
Report to Clackmannanshire Council

Date of Meeting: 25 October 2018

Subject: Budget Strategy Update

Report by: Chief Accountant (Interim)

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; the 2019/20 Budget Challenge and an overview of the current financial position.

2.0 Recommendations

- 2.1. It is recommended that the Council notes:

- The Office for Budget Responsibility (OBR) – July Fiscal Sustainability Report
- The CIPFA index and the Financial Resilience assessment
- The BoE interest rate change
- The COSLA update
- Brexit planning arrangements
- The 2019/20 budget challenge update
- That the forecast outturn to 31 March 2019 for the Council is currently an overspend of £0.087m
- That the forecast outturn to 31 March 2019 for the Health & Social Care Partnership (H&SCP) is currently an overspend of £1.485m
- Savings achievement estimated improvement
- Service actions to identify in year savings to minimise the overspend and support the 2019/20 budget setting process.

3.0 Considerations – Fiscal Update

- 3.1.1 **The Office for Budget Responsibility's (OBR)** latest report highlights spending challenges ahead. The OBR overview of fiscal sustainability tells us about long term government spending. It looks at how assets and liabilities on the public sector's balance sheet are expected to change over time and

provides an important picture of the direction of travel when it comes to government activities.

- 3.1.2 The Fiscal Sustainability Report, released by the OBR in July, sets out the long-term sustainability of the level of public debt. This is a key measure of the government's fiscal policies, which since 2010 have involved reducing government spending with the aim of reducing the net debt level.
- 3.1.3 The OBR projections do not take changes in policy into account; however it has factored in the recent announcements on increased funding for the NHS, as this is significant for all other budget areas.
- 3.1.4 According to the report, the position on public finances is worse than previously estimated in the OBR's last fiscal sustainability report, with key forecasts indicating that:
- Health spending will rise from 7.6% of GDP in 2022-23 to 13.8% in 2067-68, largely due to a combination of demographic changes and cost pressures in the sector.
 - State pension costs will increase from 5.0% of GDP to 6.9%, impacted by aging population.
 - Adult social care costs rise from 1.3% of GDP in 2022-23 to 1.9% in 2067-68.
- 3.1.5 There are a number of other factors involved, relating to financial transactions and other issues, but taking all of that into account the impact on the Public Sector Net Debt (PSND) position is stark.
- 3.1.6 PSND is projected to fall from its medium-term peak of 85.6% of gross domestic product in 2017-18 to 80% of GDP in 2022-23, before rising thereafter and reaching 82.8% of GDP in 2067-68. Beyond this point, the OBR report suggests debt would continue to rise, all of which points to a clearly unsustainable path.
- 3.1.7 Whole of Government Accounts (WGA) recently published by Treasury, indicate that overall net liabilities were £2,421bn or 122% of GDP at the end of March 2017. This is up £435bn on the previous year's restated results. The rise in PSND within those total liabilities was £124bn going up to £1,727bn. A key reason underpinning the rise in WGA liabilities is the impact of lower long-term discount rates on the public service pension's liability, which raises the level of the current value of those discounted future liabilities on the 2016/17 balance sheet. This reversed slightly in 2017/18.
- 3.1.8 The OBR have estimated that the UK would have had to make a contribution of £13.3bn to the EU budget in 2022-23 if we remained a member, but of that potential saving, £7.5bn will be absorbed by the withdrawal settlement payment expected for that year, leaving £5.8bn available to spend. This could cover slightly less than 30% of the cost of the health package in that year, but it does not factor in any other calls on these potential savings, including commitments the government has already made on farm support, structural funds, science and access to regulatory bodies.
- 3.1.9 What is clear from the core messages in the report is that the current path of public finances is not sustainable. Policy and practice needs to change to support productivity and growth measures over a longer-term planning timeframe, alongside a clear focus on outcomes that can be delivered across government in a more sustainable way. Planning for those policy changes

needs to start now as this position is not something that can be turned around in a short time frame.

3.2.1 CIPFA and the Northamptonshire assessment – *"We are experiencing a significant financial crisis but there is avoidance of the term and a lack of action appropriate for the situation we find ourselves in"*

3.2.2 When Northamptonshire County Council was issued with a section 114 notice, it highlighted the fact that the local government sector is facing a deepening and immediate financial crisis. In recent months, several reports have demonstrated how councils are struggling to survive and that the risk is mounting. According to the NAO's most recent financial sustainability report, 10% of upper-tier authorities are vulnerable to financial failure. That means a significant number of councils are at risk, along with the essential services for literally millions of tax paying citizens.

3.2.3 The findings of these reports and, the cash crisis in Northamptonshire County Council underline the fact that the issue can no longer be ignored. Elected members need to fully understand the financial position of their council and seize the opportunity, to take action to ensure a more sustainable footing going forwards.

3.2.4 CIPFA carried out an assessment of a number of factors in evaluating the financial downfall of Northamptonshire County Council. Some of the indicators were shared with the S95 group at its September meeting and are attached in Appendix 1 for member's consideration.

3.2.5 CIPFA is working to support local leaders address to the challenge by providing them with appropriate support:

- Developing a new financial management code, to sit alongside established treasury management and prudential codes, which aims to support good practice in the planning and execution of sustainable finances (release expected in the summer of 2019).
- Continue to share practical advice on funding and resource management via CIPFA's Funding Advisory Service.
- A new Financial Resilience Index: CIPFA will provide stakeholders with impartial information on how financially resilient individual councils are and what pressures they need to pay attention to (release expected October 2018).

3.2.6 With regards to the index, CIPFA consulted on its design and methodology and is currently assessing the 190 comments it received. The proposal for the index to use a 'traffic-light' grading system to provide an early warning system for local authorities with deteriorating financial positions and thereby to prompt action where it is needed.

3.2.7 This information will be shared publicly creating greater pressure on councils to respond swiftly and effectively and ensure such problems are flagged at an early stage.

- 3.2.8 Council members need to understand their level of financial stress and what their main pressures are including, the level of resources, the rate of depletion of resources, social service demand pressures, the level of borrowing and auditors' VFM assessments. These are some of the indicators CIPFA has incorporated into its index and should paint an accurate and detailed picture of financial risk.
- 3.3.1 **Bank of England** - The Bank's Monetary Policy Committee agreed unanimously to increase the base rate from 0.5 to 0.75 per cent in August. This will provide a small return for investors but will add to the cost of debt for those with variable interest rate borrowings. Scotland's growth over the last three years has lagged behind the UK, so whilst the Bank may judge that the UK economy is in sufficiently robust health to cope with a rate hike, a rate rise in Scotland may be more of a challenge.
- 3.4.1 **COSLA** updated the S95 officers on a number of issues raised at its meeting with the Scottish Government (SG):
- Local Government (LG) payrises may not be fully funded by SG,
 - Council tax rise might be capped at 3% in total, not year on year,
 - Expect cuts and not flat cash in settlement, with more ring-fencing around priorities,
 - Still waiting on consequentials coming through from UK Government,
 - COSLA pushing for flexibility around statutory duties, suggesting that the current National Performance Framework is no longer sustainable within the resources available,
 - Teacher pension increases from 2020 impacts.
- 3.5.1 Brexit planning is ongoing, which a separate report on today's agenda deals with in further detail. HR are reviewing the number of staff which could be affected by the changes. The numbers are small and the impact is not expected to be great. The financial implications are however, much more difficult to predict without the actual agreed terms of the exit package.
- 3.5.2 The most likely impact for Clackmannanshire will be the initial impact on the wider financial system. Inflation and interest rates may vary as the financial world attempts to control the impacts. As border controls and additional costs hit suppliers these will be passed on in increased prices.
- 3.5.3 The full impacts will not be clear until the UK government agree the final exit package.
- 3.6 All the current intelligence indicates greater not less cost pressure going forward, along with falling settlements. Post March 2019, the financial pressures could increase as debt and supplies costs increase. Councils now need major transformational change and/ or significant reductions in services to stay within budgeted levels.

4.0 Budget Challenge 2019/20 Update

- 4.1. A number of budget challenges and briefings have taken place. Two Strategic Directors took up post in early September and were given 6 weeks to review their new budgets, come up with their first draft of budget savings and a management structure to support their new themes. The first review will be undertaken in late October. With this in mind the budget timetable has been updated to reflect the changes in the timeline, job titles and committee structures, (Appendix 2).
- 4.2. There is currently a full review of the Council's Asset Strategy being undertaken, with initial focus on the School Estate Strategy. Updates will be provided in future papers.
- 4.3. Once these are in place the business cases for change and the related capital programmes will need to be reviewed to ensure that capital is being targeted to promote the required transformation.
- 4.4. A significant element of budget preparation is community engagement and consultation for the 2019/20 process, a 2 stage approach is being adopted :
 - Stage 1 – this is aimed at continuing to build awareness of our financial challenges and seek feedback on Council priorities. This is expected to take place over the course of November.
 - Stage 2 – this will be along more familiar lines to previous years. It will focus on themes and specific business cases for change in the short to medium term, i.e. Years 1 and 2. Dependant on the above this is expected to take place over the course of December to early January 2019.

5.0 Forecast Outturn March 2019

- 5.1. The People, Place and Partnership & Performance committee each receive a detailed finance report, for their area setting out the outturn and savings position. The Audit Committee receives the overall finance report for the same period, which addresses the forecast outturn, savings updates, capital spend and progress on the Housing Revenue Account. The individual committee reports are on the Councils website.
- 5.2. The outturn reported within these individual reports is summarised below and reports the Council overspend as £0.087m,
- 5.3. The outturn reported for Health and Social Care Partnership is an overspend of £1.485m shown below.

5.4. The forecast outturn to March 2019 (based on quarter 1):

	Over/ (underspend) £000s
People Division	(278)
Place Division	1,040
Partnership & Performance Division(excl HSCP)	(675)
Total Council Overspend	87
Health & Social Care Partnership	1,485

5.5. Accountancy staff are working with budget holders to ensure that this position is regularly reviewed and that all actions are being taken to recover the position in-year.

5.6. The H&SCP are looking at in-year means to reduce the overall £3.4m overspend and are working across the 2 Councils and NHS to agree these, at the joint S95 officer meetings, which are about to commence. Clackmannanshire's share of this is currently £1.485m.

6.0 2018/19 Savings update

6.1. The draft August outturn suggests 84.4% of savings will be achieved, the savings will be reported to the committee's in November:

Comparative of August draft outturn to June outturn:

August draft position										
	Achieved		Likely		Amber		Red		Total	
People	847,595	22%	2,361,213	63%	697,750	18%	76,590	2%	3,983,149	54%
Place	1,218,613	48%	394,354	16%	92,250	4%	383,801	18%	2,089,019	28%
Performance	479,022	44%	503,904	47%	54,000	5%	266,576	20%	1,303,502	18%
	2,545,230		3,259,471		844,000		726,967		7,375,670	
	34.5%		44.2%		11.4%		9.9%			
Estimated achievement										84.4%

Change	14.1%	(1.2)%	(14.0)%	1.1%
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June Outturn										
	Achieved		Likely		Amber		Red		Total	
People	717,590	19%	1,412,949	37%	1,643,542	44%	0	0%	3,774,081	51%
Place	546,523	22%	1,425,585	56%	179,090	7%	372,741	15%	2,523,939	34%
Performance	243,500	23%	507,150	47%	54,000	5%	273,000	25%	1,077,650	15%
	1,507,612		3,345,684		1,876,632		645,741		7,375,670	
	20.4%		45.4%		25.4%		8.8%			
Estimated achievement										78.5%

6.2. The table above indicates that a number of projects have moved from amber status to achieved and that estimated achievement rates have improved from 78.5% to 84.4%.

- 6.3. Red status has gone up 1% but this is relates to projects that will achieve their savings, but not by the year end.
- 6.4. Although the expected savings delivery has increased from the June outturn position there is still an expected shortfall in the savings for 2018/19. Services have been asked to identify additional savings in-year to compensate for the unachievable savings focusing on essential spend only.
- 6.5. Services have been advised that spending restraint should be in place and that only essential spend should be incurred until the financial year end. This will support the council's budget setting for 2019/20 whilst ensuring that funds are available for the Employment Fund and Change Fund, for on-going organisational change, and that the council's reserves policy is not breached.

7.0 Conclusions

- 7.1. This report provides an update on the fiscal outlook from the Office for Budget Responsibility focusing on the spending challenges ahead for local government. Along with CIPFA's review of Northamptonshire County Council's financial situation and details the work to support leaders and create a new Financial Resilience Index.
- 7.2. The report also details a number of financial risks for the council including; Bank of England base rate increase in August; COSLA's work with the Scottish Government of future funding and the implications of Brexit.
- 7.3. There is an update on the budget challenge 2019/20 process including the budget timeline, and the monitoring progress for 2018/19 with detail on savings achieved to date.

8.0 Sustainability Implications

- 8.1. The risk to the Council financial sustainability remains high.

9.0 Resource Implications

9.1. Financial Details

- 9.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes

- 9.3. Finance has been consulted and has agreed the financial implications as set out in the report. Yes

9.4. Staffing

10.0 Exempt Reports

- 10.1. Is this report exempt? No

11.0 Declarations

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

(1) **Our Priorities** (Please double click on the check box)

- Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all
- Our families; children and young people will have the best possible start in life
- Women and girls will be confident and aspirational, and achieve their full potential
- Our communities will be resilient and empowered so that they can thrive and flourish

(2) **Council Policies** (Please detail)

12.0 Equalities Impact

12.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?

Yes No

13.0 Legality

13.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

14.0 Appendices

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

Appendix 1 CIPFA Financial Resilience Assessment extract

Appendix 2 Budget Timeline (revised)

15.0 Background Papers

15.1 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 (please list the documents below) No

Office for Budget Responsibility's Report dated July 2018



Bank of England Monetary Policy Committee update dated August 2018

People, Place and Partnerships & Performance Committee reports – June
Outturn

Author(s)

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Approved by

NAME	DESIGNATION	SIGNATURE
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CIPFA Financial Resilience Assessment: extract of problem areas identified in Northants

- Financial rigour not well exercised
- Revenue deficits not addressed
- Savings not achieved
- No assessment of statutory minimum spend v what's actually spent
- Budget setting flawed
- Reliance on reserves
- Council Tax fixed too low, for too long
- Demand management -Adult and Child overspend
- No strategy to deal with forecast demand
- No demand forecasting
- No clear method to tackle overspends
- Capitalisation of revenue, under guise of transformation criteria
- Lack of prudence and transparency in decision making
- Transformational projects not implemented quickly or results monitored
- Strained relationships between officers and elected members

Budget Timeline (revised)

Appendix 2

Task/ milestone	Timing	Stakeholders/ attendees	Output	Completed
SAVINGS IDENTIFICATION AND BUDGET CHALLENGE				
2019/20 Savings	May to 21 June 2018	Heads of Service	First tranche for proposed savings 2019/20: populate template	Completed
Service Portfolio Meetings	May to June	Administration Portfolio Holders; Head of Service; Senior Management Team; Service Accountants	Determine priorities and propose savings	Completed
Budget Challenge Sessions	Late August 2018	Administration, EX SLG, Service Management Teams, Chief Accountant, Team Leader (Accountant)	Challenge on first tranche of proposals	Cancelled due to restructure
Business case development	Early September 2018	SLG; Chief officers, Chief Accountant, Team Leader (Accountancy)	Business cases incorporating options appraisals; saving proposals, investment requirements and timescales.	Ongoing
EX SLG Challenge Session	Late October 2018	EX SLG, (Group Leaders or Admin Group)	Redesign options and models Vision and values refinement	
SLG/ Council	December	SLG/ elected members	Budget, savings and Workforce plan	
CONSULTATION				

Task/ milestone	Timing	Stakeholders/ attendees	Output	Completed
CONSULTATION WITH ELECTED MEMBERS				
Members Briefing	August 2018	All elected members, SLG	Reaffirmation of objectives, principles and processes	Completed
Elected Member Forum	September 2018 (monthly)	Elected members, SLG, Chief Accountant, Service representatives	Change Proposals, Business cases Elected member feedback	Completed
Member dialogue on budget preparation (detailed evaluation)	End September 2018	Administration and political grouping as appropriate	Indicative budget including necessary savings proposals, policy decisions and prioritisation	Rescheduled to November due to restructure
Elected Member Forum	November 2018 (monthly)	Elected members, SLG, Chief Accountant, Service representatives	Change Proposals, Business cases Capital Bid development Elected member feedback	
Elected Member Forum	December 2018 (monthly)	Elected members, SLG, Chief Accountant, Service representatives	Change Proposals, Business cases Capital Bid development Elected member feedback	
Elected member Forum	January 2019	Elected members, Executive Team, Chief Accountant, Service representatives	Indicative potential savings Draft capital bid proposals Elected member feedback	
CONSULTATION WITH UNIONS				
TU Briefing	August 2018	TU reps, SLG, Chief Accountant	Change Proposals, Business cases	Completed

Task/ milestone	Timing	Stakeholders/ attendees	Output	Completed
			Feedback from Tus	
Trade Union Forum	September 2018	TU reps, SLG, Chief Accountant	Change Proposals, Business cases Feedback from Tus	Completed
Trade Union Forum	November 2018	TU reps, SLG, Chief Accountant	Change Proposals, Business cases Capital Bid development Elected member feedback	
Trade Union Forum	December 2018	TU reps, SLG, Chief Accountant	Change Proposals, Business cases Feedback from Tus	
Trade Union Forum	January 2019	TU reps, SLG, Chief Accountant	Indicative potential savings Draft capital bid proposals Feedback from Tus	
CONSULTATION WITH PUBLIC				
Budget consultation: Outline approach internally and	October 2018	Chief Officer Performance, Chief Executive, Team Leader (Communications), Chief Accountant	Establish consultation outline approach and action plan	

Task/ milestone	Timing	Stakeholders/ attendees	Output	Completed
externally				
External consultation and engagement	Late November 2018	Chief Officer Performance, Chief Officers, Team Leader (Communications), Chief Accountant	Issued - areas of business case development and emerging options Feedback	
Consultation Outcome	November 2018	Chief Officer Performance, Team Leader (Communications), Chief Accountant	Aggregated Consultation responses from stakeholders for inclusion in the Budget	
CAPITAL BID DEVELOPMENT				
Asset Plan Refresh Capital Plan update	September 2018	EX SLG, Chief Accountant	Review of school estate plans	Completed
Capital Bid process	August - October 2018	Capital Investment Group (officer operational group)	Draft capital bid preparation	Ongoing
Capital Plan/Strategy update	October	EX SLG	Review of capital plan informed by review of divisional future service provision	
Capital Bid Corporate Round Table	End November 2018	EX SLG, Chief Accountant	Draft Capital bids	
Draft Capital Strategy	February	EXSLG, chief accountant	Draft Strategy	
HSCP				
HSCP Strategic	September 2018	HSCI Chief Officer, IJB, Chief	HSCI Strategic Plan priorities linked to	Completed

Task/ milestone	Timing	Stakeholders/ attendees	Output	Completed
Plan: Review of Priorities and Funding		Executive, Leader and Chief Accountant	resource transfer and savings requirement Demand pressures Service/ locality impact assessment	
HSCP Resource Transfer	Late September 2018	HSCI Chief Officer, IJB, Leader of the Council and Chief Executive, Chief Accountant	Completion of draft resource transfer figure linked to agreed Strategic Plan priorities	
HSCP Resource Transfer	Early January 2019	HSCI Chief Officer, IJB, Leader of the Council and Chief Executive, Accountant	Resource transfer position consolidated for integration with Council budget	
INCOME & CHARGING				
Income and Charging Strategy Refresh	Mid November 2018	Chief Accountant, Accountancy Team Leader, Chief Officers/ services	Income and Charging Strategy proposals/revisions	Started: group working through the programme
Income and Charging Strategy Refresh	Start December 2018	Chief Accountant, Team Leader (Accountancy)	Refreshed Income and Charging Strategy scenarios	
Income and Charging Strategy	Early January 2019	SLG, Chief Accountant	Finalised schedule of charges and refreshed Strategy.	
DEMAND PRESSURES				
Demand Pressures	Mid November 2018	Chief Accountant, Accountancy Team Leader, SLG	Collate draft demand pressures	

Task/ milestone	Timing	Stakeholders/ attendees	Output	Completed
Draft Demand pressures review	Start December 2018	SLG	Refined schedule of demand pressures, clarification query schedule	
Finalise demand pressures	Early January 2019	SLG	Finalised demand pressures to incorporate within budget	
FINAL BUDGET				
Pre consultation draft Budget	January 2019	Administration, EX SLG, Chief Accountant	Draft Budget subject to consideration of consultation responses.	
Budget setting	February 2019	Special Council	Final Budget	

Key			
Orange	Consultation	Aqua	Income and charging refresh
Pink	Capital bid development	Yellow	Demand Pressures
Purple	Budget challenge	Red	Budget
Light green	HSCP		