THIS PAPER RELATES TO ITEM 06 ON THE AGENDA

CLACKMANNANSHIRE COUNCIL

Report to Council

Date of Meeting: 15th August, 2013

Subject: Budget Strategy Update

Report by: Director of Finance and Corporate Services

1.0 Purpose

1.1. The purpose of this report is to refresh the Council's Budget Strategy and maintain Council's regular update on the medium term financial outlook and indicative funding gap.

2.0 Recommendations

It is recommended that Council:

2.1 Notes the challenging financial outlook that faces the Scottish Public Sector over the coming years (section 3),

2.2 Notes the revised indicative funding gap to 2017/18 (Exhibit 1) based on the assumptions set out in paragraph 3.5.

2.3 Notes the apportionment of revised funding levels pro rata to current level of Council expenditure to 2017/18 for individual Council services. (Exhibit 2).

2.4 Note the updated Budget Strategy (paragraph 3.11) including the focus of activity outlined at paragraph 3.12.

2.5 Notes progress with Budget Challenge discussions and the planned all elected member briefing scheduled for the 27th August 2013.

3.0 Review of Budget Strategy

3.1 In line with previous years, the Council's Budget Strategy is reviewed during the recess period to ensure it remains fit for purpose and in preparation for the imminent budget round. The Budget Strategy is one element in a wider range of financial strategies and plans that provide the framework within which Council spending is prioritised. These include:

- Finance Strategy including Reserves Strategy (28 June 2012)

- Treasury Management Strategy 2013/14 (14 March 2013) and Prudential and Treasury Management Indicators (8 February 2013)

- Strategic Housing Investment Plan (23 August 2012)

- Housing Business Plan (23 May 2013)

- General Services Revenue and Capital Budget 2013/14 (8February 2013)

- Housing Revenue Account and Capital Programme 2013/14 (8 February 2013).

Financial outlook

3.2. Council has received regular updates on the medium term financial outlook in its regular Budget Strategy Update reports. The most recent update reflects the UK Government's Spending Review announcement in June 2013 and Centre for Public Policy for Regions (CPPR) Briefing for June 2013.

3.3 Some of the main issues arising from the UK Government's Spending Review for 2015/16 are:

- 2015/16 appears to be a relatively lighter year for funding reductions when compared with those that follow for 2016/17 and 2017/18, though the level of reduction is still suggested to be one of the worst in post war history.

- The Barnett Formula delivered further real and cash terms reductions in both revenue (-1.9% real and -0.1% cash) and capital funding (-1.8% real and -0.1% cash) for 2015/16 in comparison with the existing Scottish Budget for 2014/15. Having said that, this latest Spending Review has not significantly changed the expected profile of the Scottish Government's Budget.

- the UK Government confirmed its intention to continue to freeze the Council Tax in England, extending the total period of the freeze to five years. In Scotland the Council Tax Freeze has been in place longer i.e. since 2008/09.

- previous announcements have meant that public sector pay awards had already been limited to an average of up to 1%. It also appears that the intention to remove pay progression awards has been firmed up. In 2015/16, the UK Government estimate that a further 144,000 jobs will be lost from the public sector. The Scottish Government has hinted that it may not impose some of these pay reforms,though if this were to happen, savings would need to be identified from elsewhere in the Scottish Budget.

- in respect of capital expenditure, the Spending Review extended additional facilities to the Scottish Government including a (Scotland Act related) borrowing facility of around £300million in 2015/16.

- As with the UK, the level of funding beyond 2015/16 will depend whether tax increases are used after the next UK election to allow for lower spending cuts.

- review of the position since 2010 indicates that the UK Government's Plans to address the fiscal deficit have been undermined by a lower than assumed level of economic recovery. The rate at which the economy develops is a critical factor for the future. However, at this point, neither the UK or Scotland is halfway through the adjustment period and if the economy does not increase its level of growth, the period of adjustment may need to be extended further.

3.4 The next Spending Review will include the review of funding levels for the period 2016-18 and is likely to follow after the next UK election in 2015. At this time, the indications are that the reductions could be greater than any seen to date. Other strategies may be applied to mitigate this position, for instance increasing taxes instead of implementing such significant levels of reductions in funding. Alternatively the new UK Government may seek to extend the period over which debt consolidation is achieved.

3.5 Clearly the Scottish Government has some discretion in the extent to which individual Departmental Expenditure reductions are apportioned, so it is difficult to be clear at this stage the extent to which the budget reductions necessary to be made across local government will reflect the broad national trend outlined. However, if this trend were to be passed on, Clackmannanshire may need to find in the order of £25.9 million of revenue budget reductions over the period to 2017/18. Exhibit 1 sets out how this might look:

Exhibit 1: Indicative budget Gap based on revised assumptions to 2017/18

	2014/15 **£000**	**2015/16** **£000**	**2016/17** **£000**	**2017/18** **£000**
Net expenditure	**120,364**	**125,037**	**129,510**	**135,083**
Net Funding	**112,365**	**111,933**	**110,788**	**109,212**
Cumulative indicative Funding Gap	**7,999**	**13,104**	**18,722**	**25,871**
Indicative Annual Gap	**7,999**	**5,105**	**5,618**	**7,149**

3.6 The main assumptions included within these projections are:

- Pay inflation maintained at 1% across the period to 2017/18

- an allowance of £330k per annum for impact of auto enrolment to pension fund

- an annual allowance for utility increases and contractual inflation but not general inflationary pressures

- an estimate of £1m each year for further budget pressures

- inclusion of £1.34m per annum to cover impact of welfare reform

- The ending of contracted out National Insurance contributions estimated at £1.1m in 2017/18

- Cash reduction on general fund grant of 1.3% and 1.8% in financial years 2016/17 and 2017/18 respectively .

3.7 This is undoubtedly a significant challenge to the Council over the coming years. If the reduced level of funding is apportioned pro rata to the current pattern of expenditure across Council services, the significance of the levels of reductions at the level of each service budget is clear. This is illustrated in Exhibit 2.

Exhibit 2: Apportionment of revised funding levels pro rata to current level of Council expenditure to 2017/18.

Service	2013/14 Approved Budget £000	2014/15 indicative budget £000	2015/16 indicative budget £000	2016/17 indicative budget £000	2017/18 indicative budget £000	Change 2013/14-2017/18 £000
Customer and Strategy	7,020	6,487	6,148	5,774	5,298	(1,722)
Support Services	5,862	5,417	5,134	4,822	4,424	(1,438)
Housing	3,011	2,782	2,637	2,477	2,272	(739)
Community and Regulatory	5,472	5,057	4,792	4,501	4,130	(1,342)
FM	24,246	22,405	21,234	19,942	18,300	(5,946)
Social Services	26,192	24,204	22,938	21,543	19,768	(6,424)
Education	33,683	31,126	29,499	27,705	25,422	(8,261)

3.8 At this stage, the order of reduction in service funding set out within Exhibit 2 is high level and for illustration purposes. More refined analysis of the position would also need to reflect other factors which impact delivery of the services such as demographic and other demand pressures and the need to ensure specified commitments are complied with. This is likely to require a review of the apportionment of the savings requirement over individual services. It is however, clear that if current trends hold and these are passed on to local government rather than being mitigated through alternative UK and Scottish Government strategies, the position is only likely to be sustainable if there is a full and frank appraisal and articulation of service priorities and areas for disinvestment are clearly identified and acted upon.

3.9 As a consequence of this extremely challenging financial context, it is also important that more sophisticated analysis of demand is developed and established. Aligned with the refreshed Budget Strategy and as part of the *Making Clackmannanshire Better,* such approaches are starting to be developed. For instance, as part of the Review of Advice, Information, Support and Advocacy Services (Making Clackmannanshire Better Workstream 2(iii)), work is in hand which aims to establish a sustainable demand tracking and projection model using GIS. It will take time for the Council to develop a full range of such GIS databases across services but is an important emerging development which aims to allow the Council to better plan and prioritise its expenditure in future years.

3.10 On the 28th June 2012, Council approved a Financial Strategy 2012-15 which contained seven objectives which contribute to the delivery of sound corporate governance arrangements and which underpin service quality improvement and accountability. The Budget Strategy aims to 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 to 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.

3.11 The Council's core Budget Strategy remains unchanged and aims to retain the best of our current approach and to concentrate reducing resources on delivering key priorities. This is achieved by:

- *reducing expenditure*: for instance sustaining the focus on corporate 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; adopting strategies to mitigate increasing demand for services due to demographic trends (ie prevention and early intervention).

- *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 Making Clackmannanshire Better; 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; proactive management of the capital programme; improving corporate procurement arrangements.

3.12 For the coming year, there are also some specific areas of focus for activity within the framework outlined at 3.7:

- Strengthening the Council's ability to maximise income by establishing a corporate Funding Function within the Accountancy Service. This initiative aims to allow the Council to identify and prioritise access to those external funding streams which best support the delivery and achievement of its key priorities.

- Development of the Forward Activity Programme in respect of *Making Clackmannanshire better,* to provide greater transparency over the revenue and capital investment required to facilitate the desired improvements. This will ensure best use is made of the allocated Spend to Save and Capital Programme budget allocations and provide the basis for continuing prudent utilisation of uncommitted reserves.

- the development of the Corporate Asset Management Strategy (CAMS) to provide greater clarity and transparency over capital investment priorities for the future.

- review of the PPP funding options available to the Council in the medium term. In the interim, to ensure that sufficient capital receipts are available to fund the cumulative uplift element of expenditure which amounts to £ 9.3m over the period 2014/15- 2017/18. This would have the effect of reducing the indicative funding gap by the same amount i.e. from £25.9m to £16.6m. It should be noted that only £3.4m capital receipts presently available.

- seek to establish greater clarity over the financial impacts of Health and Social Care integration.

- Review models of service delivery for those client groups impacted by Welfare Reforms to ensure integrated, customer focused service delivery. Also to ensure that duplication between services is minimised and assurance that the £1.340million allocated through demand pressures is sufficient/ required in future years.

4.0 Budget Challenge process

4.1 During May and June 2013, the most recent round of Budget Challenge sessions were held. These discussions followed the usual approach based on a standard format for service presentations with the challenge being provided by the Director's Group. In particular, the focus of the most recent round of challenge sessions was:

- to review the progress in implementing the current year's approved Budget savings (2013/14) based on recent reports to Service Committees.

- to review other savings proposed for 2013/14 that had not been approved by Council to establish whether these are still potentially viable savings proposals for 2014/15 and beyond

- to identify any new savings proposals for 2014/15 and beyond

- to review previous year's savings proposals, especially cross cutting proposals previously highlighted through the Budget Challenge process

- to review linkages between service improvement activity and the developing *Making Clackmannanshire Better* Framework.

4.2 Work is currently being undertaken to consolidate and review the information gathered through this process. Initial feedback will be provided to elected members at the briefing scheduled for the 27th August 2013. As in previous years, Trade Union representatives will also be briefed on 10th September 2013.

4.3 In addition the following work is in hand:

- quantification and verification of demand pressures between services and their accountants

- quantification of some potential savings proposals

- review of other Council's savings proposals as a 'benchmarking exercise'

- verification of already approved year 2 savings i.e . implemented in 2013/14 with a year 2 residual saving element.

4.4 A separate paper on this Council agenda also provides a more detailed update on the progress in developing and implementing the *Making Clackmannanshire Better* Framework.

5.0 Conclusions

5.1 There is no real change to reflect with regards the previously reported financial outlook. The post 2015/16 position is most challenging as it is difficult to assess the extent to which a new spending review will impact local government in Scotland. This position is also impacted by the scheduled Referendum in 2014.

5.2 Within the Council, there is much work to be undertaken to realise the potential level of savings required. It is clear that a 'salami slicing' approach will not bridge the funding gap and that a more radical review of corporate priorities, levels of performance and models of service delivery is required if a sustainable cost base is to be established.

5.3 The refreshed Budget Strategy ensures that there are clear linkages with *Making Clackmannanshire Better* and establishes some specific areas for focused review and activity in the next Budget preparation round. It also highlights the need to develop more accurate predictors of future demand pressures to facilitate financial planning.

6.0 Sustainability Implications

6.1. The Council's budget and its approval will allow services to deliver against sustainable outcomes.

7.0 Resource Implications

7.1. Financial Details

7.2. Finance have been consulted and have agreed the financial implications as set out in the report. **Yes**

7.3. Staffing

as above

8.0 Exempt Reports

8.1. Is this report exempt? **No**

9.0 Declarations

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

(1) Our Priorities

The area has a positive image and attracts people and businesses
Our communities are more cohesive and inclusive
People are better skilled, trained and ready for learning and employment
Our communities are safer
Vulnerable people and families are supported
Substance misuse and its effects are reduced
Health is improving and health inequalities are reducing
The environment is protected and enhanced for all
The Council is effective, efficient and recognised for excellence

(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? **Yes**

11.0 Legality

11.1 It has been confirmed that 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".

None

13.0 Background Papers

13.1 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)

Yes

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