

CLACKMANNANSHIRE COUNCIL

Report to Council

Date of Meeting: 10th May 2108

Subject: Budget Strategy Update

Report by: Depute Chief Executive

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 provides updates on key financial publications over the last few months.

2.0 Recommendations

2.1 It is recommended that Council notes:

- a. the fiscal outlook and information on the UK Chancellor's Spring Statement set out in paragraphs 3.1 to 3.7
- b. the key messages from the three recent reports by the National Audit Office and the Scottish Accounts Commission on the challenges and performance of English and Scottish councils respectively (paragraphs 3.8 to 3.18)
- c. the revised financial planning assumptions set out in Table 5 and the consequential high, median and low financial planning scenarios having applied this range of assumptions (paragraphs 4.3 and 4.4 and Tables 6 to 8)
- d. current work to implement 2018/19 approved Budget and early work to support the further development of the Council's medium term priorities and aligned financial plans (paragraphs 4.5 to 4.7).

3.0 Fiscal outlook

3.1 The March 2018 Fiscal Affairs Scotland briefing focuses mainly on the UK Government's Spring Statement and accompanying Office for Budget responsibility (OBR) forecasts. Additionally it considers the potential implications of these for public sector spending.

3.2 The main focus of the UK Chancellor's Spring Statement is now to update economic and fiscal forecasts by the OBR rather than to radically amend spending plans. The key points made are:

- The Economy: the OBR forecast remains largely unchanged and does not reflect recent improvements seen in UK productivity levels
- The Fiscal Balance: has improved a little but the picture remains considerably worse than it was forecast at this time last year
- The next Spending Review: the Chancellor announced that the next UK Spending Review will take place in 2019 and that this is likely to cover the period 2020/21 to 2022/23.

3.3 The UK's economic outlook has also been reviewed with forecasts on growth and inflation remaining largely unchanged. Interest rate forecasts, however have been amended with steeper incremental increases forecast as a result of the last two OBR forecasts.

3.4 As anticipated, no major new tax or spending policies were announced in the Spring Statement. This means that there are no Barnett Consequential's and no impact on the Scottish Budget to reflect. Any such potential changes will feed through the Autumn Budget which is scheduled for November 2018.

3.5 One of the key uncertainties is whether in the Autumn Budget, the Chancellor will be able to found on more recent positive economic and fiscal trends. Clearly, this will depend on whether these trends are sustained and reflected into future OBR forecasts. If so, this potentially provides some potential for public spending to be increased without adversely affecting the delivery of UK fiscal targets.

3.6 If a more positive fiscal position emerges, there is likely to be significant UK Departmental requests to access it, including the NHS following the severe winter pressures and ongoing pressure for further increase in wages. Additionally, mounting pressures in English councils to balance budgets is also likely to be raised.

3.7 Overall, future funding levels remain highly uncertain, without factoring the potential financial impacts of Brexit, and are likely to remain so until at least the time of Brexit.

3.8 In the FAS April 2018 Briefing, the following recent publications are considered:

- 'Financial Sustainability of (English) local authorities 2018 by the UK National Audit Office (NAO)
- 'Local Government in Scotland: Challenges and performance 2018' by the Scottish Accounts Commission (SAC).

The key features of these reports are summarised below.

3.9 The UK NAO report looked at:

- how budgets and budget pressures had changed
- how local authorities had responded to this , in terms of where cuts occurred
- how sustainable the model is in the medium to long term.

3.10 The NAO report indicates:

- a 49% real terms reduction in local authority funding over the period 2010/11-2017/18
- a 29% reduction in funding after council tax is included
- within these UK level figures, the pattern and incidence of reductions has varied considerably, for instance between 2010/11 and 2016/17, there was a real terms reduction in spending on adult social care of 3%, while non-social care spending fell by 33%. Table 1 below shows these trends over the wider range of services between 2010/11 and 2016/17.

Table 1: % change in net current expenditure, by service, 2010-11 to 2016-17, in real terms

Service	% change in spend 2010-11 to 2016-17
Children's social care	3%
Adult Social Care	-3%
Central services	-15%
Environmental services	-17%
Cultural & related	-35%
Highways & transport	-37%
Housing services	-46%
Planning & development	-53%

Source: Figure 7, Financial sustainability of local authorities 2018, NAO

3.11 The NAO also notes that reduction in funding is happening at the same time, as many councils are seeing increased demand for services. This aspect is illustrated by the recent Institute Fiscal Studies (IFS) paper 'adult social care funding: a local or national responsibility?' which highlights the increasing pressure of rising adult social care costs. The IFS estimates that these costs could rise at around 4.4% real terms, meaning that over the next 20 years the cost of adult social care could rise from less than one third of overall revenues to over half.

3.12 The NAO also found that English councils responded to pressures in different ways over the period 2010/11- 2016/17. For the first three years there was a focus on making savings and building reserves to provide a medium term financial 'cushion'. Examples of typical service reductions over this period include:

- a reduction of 34% in weekly domestic waste collection
- a reduction of 67% in the number of health and safety enforcement notices issued by councils
- a reduction of 48% of council supported bus service mileage (outside London).

3.13 In the second three year period, reductions in service spending accounted for less than half of the required savings. Instead councils have managed to find other forms of savings or income. The NAO appear to be fairly pessimistic about the current direction of travel:

‘The current trajectory for local government is towards a narrow core offer increasingly based on social care. This is the default outcome of sustained increases in demand for social care and of tightening resources’.

- 3.14 The Scottish Accounts Commission paper is similar to the NAOs, looking at the financial challenges facing Scottish local authorities. In terms of the scale of reductions in council funding, there is an issue over the comparability of the two systems. In particular, a key element of Scottish Local Government spending, on schools, no longer applies in England. As the schools budget in Scotland is relatively large and has been protected, it means that the overall fall in the Scottish local government budget (10% real terms reduction between 2010/11 and 2018/19) is notably smaller than is seen for English councils.
- 3.15 Table 2 below shows the differences in the way Scottish and English councils have implemented budget reductions in services. In particular, Scottish councils have made much bigger reductions in Central Services, while English councils have targeted other services, particularly Cultural and Planning and Development.

Table 3: % change in net revenue expenditure, by service, 2010-11 to 2016-17, in real terms

Service	Budget £m 2011-12	Scotland	UK	Difference
Social Work	2857	0%	-3%	-3%
Environmental	660	-7%	-17%	-10%
Cultural & Related	640	-19%	-35%	-16%
Roads & Transportation	490	-28%	-37%	-9%
Planning & Development	310	-34%	-52%	-18%
Non-HRA Housing	390	-35%	-46%	-11%
Central*	550	-39%	-15%	24%
Also				
Education	4650	-6%	N/A	

Source: Scottish Local Government Financial Statistics 2016-17 and 2014-15, also Table 1 above.

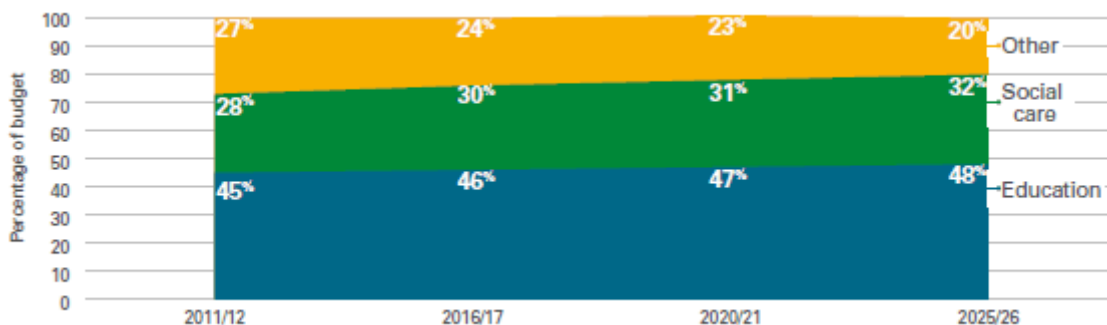
* Comparability of Scottish Central services data may be affected by the transfer of Police in Fire in 2013-14, despite adjustments having been made.

- 3.16 The SAC paper also considers the impact of population change on demand for council saving and funding. It highlights the variation in the population related challenges which face different councils over the period 2014 to 2039, ranging from a decline of more than 10% to a rise of over 20%. Clackmannanshire is forecast to have a 3% reduction in the population over this period.
- 3.17 The report also highlights a sharp increase in older people, with fewer people of

working age when compared with people of pensionable and school age. SAC forecast that without service redesign or policy change, councils could be spending 80% of their budgets on education and social care by 2025/26 (Table 3).

Forecast of council spending patterns

Without service redesign or policy changes our modelling suggests that councils could spend 80 per cent of their budgets on education and social care by 2025/26.



Other Social care Education

Note: Calculations are based on cash terms.

Source: *Scottish Local Government Finance Statistics 2016/17* Audit Scotland, November 2016

- 3.18 These recent reports highlight a more explicit reporting of the conflict between reducing council spending and protecting key services such as education and adult social care, leading to questioning of the sustainability of the current system and the continuing need to focus on transformation.

4.0 Budget Strategy Implementation

- 4.1 On the 8th March 2018, the Council approved its budget for 2018/19. At that time, Council was also provided with updated details of the indicative funding gap for three years from 2019/20. This information is reproduced at Table 4 below and shows an indicative funding gap of £12.5 million for 2019/20 and a cumulative gap of £29.9 million over the three year period to March 2022.

Table 4: General Services Budget 2019/20-2021/22 Indicative funding gap

	2019/20	2020/21	2021/22
	£000	£000	£000
Net expenditure	126,313	133,335	140,370
Net Funding	113,804	112,061	110,423
Cumulative indicative Funding Gap	12,509	21,274	29,947
Annual indicative Funding Gap	12,509	8,765	8,673

- 4.2 The main assumptions for all three years included within Exhibit 2 are as follows:

- 3% Increase in Council Tax
- Pay inflation 3%

- Contract inflation £600k
- General demand pressures, £2.4m 2019/20 and £3m for 2020/21 and 2021/22
- Cash reduction on general fund grant of 3.5%
- That the additional £1.217m received in 2017/18 is baselined for future years
- The recurrent share of the additional social care funding of £250m baselined each year
- That the additional £1.502m received for 20118/19 is not at this stage baselined for future years.

4.3 As previously indicated to Council the fuller range of financial scenarios have been refreshed based on a High, Medium and Low impact categorisation. Whilst it is unlikely all key financial planning variables will fall neatly into a single category, the scenarios provide a useful indication of the potential range of likely outcomes for financial planning purposes. Table 5 summarises the underpinning assumptions for each of the three scenarios.

Table 5: Financial Planning Scenarios: Assumptions for 2019/20 to 2021/22

	Low	Medium	High
General Revenue Grant Reduction	0%	3%	5%
Council Tax	0%	2%	3%
Non-Domestic Rates Income	3.5%	0%	-3.5%
Additional share of £130m revenue	2%	3%	3%
Pay award (teaching and non-teaching staff)	£2.5m	£3.5m	£4.0m
Demand pressures (General and contract inflation)	2%	3%	4%

4.4 The application of these assumptions results in the three scenarios summarised in Tables Exhibits 6 to 8 for High, Median and Low impact categorisations respectively. These scenarios result in a range of potential indicative funding gaps from £9.6 million to £14 million for 2019/20 and £18.8 million to £33 million for the three years cumulatively to March 2022. It is considered prudent to plan for the High scenario outcome, though in practice the Median scenario is typically used as the most likely/realistic outcome.

Table 6: HIGH SCENARIO: Indicative funding gap 2019/20 to 2021/22

Year	2019/20	2020/21	2021/22
Net expenditure	127,312	134,734	142,168
Net funding	113,272	111,107	109,151
Annual Indicative funding gap	14,041	9,587	9,390
Cumulative Indicative funding gap	14,041	23,628	33,018

Table 7: MEDIAN SCENARIO: Indicative funding gap 2019/20 to 2021/22

Year	2019/20	2020/21	2021/22
Net expenditure	126,812	133,734	140,668
Net funding	113,945	112,529	111,195
Annual Indicative funding gap	12,867	8,338	8,269
Cumulative Indicative funding gap	12,867	21,205	29,474

Table 8: LOW SCENARIO: Indicative funding gap 2019/20 to 2021/22

Year	2019/20	2020/21	2021/22
Net expenditure	124,671	129,452	134,241
Net funding	115,117	115,241	115,403
Annual Indicative funding gap	9,554	4,657	4,627
Cumulative Indicative funding gap	9,554	14,211	18,838

Implementation of 2018/19 Budget

- 4.5 The delivery of savings approved in the 2018/19 budget will continue to be closely monitored. This is particularly important, given the more challenging experience of the Council in delivering its 2017/18 budget savings, the level of additional pressures (welfare reform and adult social care in particular), and the potential scale of the indicative funding gap for 2019/20.
- 4.6 Detailed information on delivering the Council's General Services and Housing Revenue Account revenue and capital budgets will continue to be provided in the Council's corporate monitoring outturn reports. Progress in delivering savings will be reported in the regular update reports to Council and in service performance reports.

Budget preparation 2019/20

4.7 Work is also progressing to develop the Council's proposed Budget for next/ future years. Prior to recess a number of significant activities are being undertaken which will inform the development of future years' priorities and from these will flow the financial plans. Key activities include:

- the submission of the new Corporate Plan aligned with the new LOIP priorities
- the review of all major asset plans (property, lands, fleet, IT, school estate,) with a view to realigning capital investment priorities with those set out in the LOIP and Corporate Plan
- the development of Programme Management and Governance arrangements to support the further development, monitoring and implementation of the Council's continuing organisational redesign plans.

5.0 Conclusions

5.1 This report provides an update on the fiscal outlook, impact of the UK Spring Statement and recent publications on the challenges and funding issues affecting local government.

5.2 On the basis of this wider fiscal and economic update, Council is also presented with refreshed financial planning assumptions and recalculated High, Medium and Low impact financial planning scenarios.

5.3 The report also provides an update on the monitoring arrangements for the 2018/19 Budget summary within the new decision making structures and early work already underway in support of the development of the Council's medium term plans which are closely aligned with the development of future year's budgets.

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

N/A

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)

Council Budget 2018/19	March 2018
Fiscal Affairs Scotland	March, April 2018 briefing
NAO	Financial Sustainability of (English) Local Authorities 2018
SAC	Local Government in Scotland: Challenges and Performance 2018
IFS	Audit Scotland Care Funding: A Local or National Responsibility?

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Lindsay Sim	Chief Accountant	01259 452078
Nikki Bridle	Depute Chief Executive	01259 452373

Approved by

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Depute Chief Executive	
Elaine McPherson	Chief Executive	