

CLACKMANNANSHIRE COUNCIL

Report to Council

Date of Meeting: 24th October 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. This report also updates Council on the Budget consultation activity which is underway.

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 (Exhibit 1).
- 2.2 notes the Scottish Government's specified commitments and the potential adjustment to local government funding if these were not delivered (Paragraph 3.6).
- 2.3 notes the introduction of the Agreement on Joint Working introduced as part of the Draft Budget announcement (paragraph 3.10).
- 2.4 notes that details of Clackmannanshire's individual settlement will be received by mid December 2013 (paragraph 3.11).
- 2.5 notes the revised indicative funding gap to 2017/18 of £25m (Exhibit 2) based on the assumptions set out in paragraph 4.2.
- 2.6 notes the Council's forecast outturn (Exhibit 3) and the need for ongoing and robust scrutiny of mitigating action (paragraph 4.5).
- 2.7 approves an additional £350k capital expenditure to complete the refurbishment works at the Speirs Centre (£100K) and Kilncraigs (£250k) (paragraph 4.8).
- 2.8 approves £100k capital expenditure to fund the implementation of the Autism Unit at Alva Primary School (paragraph 4.9)
- 2.9 notes the programmed works at Lornhill Academy in respect of the installation of

floodlighting (paragraph 4.10).

2.10 notes the proposed consultation approach and process (section 5).

2.11 notes progress with Budget Challenge discussions and the planned all elected member briefing scheduled for the 6 November 2013 (paragraph 5.5).

3.0 Financial outlook

3.1 Council has received regular updates on the medium term financial outlook in its regular Budget Strategy Update reports. The most recent update reflects the Scottish Government's Draft Budget announcement in September 2013 and the associated Centre for Public Policy for Regions (CPPR) Briefing.

3.2. The Scottish Government's Budget for 2014/15 takes place in the fifth year of what is expected to be a minimum of an eight year run of real terms Budget reduction. In cash terms, the Scottish Budget for 2014/15 shows an increase of £555million, equivalent to a real terms standstill. The greatest increase is to the capital budget which has increased by £300 million. There is also a cash terms increase of £302million for 2015/16 but this is not enough to match inflation.

3.3 Outwith this global picture, the scale and direction of the changes in budget between 2013/14 and 2015/16 is not consistent across all budgets. Exhibit 1 below summarises the position and highlights that there is a cash terms increase in most areas, with the exceptions being the local government resource grants for both years and the 'Other' resource Budget in 2015/16.

Exhibit 1: Scottish Resource and Capital Allocation (£million)

	Budget 2013-14	Draft Budget 2014-15	Plans 2015-16	13-14 - 14-15		14-15 - 15-16	
				£m	%	£m	%
NHS Resource	9,125	9,392	9,620	+267	2.9%	+228	2.4%
Local Government Resource Grant	7,288	7,070	6,908	-218	-3.0%	-162	-2.3%
Other resource	10,065	10,177	10,078	+112	1.1%	-99	-1.0%
Capital	2,551	2,945	3,280	+394	15.4%	+335	11.4%
TOTAL	29,029	29,584	29,886	+555	1.9%	+302	1.0%

3. 4 As anticipated, the Draft Budget increases the NHS budget. This is consistent with the Scottish Government's announcement that the NHS would be protected against inflation. However, the deflator used to measure inflation has fallen from 2.5% to 1.9% for 2014/15 and the Draft Budget has not been adjusted to reflect this. The proposed increase of 2.9% for the NHS is, therefore, higher than last year's estimate and higher than current inflation projections. Similarly in 2015/16, the inflation rate is now forecast to be 1.8% and the Draft Budget provides for an increase of 2.4% in NHS funding. Between 2013/14 and 2014/15, this results in the NHS share of the total Budget increasing from 31.4% to 32.2%.

3.5 The Draft Budget for local government suggests a 3% cash reduction in 2014/15 and a

2.3% cash reduction for 2015/16. Correspondingly, the Capital Budget shows a 15.4% increase for 2014/15 and 11.4% increase in 2015/16.

3.6 In line with the Spending Review announcement, the Scottish Government offers the local government settlement detailed in its Draft Budget subject to the delivery of the following specified commitments:

- Maintain a council tax freeze.
- Maintain teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher induction scheme.

Delivery of these commitments is monitored and in the event of failure to deliver, adjustments could be made to the level of resource received by councils either individually or collectively.

3.7 As was the case last year, only those Council Leaders who do not intend to take up the offer and agree to the full package of commitments need to write to the Cabinet Secretary for Finance, Employment and Sustainable Growth, setting out the reasons why they do not wish to comply by no later than 11 March 2014. Any Council not taking up the offer will not receive their share of the £70 million held back to cover the council tax freeze and steps will be taken to recover £39million for the teacher commitments in 2014/15.

3.8 The key features of the Scottish Government's Draft Budget with regards pay policy are as follows:

- a continuation of the 1% (cash) cap on public sector pay
- additional support for lower paid staff including the Scottish Living Wage (annually uprated)
- retaining discretion re pay progression
- maintaining the policy of No Compulsory Redundancies.

3.9 Local government's Draft Budget for 2014/15 also proposes a capital budget of £773.2 million in 2014/15 and £817.3 million for 2015/16. The capital allocation takes account of the re-profiling of LG capital budgets and includes £94.2 million 'added back'.

3.10 An Agreement on Joint Working also forms part of the Budget announcement. It places clear expectations on the public sector to share the budget and resource planning assumptions at an early stage and to work together through Community Planning Partnerships (CPP) to deploy resources towards the jointly agreed priorities set out in each CPP's SOA. Local Government, NHS Boards and other partners are expected to show a demonstrable commitment to the Agreement.

3.11 The Council will receive confirmation of its individual settlement following the Cabinet Secretary's announcement scheduled for mid December 2013.

4.0 Budget Strategy Implementation

- 4.1 As part of Budget preparation work, more detailed review of the assumptions built into the indicative funding gap has been undertaken. In particular, work has been undertaken to refine assessment of the budget requirement in respect of Welfare Reform, to reflect the saving from voluntary severances approved following budget setting in February 2013 and to validate those savings already approved for 2014/15 as part of setting the current year budget. This exercise has the aim of refining the indicative budget gap and minimising the need for new savings proposals by ensuring budgets are, as far as possible, aligned with planned expenditure and reflect all known factors. This work results in an indicative funding gap of £25 million over the period to 2017/18. Exhibit 2 summarises the revised position.

Exhibit 2: Indicative budget Gap based on revised assumptions to 2017/18

	2014/15	2015/16	2016/17	2017/18
	£000	£000	£000	£000
Net expenditure	119,459	124,236	128,643	134,181
Net Funding	112,351	111,991	110,643	109,100
Cumulative indicative Funding Gap	7,108	12,245	18,001	25,081
Indicative Annual Gap	7,108	5,137	5,756	7,080

- 4.2 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
- realignment of the budgeted requirement for Revenue Service Welfare Reform and that for Other Services. This has resulted in inclusion of £1.3M, 2014/15 and £1.4M 2015/16 onwards to cover the impact of welfare reform across the Council.
- Transfer of £340k from expenditure to reduction in funding in respect of the Council Tax Reduction Scheme.
- 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 .

The net expenditure figures have also been reduced by £905K. The most significant movements relate to the impact of voluntary severances agreed following the budget setting period (£504k), and those verified year two savings which were approved as part of the current year's budget (£350K).

4.3 There are also a range of priority budget preparation tasks in hand which include:

- collation of service demand pressures for review and approval by Directors' Group in order that these can be integrated within the Budget
- developing the scope of the review of PPP funding options available to the Council in the medium term.
- preparing for the annual review of reserves to establish those earmarked reserves which are no longer required and those that may be needed for the future.

4.4 A significant consideration in determining how the Council bridges the funding gap, is the regular review of the Council's outturn position. The detailed General Services and HRA revenue and capital outturn position was reported to the Resources and Audit Committee on the 26th September. For ease this is summarised in Exhibit 3 below :

Exhibit 3: Summarised Outturn position 2013/14

Classification	2013/14 Projected outturn £000
General Services Revenue	395
General Services Capital	(1.928)
Housing Revenue Account	(733)
Housing Capital	(776)

This is the first time for some years that a corporate overspend has been forecast within the General Services Revenue Budget. There are a range of managerial actions in place which seek to mitigate this position and these were also outlined to the Committee.

4.5 It is, however, important that elected members continue to prioritise scrutiny of these actions to ensure that as far as possible this position is improved upon where possible and as a minimum does not deteriorate. Through the budget preparation process, the underlying reasons for the overspends are examined to establish whether budgets need to be increased for future years. If this were to be the case, clearly this will adversely impact the current forecast of the indicative funding gap.

4.6 At the same meeting, the Resources and Audit Committee was also asked to note the underspend of £1.928m in respect of the General Services Capital Budget of which £0.362m are savings in the delivery of the programme with the remainder carried forward to 2014/15. Since this Committee, the Capital Budget outturn position has

been reviewed as part of Budget preparations and routine monitoring. This suggests that the 2013/14 outturn position will be an underspend of £0.600m with £1.262m carried forward to 2014/15.

- 4.7 Council has sought to maximise the benefit delivered from its capital investment and wherever possible minimise slippage. This level of projected slippage (£1.262m) represents 6.3% of the total programme of £19.477m in 2013/14.
- 4.8 The Council is close to completing two significant capital projects in respect of Kilncraigs and the Speirs Centre. It is important that these significant locations realise their full potential occupying prime positions within Alloa Town Centre. Recent design work undertaken in respect of both projects has brought forward proposals which cannot be accommodated within the current budget but are considered to add significant value to each project from both a public and staff perspective. It is proposed that £350k is allocated to finalise these works (£250k Kilncraigs; £100k Speirs) which will include completion and enhancement of display and heritage presentation public spaces in both Patons and Speirs buildings, replacement of old and damaged furniture and additional storage capacity.
- 4.9 At its meeting on the 25 of April, the Education, Sport and Leisure Committee endorsed prioritisation of adaptations to Alva Primary School within the agreed capital budget to establish an Autism Unit. This work has subsequently been costed at £100k. Council is now asked to approve this work which can be funded within the current year's underspend on the General Services Capital Programme.
- 4.10 Council is also asked to note that £151k has been received from Sportscotland in respect of the floodlighting at Lornhill Academy. These works are fully funded through this income stream and it is planned that this work will be completed before the end of the current financial year.

5.0 Consultation

- 5.1 A key part of the budget process is how the Council seeks to engage and/or consult with relevant service users, community groups and other key stakeholders. Over the last 12-18 months, the Council's approach to consultation has increasingly shifted from consultation to more participative year round community engagement. This approach very much aligns with recommendations set out by the Christie Commission.
- 5.2 The proposed consultation approach seeks to strike the balance between maximising the value and use from our embedded consultation activity, supplemented by some specific engagement activities. For this year the key strands of the approach are as follows:
- active communications and media participation to signpost specific consultation activities and provide contextual information to help our communities and partners assess the scale of the financial challenges facing the Council. Work is already in hand to develop the key Making Clackmannanshire Better consultation questions alongside the development and design of the Council's snapshot of its challenges
 - the development of a specific online consultation using the Council's new Citizen Space application. This consultation will run throughout November 2013.

Consultation questions will be consistent with those asked in other planned activities but will provide the opportunity for respondents to offer their constructive savings and improvement priorities and proposals.

- a series of face to face consultation discussions, hosted by the Leader of the Council during November. Work is currently in hand to identify key partner and stakeholders to invite to specified events. An open event will also be organised for the general public.

5.3 A key focus of the consultation will be to seek views which allow the Council to determine its medium term priorities within the Making Clackmannanshire Better improvement programme. This focus recognises that given the scale of the financial challenges faced by the council, it has to make extremely difficult choices about where to spend its reducing resources.

5.4 The format for the consultation is built around:

- our Commitments
- our Challenges
- our Choices.

The consultation aims to seek views from our partners, stakeholders, and the public with regards the relative priorities of the potential options the Council has for the future, including those relating to the provision of discretionary services. These options are classified as follows:

- Stop
- Reduce
- Charge
- Change.

5.5 As in previous years, consultation with Trade Union remains a significant feature of the Council's approach. This takes two broad forms- specific consultation on proposals which have the potential to affect the Terms and Conditions of Council employees which has been the subject of specific detailed discussions on options and proposals since April (in respect of the forthcoming Budget round); and more general consultation on wider savings proposals which are conducted through specific Budget briefings which are held in parallel with those undertaken for elected members at the end of each round of Budget Challenge meetings.

5.6 The next meeting with elected members is scheduled for the 6 November 2013 and with Trade Union representatives on 19th November. These meetings will provide an updated picture of budget preparations following the Budget Challenge round which concluded on the 1 October 2013.

6.0 Conclusions

6.1 There is no real change to reflect with regards the previously reported financial outlook. The picture presents an extremely challenging prospect for the Council in

both the short and medium term. Significant work is in hand to, as far as possible, reduce the Council's budgeted net expenditure. The most recent work highlights that the Council needs to bridge a funding gap in the order of £25m by March 2018.

6.2 At this time of year, focus understandably shifts to the detailed preparations which will allow the Council to set a balanced budget. However, in parallel, much work is being taken forward to establish a sustainable cost base through *Making Clackmannanshire Better*. There is a separate report to this Council meeting detailing progress in this respect.

6.3 A significant focus of activity during November is on consultation with our communities, service users, partners, staff, elected members, trade union representatives and the public. This aims to provide information on which services should be prioritised in the future.

7.0 Sustainability Implications

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

8.0 Resource Implications

8.1. Financial Details

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

8.3. Staffing

as above

9.0 Exempt Reports

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

10.0 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)

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**

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".

None

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)

Yes

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Approved by

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