

3.0 Background

- 3.1 The 2012 UK Budget has maintained the top priority focus on rebalancing the UK Budget. The main divergence in political views continues to be whether the focus should be on stimulus or quickly achieving budget balance as being

the best approach to generating a return to economic growth in the medium to long term.

- 3.2 In February 2012, the Scottish Government published updated figures on the 2012/13 budget allocation, including the destination of additional cash available as a consequence of the Autumn Statement's related Barnett Consequentials. This showed that Local Government received £94million of the additional £408million distributed.
- 3.3 The £408million was allocated £383million to capital expenditure over the three years to 2014/15, and £25million to resource(revenue) spend in 2012/13. The £94million allocated to Local Government represents 23% of the available additional funds which is significantly below Local Government's share of the Scottish Budget as a whole (34%). Of the £94million allocated to Local Government, £40million was earmarked for rural area digital support, leaving £54million for Local Government to allocate.
- 3.4 The Scottish Government and Office for National Statistics (ONS) recently published analysis of economic growth for Scotland and the UK during 2011. This showed that whilst the overall growth rates for Scotland and the UK were similar at around 0.5%, the make up of the growth was very different. However, if the impact of oil and gas extraction is excluded, Scottish growth is half the UK level.
- 3.5 The latest figures on UK economic growth for 2012 show a small reduction over the last quarter of 2011 largely attributable to a significant reduction in the performance of the Construction industry. This was the second quarter in a row with negative economic growth, so the UK is consequently termed as being in recession i.e. a 'double dip' in output. However, the degree of the decline is much smaller than in the first dip (during 2008 and the first half of 2009). However, the fact remains that this is not a positive development when faster than average growth would be anticipated in the recovery phase from a recession.
- 3.6 UK growth is usually a good indicator of what will happen in Scotland as the economies are closely linked and of a similar make up. This suggests that there will be little growth in Scotland in quarter 1 of 2012, and possibly, like the UK a return to recession. This could call into question the sustainability of flat cash settlements for local government in the future.

4.0. Assumptions on General Services Revenue Funding 2012-2015

- 4.1. On the 9 February 2012, Council approved the 2012/13 budget. The budget report highlighted that based on the Scottish Government's indicative settlement figures, the Council has a cumulative funding gap of £13.277million up to 2014/15.

Table 1: Indicative funding gap 2012-2015

	2012/13 £000	2013/14 £000	2014/15 £000
Net expenditure	119,943	124,594	131,538
Net Funding	117,189	117,816	118,261
Cumulative Funding Gap	2,754	6,778	13,277
Indicative Annual Gap	2,754	4,024	6,499

- 4.2 These net expenditure forecasts reflect a robust review of staffing estimates following significant work completed in respect of service redesigns across the Council, and also greater certainty on our cost base now that the single status exercise has been concluded. However, more recently as part of the first round of 2012 budget challenge sessions (section 5), additional demand pressures are being identified by services. Work is now in hand to better quantify these demand pressures and reflect them within the forecast net expenditure where this is appropriate.
- 4.3 In response to the changing economic outlook and new external information and comparisons, the forecasting of the funding gap is kept under regular review. Some of the additional issues under consideration are set out in the following bullet points and forecasts will be adjusted to reflect any changes for the next report to Council in August 2012:
- consideration of further provision for the demand pressures relating to planned Welfare Reform;
 - potential impact of the Eurozone Crisis on the indicative grant settlement figures notified to Local Government;
 - the assumptions made by the Scottish Government in respect of NDR income in these settlement figures;
 - ongoing and new Equal Pay pressures;
 - the levels of pay, contractual and general inflation.
- 4.4 The current assumptions incorporated within our scenario planning have been previously reported to Council. However, in summary these include:
- 0% pay inflation in 2012/13 and a modest increase thereafter
 - Inflationary increases for employers NI and superannuation, together with utilities and other contractual commitments
 - a general inflationary lift of 3% applied to non-staff costs
 - Employers National Insurance contributions subject to a potential increase in 2014/15.

5.0 Strategy Implementation Budget Challenge

- 5.1 The Council approved its original Budget Strategy in August 2010 and this has subsequently been updated in 2011 and 2012 to reflect both progress and learning. It is clear from the UK and Scottish economic outlooks that the strategy needs to continue to focus on the medium to long term if the Council is to operate within a sustainable cost base for the future. It is also critical that the processes which underpin the strategy are robust, therefore, all challenges are led by the Chief Executive, Director of Services to Communities and the Director of Finance and Corporate Services.

- 5.2 With this in mind, developments this year aim to more formally embed a year round approach to the identification, development, monitoring and implementation of proposals to reduce the Council's expenditure and/or increase income. The approach is summarised in Appendix A and in the following paragraphs.
- 5.3 The main enhancements to the established approach are:
- the process has commenced well in advance of Council recess. In previous years ,activity has tended to be focused in the Autumn and winter
 - accountants have been subject to a separate peer challenge process with the Director of Finance and Corporate and their accountant colleagues prior to participating in the service challenge events. This resulted in a list of Service Action Points (SAPs) which were fed to each of the service challenge sessions for further discussion/development
 - elected members are being engaged in early discussion to determine the short leet of areas for business case development prior to the preparation of business cases or commencement of consultation on options
 - processes for business case development and consultation are more clearly aligned
 - business case development and consultation activity require varying lengths of time to complete- this process recognises and supports this. It is not , therefore, expected that all of these business cases will be produced for 2013/14 budget setting but will be monitored to ensure that they are prioritised and developed fully prior to resubmission to Council
 - the approach is very transparent and allows for cross cutting and corporate themes to be identified. As a consequence there are proposals for some corporate and cross cutting business case development alongside the proposals for individual services.
- 5.4 The process sets out two levels of budget challenge activity:
- budget challenge of service outturns with the service accountants to identify the opportunity for further budget realignment, cash and/or budget savings,
 - service based challenge sessions involving both budget holders and service accountants, which have focused on budget realignment opportunities, demand pressures, progress in delivering the 2012/13 budget priorities, areas for business case development with the potential to generate cash releasing savings and new spend to save proposals.
- 5.5 The product of officers' budget challenge sessions is a long leet of the aggregated output from all of the budget challenge sessions held during May 2012. The list has been reviewed and supplemented by the Council's Corporate Management Team following conclusion of the individual challenge sessions.

- 5.6 On the 26th June 2012, all elected members were invited to attend a briefing on the draft accounts and the Budget Strategy. As part of this briefing, officers shared the long list of proposals with elected members to initiate the engagement required to identify those areas which will be considered in more detail through the development of full business cases.
- 5.7 The officer long list sets out areas for corporate, cross cutting and individual service business case development and consultation. It is not anticipated that all areas will necessarily result in budget savings, some proposals aim to enhance service quality or choice at existing cost, or allow us to better manage increasing demand without significant increases in budgets. Having said that it is hoped that all proposals would aim to reduce current or future years net expenditure requirement or envisaged demand pressures.
- 5.8 At this stage, specific savings figures have not been attributed to proposals as the business case and consultation activity are likely to significantly influence views on what is feasible. It is, however, anticipated that those areas selected for business case development will incorporate information on the financial implications of the proposals and these will come back to Council for approval as appropriate.
- 5.9 It is important that elected members have the opportunity to contribute to identifying which areas should be reviewed. Therefore, at the briefing on the 26th June, elected members were also invited to augment the proposals submitted by officers with their ideas of areas for review and business case development.
- 5.10 In previous years the challenge process has been focused on General Service Revenue expenditure. From 2012/13, however, the process is also being expanded to include the Housing Revenue Account with the aim of delivering greater corporate consistency of approach. These sessions will commence during July 2012.
- 5.11 This process has been developed and managed as a corporate initiative and this has been a strength in what has been delivered to date. On this basis, it is proposed that the Directors' Group (Chief Executive and two Directors) will act as the corporate sponsors for the ongoing management of the process.

Invest to Save Fund

- 5.12 In the latter part of 2011/12 financial year, few new Spend to Save proposals were submitted and no new projects have been approved. The budget challenge process has identified a number of potential spend to save projects. Proposals will now be developed and submitted via the Head of Strategy and Customer Services to CMT for approval. In the previous political decision making structures, all new projects were reported to the Scrutiny Committee. It is proposed that reporting now transfers to the Resources and Audit Committee.

Capital Investment Forum

- 5.13 Following the May 2012 elections, it is necessary to revisit the membership of the Capital Investment Forum. The CIF is a significant cross party member officer forum for taking forward work in respect of the ongoing development of

the Council's capital investment priorities and capital programme. There were previously 6 members of the group drawn from across political parties (3 Labour, 2 SNP and 1 Conservative). By consensus, the meetings were chaired by the Director of Finance and Corporate Services. It is proposed that nominations are sought as soon as possible to allow the planned work programme to be progressed.

6.0 Conclusions

- 6.1 The economic outlook for both Scotland and the UK continues to present a pessimistic outlook for public sector finance in the coming years. The Council, however, continues to seek to deliver a sustainable cost base for the Council's future activities by refining and strengthening its Budget Strategy and supporting processes.
- 6.2 The Council is committed to open and transparent reporting of its progress in meeting these financial challenges. It remains the intention that Council will receive regular update reports on the emerging budget position.

6.0 Sustainability Implications

- 6.1 N/A

7.0 Resource Implications

7.1 Financial Details

- 7.2 There are no financial implications directly from this report.

7.3 Staffing

- 7.4 There are no staffing implications directly from this report.

8.0 Exempt Reports

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

9.0 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	<input checked="" type="checkbox"/>

(2) Council Policies (Please detail)

10.0 Equalities Impact

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

11.0 Legality

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

12.0 Appendices

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

Appendix A: Budget Challenge Process

13.0 Background Papers

Clackmannanshire Council General Services Revenue and Capital Budget 2012/13

Clackmannanshire Council Budget Strategy: Aug 2010

Clackmannanshire Council Spend to Save Fund: Sept 2010

Clackmannanshire Council Budget Update: Nov 2010

Illustrative Budgets to 2015: Cabinet Secretary for Finance and Sustainable Growth, Jan 2011

CPPR Briefing: February, March and April 2012

COSLA updated financial model: Aug 2011



Budget Challenge minutes: all council services May 2012

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Approved by

NAME	DESIGNATION	SIGNATURE

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APPENDIX A

Budget Challenge Process

