
Report to Clackmannanshire Council

Date of Meeting: 20 December 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, comments and challenges as appropriate:
- The Fiscal Outlook update
 - Revision of the budget gap 2019/20 - 2021/22
 - Budget Challenge update
 - That the forecast outturn to 31 March 2019 for the Council is currently an overspend of £0.653m (June £0.087m)
 - That the forecast outturn to 31 March 2019 for the Health & Social Care Partnership (H&SCP) is currently an overspend of £1.542m (June £1.485m)

3.0 Considerations – Fiscal Outlook Update

3.1 Budget dates

On 29 October the UK government announced its budget and was accompanied by the Office for Budget Responsibility latest economic and fiscal outlooks.

- 3.2 The key message is that significant decisions on how to fund future pressures will probably wait until after the 2019 Spending Review and after the terms of the Brexit deal are better understood.
- 3.3 An overview of the Institute of Fiscal Studies (IFS) analysis shows that future UK funding remains uncertain, alongside on-going pressures. This is due to a combination of increasing pressures over time from an ageing population,

especially in terms of big budgets like health and pensions and slower than expected economic and revenue growth before considering potential Brexit outcomes. Ultimately difficult decisions will need to be taken and may not be clear at the time of the 2019 Spending Review.

- 3.4 The Scottish budget date is now set for 12 December and will be accompanied by the Scottish Fiscal Commissions latest economic and fiscal outlooks for Scotland. The Council's individual settlement will not be publicised until 19 December, immediately prior to the next Council meeting on 20 December.

3.5 COSLA update

COSLA launched its lobbying document *Fair Funding for Essential Services (FFfES)2019/20* in early November and sets out some stark messages around the pressures building within Local Government. The link to the document is below:

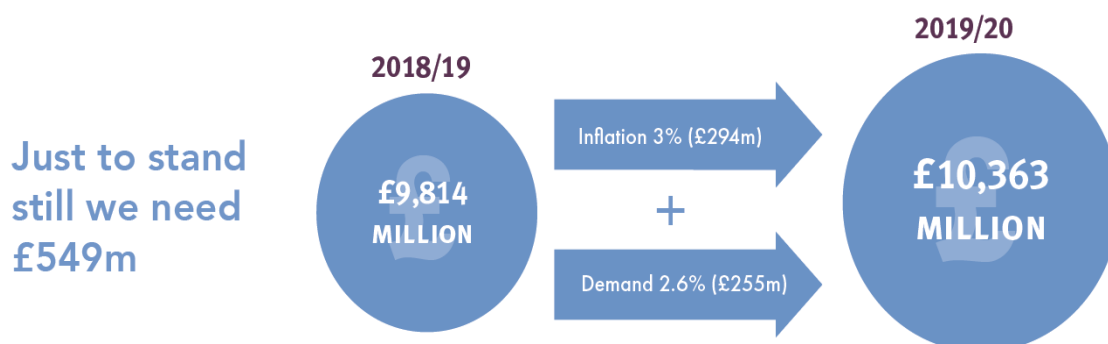
http://www.cosla.gov.uk/sites/default/files/documents/fairfundingforessentialservices2019-20v2_1.pdf

- 3.6 Key analysis from the FFfES are shown below:

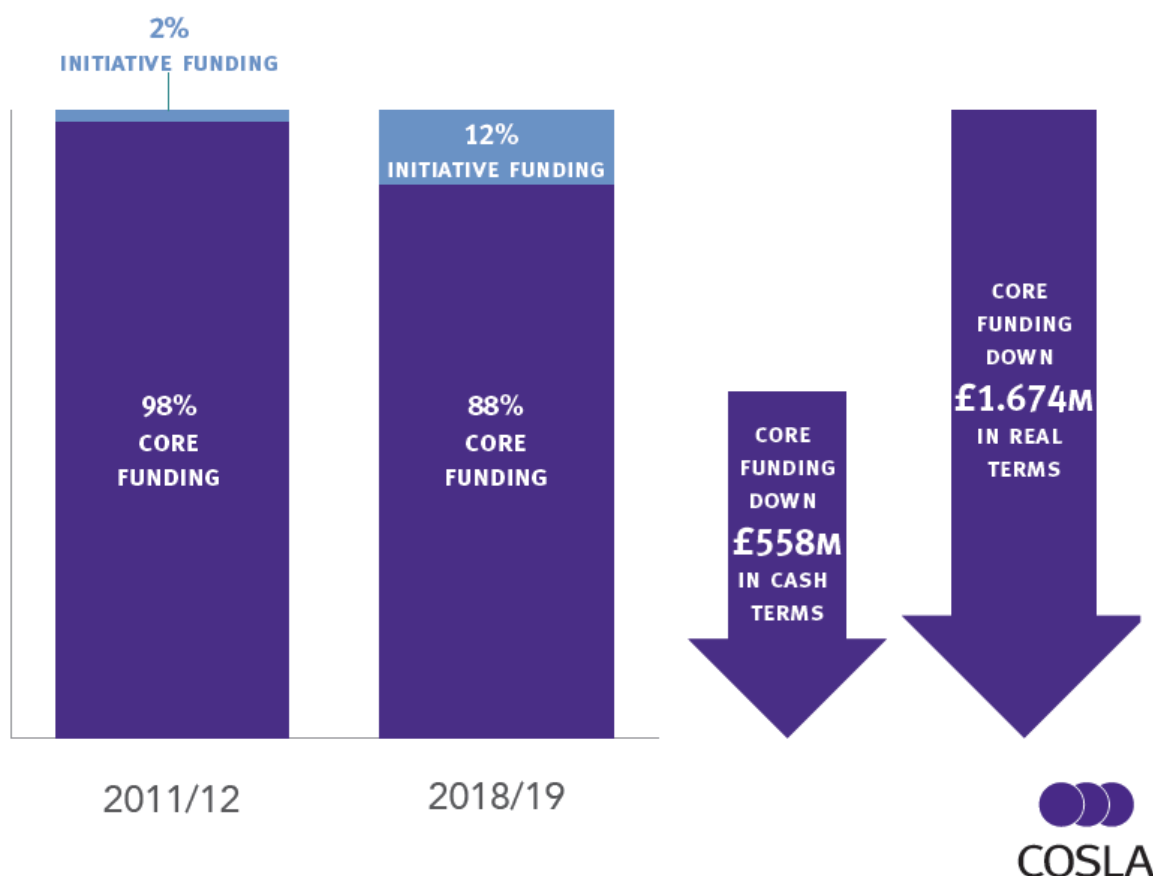
In the last 5 years, the Scottish budget has reduced in real terms by 0.4%, Local Government budgets have reduced by 4%.



- 3.7 Pressure does not only come from tight financial settlements, but also significant demand and inflationary pressures.



- 3.8 At the same time funding has been removed from the core grant and ring fenced for initiatives, giving Local Government less flexibility on how it provides essential services.



3.9 The report goes on to list a number services that have been cut or drastically reduced, as the funding issues get tighter. The increasing difficulty to find savings is one of the key messages, along with the continued need to find significant savings to remain sustainable.

3.10 Barnett consequentials

We now have the Treasury allocations to Scotland for 2019-20 and a list of Barnett consequentials through to 2020-21. Scotland has received an additional £950m in Barnett consequentials over the three year period 2018-21.

The latest Scottish allocations from Treasury are presented in the following table.

Scottish Treasury allocations (real terms, 2017-18 prices)£ million	2018-19	2019-20	% change
Resource	26,500	26,690	0.7%
Capital	3,457	3,817	10.4%
Total	29,957	30,509	1.8%

3.11 This represent an improvement on the position at the last UK fiscal event, with resource spending now expected to grow after inflation by 0.7% next year. Capital spending will grow by 10.4% in real terms in 2019-20.

The £959.7m is split over 3 years, with the majority coming in 2019/20:

Scottish Government				
£ million	2018-19	2019-20	2020-21	Total
Barnett Consequentials (Inc. from Reserve)				
RDEL	123.0	719.5		842.6
CDEL	91.1	4.3	7.8	103.1
CDEL-FTs	0.0	0.0	14.0	14.0
TDEL (Barnett)	214.1	723.8	21.8	959.7
Other (not included in Barnett totals)				
Network Rail (RDEL)	0.0	40.0		40.0
Network Rail (CDEL)	0.0	201.0	388.0	589.0
FT Reprofile	-87.0	0.0	87.0	0.0
City Deals (CDEL)	18.0	28.0	28.0	74.0
EMFF	0.0	0.5		0.5
TDEL (ALL)	232.1	751.8	49.8	1,033.7

RDEL = Revenue Departmental Expenditure Limits

CDEL = Capital Departmental Expenditure Limits

4.0 The Revised budget gap

- 4.1. During November a full review of the budget gap has taken place. The budget pressures have been refreshed and the likely funding streams have been assessed based upon current knowledge within the sector. This has also been informed by reviewing a range of external finance planning assumptions in respect of: NDR: Council Tax income, Pay and General inflation.
- 4.2. The first part of building up the 2019/20 budget is reviewing the 2018/19 budget as a base. Rolling this forward as a 2019/20 starting position, shows us that we currently spend more than our recurring funding and so the starting position for 2019/20 is a **£2.2m underlying deficit**. So we would need £2.2m of savings to breakeven, even before we add pay inflation and other budgetary pressures.
- 4.3. The table below sets out the revised scenarios, as explored at the budget challenge briefing last month and appendix 2 sets out the full detail behind each:

LOW

	2019/20 £'000	2020/21 £'000	2021/22 £'000
Net expenditure	123,342	128,926	134,567
Net Funding	(119,012)	(119,033)	(119,477)
Annual Indicative Funding Gap	4,330	9,893	15,090
Movement in annual gap	4,330	5,563	5,197

Assumptions

Flat cash settlement	-	-	-
council tax increase annually	3.0%	3.0%	3.0%
staff reduction annually	0.0%	0.0%	0.0%
Demand pressures inflation	3.0%	3.0%	3.0%
Contract Inflation	3.0%	3.0%	3.0%
HSCP inflation and demand	4.0%	4.0%	4.0%
Teachers pay funded first yr			
Teachers pension funded			
Non teachers pay not funded			

4.4. The above indicates that the potential gap, assuming the best case scenario, ranges from £4.3m to £15.1M. This scenario assumes very favourable demand pressures (including HSCP), a flat cash settlement and that the Scottish Government fund the teachers pay increases in 2019/20.

4.5 If we look at the worse case scenario the range is £13.8m to £35.3m:

HIGH

	2019/20 £'000	2020/21 £'000	2021/22 £'000
Net expenditure	125,551	132,811	140,313
Net Funding	(111,739)	(107,849)	(104,996)
Annual Indicative Funding Gap	13,812	24,962	35,317
Movement in annual gap	13,812	11,150	10,356

Assumptions

Settlement reduction	-3.5%	-3.5%	-3.5%
council tax increase annually	3.0%	3.0%	3.0%
staff reduction annually	0.0%	0.0%	0.0%
Demand pressures inflation	3.5%	3.5%	3.5%
Contract Inflation	5.0%	5.0%	5.0%
HSCP inflation and demand	9.5%	9.5%	9.5%
Teachers pay not funded			
Teachers pension not funded			
Non teachers pay not funded			

The biggest factors which affect the range are around the grant funding assumptions and the likely demand pressures. In this case its is assumed that the Health and Social care partnership has 4.5% inflation and a 5% increase in demand, the pay awards are not being funded and the settlement reduces by 3.5%.

4.6 The mid range is in line with previously reported figures with a minimum of £10.8m to a maximum £26.7m by 2021/22, if corrective action is not taken:

MEDIUM

	2019/20	2020/21	2021/22
	£'000	£'000	£'000
Net expenditure	124,273	130,435	136,704
Net Funding	(113,449)	(111,392)	(109,958)
Annual Indicative Funding Gap	10,824	19,042	26,745
Movement in annual gap	10,824	8,218	7,703

Assumptions			
Settlement reduction	-2.0%	-2.0%	-2.0%
council tax increase annually	3.0%	3.0%	3.0%
staff reduction annually	0.0%	0.0%	0.0%
Demand pressures inflation	3.0%	3.0%	3.0%
Contract Inflation	4.0%	4.0%	4.0%
HSCP inflation and demand	6.0%	6.0%	6.0%
Teachers pay not funded			
Teachers pension not funded			
Non teachers pay not funded			

- 4.7 The mid range is currently our best estimate of what is likely to happen and takes into account a 2% reduction in the general revenue grant. This is an improvement on previous estimates as our baseline income assumptions have improved. These estimates will be updated as future funding assumptions become clearer.
- 4.8 Although the gap has reduced, this still leaves the Council in an extremely challenging financial position. The above assumes that 2018/19 breaks even and an additional deficit does not roll into 2019/20. At this point that assumption is at risk.
- 4.9 The Scottish budget will be announced in December and this should give a much clearer position on HSCP and pay award funding.

5 Budget Challenge 2019/20 Update

- 5.1 A number of budget challenges and briefings have taken place, with the Budget Challenge 2 sessions being held on the 5th November. The joint presentation set out the challenges across the 3 divisions and the first tranche of savings proposals for 2019/20 and beyond.
- 5.2 These savings plans are now being costed and verified, and the related demand pressures collected. Initial indications suggest that the plans identified to date are not sufficient to cover the mid-range 2019/20 budget gap. Additionally there are insufficient General Fund Uncommitted reserves available to cover the gap, should the required savings levels not be reached. Other reserves will need to be used and further savings identified before a balanced budget can be agreed,

6 Forecast Outturn March 2019

- 6.1 The People, Place and Partnership & Performance committees 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.

6.2 The outturn reported within these individual reports is summarised below and reports that the Council overspend is £0.653m, for the August forecast. Council will recollect that formal spending restraint measures were put in place in October and the impacts still require time to work through into the outturn.

6.3 The outturn reported for Health and Social Care Partnership is an overspend of £1.542m shown below.

6.4 The forecast outturn to March 2019 (August):

People Service	Over/ (underspend) £000s
People Underspend	(507)
Performance Underspend	(336)
Place Overspend	825
Corporate Services	671
Council Overspend	653

Partnerships	Over/ (underspend) £000s
Health & Social Care Partnership	
Partnerships Total Overspend	1,542

6.5 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. If the overspend is not brought back into line, the Council may breach its reserve policy by the year end.

6.6 The H&SCP are looking at in-year means to reduce the overall £3.4m forecast overspend and are working across the 2 Councils and NHS to agree these. Clackmannanshire's overspend is currently £1.542m, on a risk share basis this could reduce to £850k. However the HSCP are confident that the above number will come down as the savings plans start to show progress.

7 Budget Engagement

7.1 The budget engagement process is ongoing. The public consultation on corporate priorities indicated broad support. The communications team have produced a leaflet setting out the difficult challenges faced by the Council as well as outlining key savings policy themes and proposals that form the basis of the budget engagement. The budget engagement will take place over January 2019. The themes are particularly important in engaging views on our medium term financial planning.

7.2 The engagement will be accessible on-line, and there is a targeted programme of face to face engagement with affected groups, particularly where there are

potential equality, community, special interest or poverty impacts. The Engagement will conclude on 1 February 2019. Outputs will be shared with elected members prior to the budget meeting.

8 Sustainability Implications

8.1 The Councils **financial sustainability remains a high risk.**

9 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 ☒

10 Exempt Reports

10.1 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** (Please double click on the check box ☒)

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

(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 ☐ No ☒

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".

Appendix 1 Budget Timeline (up dated)

Appendix 2 Low, Medium & High Budget gap assumptions

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 ☐ (please list the documents below) No ☐

Scottish Government Draft Budget 2018-19 :
<http://www.gov.scot/Resource/0052/00529171.pdf>

Scottish Government Five Year Financial Strategy :
<https://beta.gov.scot/publications/scotlandsfiscal-outlook-scottish-governments-five-year-financial-strategy/>

Office of Budgetary Responsibility Fiscal Forecasts :
https://cdn.obr.uk/EFO_October-2018.pdf

Author(s)

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Approved by

NAME	DESIGNATION	SIGNATURE
Paula Tovey	Chief Accountant (Interim)	
Stuart Crickmar	Strategic Director Partnership & Performance	

Budget Timeline (revised)
Appendix 1

Task/ milestone	Timing	Stakeholders/ attendees	Output	Completed
SAVINGS IDENTIFICATION AND BUDGET CHALLENGE				
2019/20 Savings	May to 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	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	September 2018	SLG; Chief officers, Chief Accountant, Team Leader (Accountancy)	Business cases incorporating options appraisals; saving proposals, investment requirements and timescales.	Ongoing
Budget Challenge 2 Session	October 2018	EX SLG, (Group Leaders or Admin Group)	Redesign options and models Vision and values refinement	Completed 5 November
SLG/ Council	December 2018	SLG/ elected members	Budget, savings and Workforce plan	
CONSULTATION WITH ELECTED MEMBERS				
Members Briefing	August 2018	All elected members, SLG	Reaffirmation of objectives, principles and processes	Completed
Elected Member Forum	September 2018	Elected members, SLG, Chief Accountant, Service representatives	Budget gap and saving update	Completed

Task/ milestone	Timing	Stakeholders/ attendees	Output	Completed
Member dialogue on budget preparation	September 2018	Administration and political grouping as appropriate	Indicative budget including necessary savings proposals, policy decisions and prioritisation	Completed
Elected Member Forum	November 2018	Elected members, SLG, Chief Accountant, Service representatives	The budget gap	
Elected Member Forum	December 2018	Elected members, SLG, Chief Accountant, Service representatives	Draft budget proposals with business cases	
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	Setting out the budget gap and high level messages around requirements for 2019/20	Completed
Trade Union Forum	September 2018	TU reps, SLG, Chief Accountant	Setting out the budget gap and savings position to date	Completed
Trade Union Forum	November 2018	TU reps, SLG, Chief Accountant	The budget gap	Cancelled
Trade Union Forum	December 2018	TU reps, SLG, Chief Accountant	The savings plans to date with business cases	
Trade Union Forum	January 2019	TU reps, SLG, Chief Accountant	Tbc	

Task/ milestone	Timing	Stakeholders/ attendees	Output	Completed
CONSULTATION WITH PUBLIC				
Budget consultation: Outline approach internally and externally	November 2018	Chief Officer Performance, Chief Executive, Team Leader (Communications), Chief Accountant	Establish consultation outline approach and action plan	On going
External consultation and engagement	November 2018	Chief Officer Performance, Chief Officers, Team Leader (Communications), Chief Accountant	Issued - areas of business case development and emerging options Feedback	
Consultation Outcome	December 2018	Chief Officer Performance, Team Leader (Communications), Chief Accountant	Aggregated Consultation responses from stakeholders for inclusion in the Budget	
CAPITAL BID DEVELOPMENT				
Capital Plan update	September 2018	EX SLG, Chief Accountant	Review of school estate plans	Completed
Capital Bid process	November 2018	Capital Investment Group (officer operational group)	Draft capital bid preparation	Ongoing
Capital Plan/Strategy update	November	EX SLG	Review of capital plan informed by review of divisional future service provision	Ongoing
Capital Bid Corporate Round Table	End November 2018	EX SLG, Chief Accountant	Draft Capital bids	
Draft Capital Strategy	April 2019	EXSLG, chief accountant	Draft Strategy	

Task/ milestone	Timing	Stakeholders/ attendees	Output	Completed
HSCP				
HSCP Strategic Plan: Review of Priorities and Funding	September 2018	HSCI Chief Officer, IJB, Chief Executive, Leader and Chief Accountant	HSCI Strategic Plan priorities linked to resource transfer and savings requirement Demand pressures Service/ locality impact assessment	Completed
HSCP Resource Transfer	December 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	End November 2018	Chief Accountant, Accountancy Team Leader, SLG	Collate draft demand pressures	On going

Task/ milestone	Timing	Stakeholders/ attendees	Output	Completed
Draft Demand pressures review	Mid 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		

Appendix 2 Budget Gap: Low, Medium & High

LOW

	2019/20 £'000	2020/21 £'000	2021/22 £'000
Net expenditure	123,342	128,926	134,567
Net Funding	(119,012)	(119,033)	(119,477)
Annual Indicative Funding Gap	4,330	9,893	15,090
Movement in annual gap	4,330	5,563	5,197

Base budget			
Expenditure	116,201	123,342	128,926
Pay inflation	3,250	3,217	3,197
Teachers pensions	1,300	-	-
Staff reduction	0	0	0
	120,751	126,560	132,123
Demand pressures	1,097	1,130	1,164
HSCP Demand	954	680	707
Contract inflation	540	557	573
	123,342	128,926	134,567
Funding	(114,048)	(117,609)	(118,283)
Council tax increase	(654)	(674)	(694)
Settlement (increase)/ Decrease	0	0	0
New money (baselined)	0	0	0
Non teachers pay	0	0	0
Teachers pay	(1,607)	0	0
Teachers pensions	(1,300)	0	0
Baseline	(117,609)	(118,283)	(118,977)
New money (not baselined)	(528)	0	0
From reserves	(375)		
Capital receipts	(500)	(750)	(500)
Not baselined	(119,012)	(119,033)	(119,477)
Assumptions			
Flat cash settlement	-	-	-
council tax increase annually	3.0%	3.0%	3.0%
staff reduction annually	0.0%	0.0%	0.0%
Demand pressures inflation	3.0%	3.0%	3.0%
Contract Inflation	3.0%	3.0%	3.0%
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MEDIUM

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Annual Indicative Funding Gap	10,824	19,042	26,745
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Base budget			
Expenditure	116,201	124,273	130,435
Pay inflation	3,250	3,217	3,197
Teachers pensions	1,300	-	-
Staff reduction	0	0	0
	120,751	127,491	133,632
Demand pressures	1,097	1,130	1,164
HSCP Demand	1,704	1,065	1,129
Contract inflation	720	749	779
	124,273	130,435	136,704
Funding	(114,048)	(112,421)	(110,892)
Council tax increase	(654)	(674)	(694)
Settlement (increase)/ Decrease	2,281	2,203	2,128
New money (baselined)	0	0	0
Non teachers pay	0	0	0
Teachers pay	0	0	0
Teachers pensions	0	0	0
Baseline	(112,421)	(110,892)	(109,458)
New money (not baselined)	(528)	0	0
From reserves	0	0	0
Capital receipts	(500)	(500)	(500)
Not baselined	(113,449)	(111,392)	(109,958)
Assumptions			
Settlement reduction	-2.0%	-2.0%	-2.0%
council tax increase annually	3.0%	3.0%	3.0%
staff reduction annually	0.0%	0.0%	0.0%
Demand pressures inflation	3.0%	3.0%	3.0%
Contract Inflation	4.0%	4.0%	4.0%
HSCP inflation and demand	6.0%	6.0%	6.0%
Teachers pay not funded			
Teachers pension not funded			
Non teachers pay not funded			

HIGH

	2019/20 £'000	2020/21 £'000	2021/22 £'000
Net expenditure	125,551	132,811	140,313
Net Funding	(111,739)	(107,849)	(104,996)
Annual Indicative Funding Gap	13,812	24,962	35,317
Movement in annual gap	13,812	11,150	10,356

Base budget			
Expenditure	116,201	125,551	132,811
Pay inflation	3,250	3,217	3,197
Teachers pensions	1,300	-	-
Staff reduction	0	0	0
	120,751	128,768	136,008
Demand pressures	1,280	1,325	1,371
HSCP Demand	2,619	1,773	1,941
Contract inflation	901	946	993
	125,551	132,811	140,313
Funding	(114,048)	(110,711)	(107,649)
Council tax increase	(654)	(674)	(694)
Settlement (increase)/ Decrease	3,992	3,735	3,497
New money (baselined)	0	0	0
Non teachers pay	0	0	0
Teachers pay	0	0	0
Teachers pensions	0	0	0
Baseline	(110,711)	(107,649)	(104,846)
New money (not baselined)	(528)	0	0
From reserves	0		
Capital receipts	(500)	(200)	(150)
Not baselined	(111,739)	(107,849)	(104,996)
Assumptions			
Settlement reduction	-3.5%	-3.5%	-3.5%
council tax increase annually	3.0%	3.0%	3.0%
staff reduction annually	0.0%	0.0%	0.0%
Demand pressures inflation	3.5%	3.5%	3.5%
Contract Inflation	5.0%	5.0%	5.0%
HSCP inflation and demand	9.5%	9.5%	9.5%
Teachers pay not funded			
Teachers pension not funded			
Non teachers pay not funded			

Underlying deficit brought forward 2,153

2,153

2,153

