

**CLACKMANNANSHIRE COUNCIL**

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**Report to Council**

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**Date of Meeting: 28<sup>th</sup> September 2017**

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**Subject: Budget Strategy Update**

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**Report by: Depute Chief Executive**

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**1.0 Purpose**

1.1. The purpose of this report is to maintain Council's regular update on the approved Budget Strategy. This report provides an update on the fiscal outlook and focuses on the potential impact of increases in pay inflation above the 1% cap that has been in place in recent years.

**2.0 Recommendations**

2.1 It is recommended that Council notes:

- a. the fiscal outlook and information on wages and living standards set out in paragraphs 3.1 to 3.6
- b. the key policy initiatives announced by the Scottish Government in its programme for government on 5<sup>th</sup> September 2017 (paragraph 3.7)
- c. the refined median financial planning scenarios to reflect the full exclusion or inclusion of the Council's share of the additional £130m allocated to local government by the Scottish Government in December 2016 (Exhibits 2 and 4 respectively)
- d. the impact of different rates of pay inflation on the Council's indicative funding gap (Exhibits 5a, 5b, 5c, 6a, 6b, and 6c).

**3.0 Fiscal outlook**

3.1 There have been two Fiscal Affairs Scotland (FAS) Updates since the last report to Council. The two briefings consider:

- Local Government Budget Settlement analysis since 2010/11
- Ongoing implications of Brexit
- Changes in Wages and Living Standards.

3.2 The FAS analysis looks at the pattern of local government budget settlements since

austerity was initiated around 2010/11. It focuses on the General Resource Grant (GRG) and Non Domestic Rate Income (NDRI) as the key variables over this period. The analysis concludes:

- Up to 2015/16, much or all of the annual cut in GRG was offset by an increase in NDRI
- Over the last two years, this relationship has broken down as NDRI moved from being a net contributor to the annual change in the LG Revenue Budget to a negative contributor
- Additionally, GRG has fallen by a relatively large cash amount in each of the last two years
- As a result the LG Revenue Budget share has fallen from around 34% to 32% share of the overall Scottish Revenue Spend.

3.3 Key issues have also been highlighted in respect of future LG Revenue Budget Settlements, including:

- The extent to which NDRI continues to decline
- The extent to which LG Revenue Budget remains unprotected
- Pressures from existing Protected Budgets, for instance the NHS and Police
- Education budget control: the extent of LG influence over future education budgets
- The extent to which there will be flexibility in relation to the setting of Council Tax levels
- The performance of the Scottish economy whereby growth prospects directly impact the available Scottish Budget as a whole through devolved Income Tax receipts.

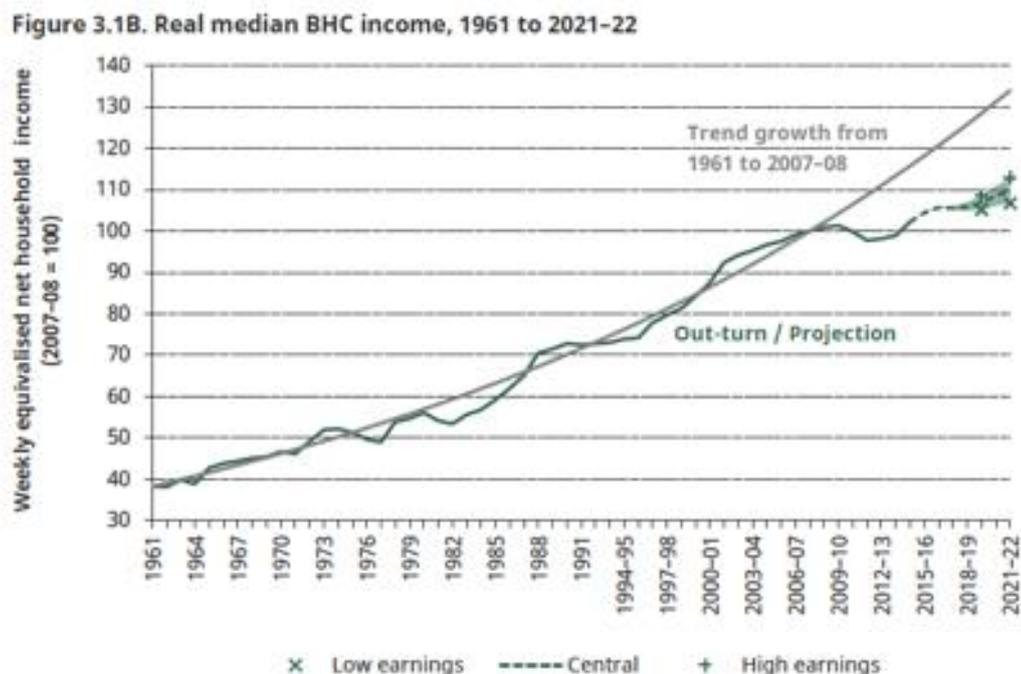
3.4 As has been the case for almost a decade, economic and budget uncertainty levels remain high. As recently as two years ago, it was anticipated that this uncertainty would have reduced by now, however, a combination of slow economic growth, Brexit and a lack of political stability means that it is still extremely difficult to forecast future revenues, or to plan Budgets beyond a year ahead.

3.5 There continues to be pressure for a weakening of future austerity measures, for instance in respect of the 1% public sector pay cap. To date, the Chancellor of the Exchequer has not indicated that this will be the case. However, it is unlikely that any such UK wide policy changes will be intimated until closer to the Autumn Budget in November.

3.6 At the UK level, it had been anticipated that after a prolonged period of negative growth in UK wages, wages would start to rise. This has not happened. However, whilst growth in economic productivity has been poor, inflation has been increasing significantly, impacting food and energy prices. FAS has undertaken some analysis of the growth in household income over time as an indicator of household living

standards (Exhibit 1). This indicates that the long term steady rise in living standards experienced post 1960, appears to have ended. This indicates potential implications for households in respect of their ability to afford the basics such as housing, food and energy, whose prices may be growing at a faster rate. Without a return to real terms wage increases, this position is unlikely to change.

Exhibit 1: Long term Growth in real household income over time



Source: Authors' calculations using Family Resources Survey and Family Expenditure Survey, various years, and projections for 2015-16 to 2021-22 using TAXBEN and assumptions specified in the text.

Source Fiscal Affairs Scotland August 2017

3.7 On the 5<sup>th</sup> September 2017, the First Minister announced the Scottish Government's legislative Programme for Government. This included:

- commitment to real terms increase in the NHS revenue budget
- Frank's Law: the extension of free personal care to the under 65s with degenerative conditions
- funding for local authorities to support the recruitment and training of staff in nurseries and the delivery of new premises
- Education Bill
- £10m Ending Homelessness Together Fund
- Public sector 1% pay cap to be lifted
- increase number of Modern Apprentices

- Barclay review of business rates
- Planning Bill
- Social Security Bill
- Climate Change Bill.

#### 4.0 Budget Strategy Implementation

4.1 At the June meeting of Council, refreshed financial planning assumptions and scenarios were presented. Exhibit 2 shows a revised median scenario which indicates a funding gap of £14.2m for 2018/19 and £29.6m for the three years cumulatively to March 2021. The key revision has been to remove the 50% assumed baselining of the Council's share of the additional £130million allocated to local government post the December Budget announcement.

#### Exhibit 2: Indicative funding gap 2018/19 to 2020/21 without the Council's share of additional £130m allocated to local government

Year	2018/19 £'000	2019/20 £'000	2020/21 £'000
Net expenditure	124,624	129,447	134,286
Net funding	110,398	107,451	104,681
Annual Indicative funding gap	14,226	7,770	7,609
Cumulative Indicative funding gap	14,226	21,996	29,605

4.2 Exhibit 3 below summarises the key financial planning assumptions underpinning the indicative funding gap derived in Exhibit 2:

#### Exhibit 3: Financial Planning Assumptions for 2018/19 to 2020/21

	Exhibit 2
General Revenue Grant Reduction	5%
Council Tax	2%
Non-Domestic Rates Income	0%
Additional share of £130m revenue	0%
Pay award (teaching and non-teaching staff)	1%
Demand pressures (General and contract inflation)	£3.5m

- 4.3 In light of the First Minister’s announcement that the public sector 1% pay cap will end from the next financial year, a range of alternative scenarios have been prepared and are set out in the following tables to provide an indication of the potential impact on the indicative funding gap of above 1% increases in pay. At this stage, there is no indication of whether this policy change will be funded within the LG Budget Settlement. Therefore at this stage, scenarios are shown assuming the Council’s share of the additional £130million (£1.217m) announced after the December Budget in 2016 is a) not baselined (Exhibit 2), and b) is baselined (Exhibit 4).
- 4.4 Exhibit 4 shows the impact of baselining the full amount of the additional funding received from the Scottish Government following the Budget announcement in December 2016. This results in a reduction in the indicative funding gap in 2018/19 to £13m and a cumulative indicative gap of £28.4m over the three years to March 2021.

**Exhibit 4: Indicative funding gap baselining share of additional £130m received in December 2016 (based on Median scenario)**

<b>Year</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£’000</b>	<b>£’000</b>	<b>£’000</b>
<b>Net expenditure</b>	124,624	129,447	134,286
<b>Net funding</b>	111,615	108,668	105,897
<b>Annual Indicative funding gap</b>	13,009	7,770	7,610
<b>Cumulative Indicative funding gap</b>	13,009	20,779	28,389

- 4.5 Exhibits 5a to 6c detail the impact of a 2%, 2.5% and 3% pay increase on Exhibits 2 and 4 respectively. This range has been selected as broadly indicative of inflation rates over the last six months.
- 4.6 Should the additional funding received in December 2016 not be baselined in councils’ future settlements, this would result in a potential range of indicative funding gaps of between £15.0m and £15.8m in 2018/19 and a range of £32.0m and £34.5m cumulatively to March 2021. Exhibits 5a, 5b and 5c show the impacts of a 2%, 2.5% and 3% increase in pay from April 2018 respectively.

**Exhibit 5a: Indicative funding gap using 2% pay inflation on base of Exhibit 2**

<b>Year</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£’000</b>	<b>£’000</b>	<b>£’000</b>
<b>Net expenditure</b>	125,394	131,025	136,712
<b>Net funding</b>	110,398	107,451	104,681

<b>Annual Indicative funding gap</b>	14,996	8,578	8,457
<b>Cumulative Indicative funding gap</b>	14,996	23,574	32,031

**Exhibit 5b: Indicative funding gap using 2.5% pay inflation on base of Exhibit 2**

<b>Year</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Net expenditure</b>	125,779	131,820	137,943
<b>Net funding</b>	110,398	107,451	104,681
<b>Annual Indicative funding gap</b>	15,381	8,988	8,893
<b>Cumulative Indicative funding gap</b>	15,381	24,369	33,262

**Exhibit 5c: Indicative funding gap using 3% pay inflation on base of Exhibit 2**

<b>Year</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Net expenditure</b>	126,164	132,618	139,186
<b>Net funding</b>	110,398	107,451	104,681
<b>Annual Indicative funding gap</b>	15,766	9,401	9,338
<b>Cumulative Indicative funding gap</b>	15,766	25,167	34,505

- 4.7 Should the additional funding received in December 2016 be baselined in councils' future settlements, this would result in a potential range of indicative funding gaps of between £13.8m and £14.5m in 2018/19 and a range of £30.8m and £33.3m cumulatively to March 2021. Exhibits 6a, 6b and 6c show the impacts of a 2%, 2.5% and 3% increase in pay from April 2018 respectively.

**Exhibit 6a: Indicative funding gap using 2% pay inflation on base of Exhibit 4**

<b>Year</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
<b>Net expenditure</b>	125,394	131,025	136,712
<b>Net funding</b>	111,615	108,668	105,897

<b>Annual Indicative funding gap</b>	13,779	8,578	8,458
<b>Cumulative Indicative funding gap</b>	13,779	22,357	30,815

**Exhibit 6b: Indicative funding gap using 2.5% pay inflation on base of Exhibit 4**

<b>Year</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Net expenditure</b>	125,779	131,820	137,943
<b>Net funding</b>	111,615	108,668	105,897
<b>Annual Indicative funding gap</b>	14,164	8,988	8,894
<b>Cumulative Indicative funding gap</b>	14,164	23,152	32,046

**Exhibit 6c: Indicative funding gap using 3% pay inflation on base of Exhibit 4**

<b>Year</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
<b>Net expenditure</b>	126,164	132,618	139,186
<b>Net funding</b>	111,615	108,668	105,897
<b>Annual Indicative funding gap</b>	14,549	9,401	9,339
<b>Cumulative Indicative funding gap</b>	14,549	23,950	33,289

- 4.8 The outcome of this analysis highlights the potentially significant impact of relatively minor changes in the key financial planning variables. To facilitate greater transparency over such potential impacts, the Depute Chief Executive and Chief Accountant are currently trialling a more interactive excel-based model for use with elected members and other key stakeholders in planning and budget briefings.
- 4.9 Clearly there is significant scope for variations in other key financial variables than just pay inflation, with the General Revenue Grant allocation being potentially amongst the most material. These will also be kept under review and further refinements made as new information becomes available.

## **5.0 Conclusions**

- 5.1 This report provides an update on the fiscal outlook with a particular focus on analysis of the local government settlement since 2010/11 and changes in wages and living standards.

5.2 The report also summarises some of the key areas within the Scottish Government's programme of government which have the potential to impact the public sector and local government.

5.3 Section 4 of the report further refines financial planning scenarios to reflect potentially different and increased levels of pay inflation for future years, setting out the impact on the Council's indicative funding gap of a 2%, 2.5% and 3% increase in pay.

## **6.0 Sustainability Implications**

6.1. N/A

## **7.0 Resource Implications**

7.1 *Financial Details*

7.2 Accountancy has been consulted and has agreed the financial implications as set out in the report.

## **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) **Council Policies**(Please detail)

Budget Strategy

## **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 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**

**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)

Fiscal Affairs Scotland  
Fiscal Affairs Scotland  
Budget Strategy Update  
SG programme for change

July briefing  
August briefing  
June 2017  
September 2017

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