
Report to: Clackmannanshire Council

Date of Meeting: 1 December 2022

Subject: Budget Strategy Update

Report by: Chief Finance Officer

1.0 Purpose

- 1.1 This paper provides an update on the Councils Budget Strategy and Financial Outlook for 2022/23.
- 1.2 This paper also sets out proposed changes to the approved 2022/23 Capital programmes for General Fund and the Housing Revenue Account (HRA).

2.0 Recommendations

- 2.1 Council is asked to note:
 - 2.1.1 the updated General Fund financial forecast for 2022/23 as at September 2022;
 - 2.1.2 the potential financial impact on Council spend for 2022/23 due to in year pressures associated with inflationary increases, cost of living and the 2022/23 pay award;
 - 2.1.3 the continued financial pressures due to COVID within Childcare and additional demand on Scottish Welfare fund;
 - 2.1.4 update on the indicative budget gap including high, medium and low scenarios and timing of Local Government Settlement;
 - 2.1.5 update on the budget approach and budget challenge board activity and scheduled all member and TU briefings,
- 2.2 Council is asked to approve:
 - 2.2.1 the in principle allocation of the earmarked general COVID funding to mitigate additional in year costs within Childcare and Scottish Welfare Fund;
 - 2.2.2 repurposing of £0.200m within the General fund Capital programme to support the progression of the approved City Region Deal projects, and

2.2.3 the changes to the approved HRA Capital programme to support the additional purchase of properties.

3.0 General Fund Revenue – Financial Overview 2022/23

3.1 The first quarter forecast of the 2022/23 financial year as at June indicated an overspend of £2.226m for Council Services as reported to the Audit & Scrutiny Committee in October 2022. The latest forecast as at September indicates a significant reduction in this overspend with an overspend of £1.180m forecast by the end of the financial year which is a favourable movement of £1.046m. Further detail of the overspend and the reason for movement will be included within the Financial Outturn report being presented to the Audit and Scrutiny Committee later this month.

In Year Pressures

Inflation

3.2 The financial forecast noted above is only an estimate at this time and may be subject to further costs due to rising inflation and cost of living increases. Inflationary increases are starting to materialise such as increases in fuel costs and these are included within the forecasted outturn position.

2022/23 Pay Award

3.3 At the time of setting the budget, the Pay award for staff had not yet been agreed. The 2022/23 approved budget included an assumption equating to a 2% increase on the Council pay bill based on the Public Sector Pay Proposal. At the time of writing this report, agreement has been reached on the Pay Award for Single Status/Craft staff however, no agreement has been reached for Teachers and Chief Officers. The agreed pay offer equates to approximately a 5% increase on the Councils paybill, which is approximately £2.5m above the 2% increase the Council had allocated in its approved budget.

3.4 The Scottish Government have confirmed that this additional cost will be funded and allocations to Councils will be made through additional Revenue and Capital Funding. However, to allow Councils to utilise the capital funding, the Scottish Government are amending the statutory guidance on the use of Capital Grant funding on a temporary basis. Further details of how this funding will be utilised will be detailed in a future paper to Council once the statutory guidance has been amended.

COVID

3.5 The Covid19 pandemic had a significant impact on the Councils financial position in both 2020/21 and 2021/22. Most specific funds received in 2020/21 and 2021/22 have been offset against spend in those years however earmarked funds have been carried forward to be used in 2022/23 in recognition that there are still ongoing financial pressures.

3.6 During 2022/23 most of the effects of the pandemic have been embedded into business as usual and whilst this does not remove the additional pressures on services, it does make it much harder to distinguish between COVID and non

COVID related pressures. However, pressures have been identified within Childcare that are linked to additional demand through 2020/21 and 2021/22 that are still impacting on service delivery within the current financial year. These demands are primarily within Residential Schools, Kinship and Fostering.

- 3.7 In recognition of this, Council is asked to mitigate the additional costs related to COVID from the general earmarked COVID reserve. As at September, COVID related costs for the year are estimated to be £0.734m, however the exact amount will be confirmed at the end of the financial year.
- 3.8 Scottish Welfare Fund (SWF) administers grants to individuals on behalf of the Scottish Government for both Crisis Grants which covers short term crisis including food, gas, electric and clothing, and Community Care Grants that support individuals to maintain their tenancy and can include essential household living items. Specific grant is provided by the Scottish Government however, there has been an increase in demand over the last few years which is continuing to be felt in 2022/23. Additional funding had been provided by the Scottish Government and these have been utilised over the past two years however no specific additional funds have been provided for 2022/23.
- 3.9 Current forecasts indicate a potential overspend on both types of grant amounting to £115k based on an average monthly spend. However, due to the cost of living there may be an increase in applications over the winter period. Council is therefore asked to allocate an amount upto £150k from General COVID Earmarked Reserves to allow payment of these grants to continue upto 31 March 2023.
- 3.10 If both these allocations of General Covid earmarked reserve are approved, this would reduce the forecasted overspend from £1.180m to £0.331m.
- 3.11 Within the last budget strategy report presented to Council in August, Council was advised that further action may be required if the forecasted overspend continued as at September. Due to the significant reduction and the potential allocation of earmarked reserves noted above, no action is proposed at this time. However, the financial position will continue to be monitored and reviewed over the coming months.

4.0 Indicative Budget Gap 2023/24

- 4.1 The indicative budget gap for 2023/24 and future years is set out in the table below. The indicative budget gap remains based on the assumptions previously set out in the 2022/23 Budget report with an indicative budget gap for 2023/24 of £11.312m rising to £32.995m by 2027/28. There is a significant level of uncertainty over a number of elements that have the potential to positively or negatively impact the Council's financial performance and budget strategy. Due to the uncertainty around each of the assumptions, Low, Medium and High Scenarios have been prepared which reflect possible scenarios and these are presented in the tables below.

- 4.2 In these scenarios the indicative gap for 2023/24 ranges from £9.458m to £18.009m with a cumulative indicative gap of between £23.730m and £66.485m over the next 5 years.

Table 1: General Services Budget - Indicative funding gap Low, Medium & High Scenarios

Annual Indicative Funding Gap	Current £000	Low £000	Medium £000	High £000
2023/24	11,311	9,458	13,612	18,009
2024/25	5,397	3,544	7,698	12,095
2025/26	5,413	3,560	7,714	12,111
2026/27	5,429	3,576	7,730	12,127
2027/28	5,445	3,592	7,746	12,143
Cumulative Indicative Funding Gap	32,995	23,730	44,500	66,485

- 4.3 The main assumptions included within the indicative budget gap scenarios for 2023/24 are set out in the table below:

Table 2: – Budget Gap Scenario Assumptions 2023/24

Variables	Current	Low	Medium	High
Pay Award	2%	2%	3.5%	5%
Grant Funding	-1%	0%	-2%	-5%
Council Tax Increase	3%	3%	1.5%	0%
Demand Pressures	£3m	£2m	£3m	£4m

- Pay Award**
- 4.4 The current budget gap reflects inflation equivalent to approximately 2% based on the Scottish Public Sector Pay proposal for 2022/23 and a further 2% in future years. Each 1% increase is equivalent to £0.800m.

Council Tax

- 4.5 The current gap reflects a 3% increase in the level of Council Tax for 2023/24 and 3% increase thereafter in future years. Each 1% change is equivalent to c£0.240m.

Grant Funding

- 4.6 The current gap is based on a 1% reduction for general fund grant with a 1% reduction built in for future years. Each 1% change is equivalent to c£0.850m.

Demand Pressures

- 4.7 The current gap includes an amount for inflationary increases of £3m in all years. Due to increased inflation through 2021/22, this figure was only expected to offset Contract Inflation with General Inflation needing to be met through additional savings. Based on current continued rising inflation through the first half of 2022/23 it will be an area of significant financial challenge to meet all contract pressures within this figure.

- 4.8 There is much uncertainty around funding for future years and fluctuations in the main assumptions as set out in Table 2 can have a significant impact on the budget gap. Current in year inflation, cost of living, the pay award for the current and future years and the local government settlement may significantly impact on these assumptions. Further modelling scenarios and updates on planning assumptions will be prepared for future strategy updates to Council as updated information becomes available.

Budget Settlement

- 4.9 The UK Autumn Statement was presented by the Chancellor on 17 November 2022 which set out a package of measures amounting to £55bn through a combination of tax changes and reduced spending. The statement also included additional spending on Health and Education and as a result of this, an additional £1.5bn will be passported to Scotland through Barnett Consequentials over the next two years.
- 4.10 The Scottish Government are currently preparing the Scottish budget which at the time of writing this report, is expected to be published on 15 December 2022 with draft local authority allocations being provided shortly after. On receipt of the draft Local authority settlement, the indicative gap will be updated with the allocations and an update provided to Elected Members and TU's. In particular, the draft settlement should provide confirmation of the level of core Grant funding, information on any constraints on the setting of Council Tax Levels and any ringfenced funds for Health and Social Care.

5.0 2023/24 Budget Strategy

- 5.1 As previously reported to Council, this is an extremely challenging time for Local Government, in the context of service and financial sustainability with projected budgets and services unlikely to be able to meet demand in the medium to longer term. As noted above, this equates to a cumulative funding gap of £32.995m over the next five years to March 2028, and an indicative gap of £11.312m for 2023/24 alone.

- 5.2 The ongoing challenge of increasing demand for services post COVID, anticipated spending increases, energy, pay, and other inflationary costs, means that the Council needs to prioritise reducing its expenditure further on an ongoing basis. The enhanced Corporate budget process for 2023/24 aims to ensure that the requirement for the Council to maintain a balanced budget position is met, addressing the existing budget deficit and financial sustainability in the longer term. This process is well underway and progress is outlined below.
- 5.3.1 The Budget Challenge Board consisting of the Chief Executive, Strategic Directors and the Chief Finance Officer was established in August 2022 and the Board has held regular meetings since the first meeting in August. The Board has conducted an in depth review of existing budgets across all Services taking a targeted zero based approach in some areas. Any possible savings or income arising from transformation are being considered as part of this challenge process as well as any consideration of adjustment in service delivery and standards and risk management whilst ensuring that funding is available to address the needs of the most vulnerable. A workplan has been developed detailing specific areas of focus and related action to ensure that all the moving parts of the budget process are being progressed. Specific areas of focus are:
- A list of Savings with supporting business cases are being produced which are being reviewed by finance to ensure they are financially viable. These incorporate Management Efficiency, Policy and Redesign savings.
 - Information on additional pressures has been collated, however, due to the size of the budget gap, only those pressures that are contractual are being considered. Any non-contractual pressures are to be met within existing Service budgets.
 - The Board is also incorporating the development of further decisions resulting from organisational redesign and digital transformation and is supporting the proposed new Target Operating Model (TOM) for the Council as set out in the Chief Executive's TOM report previously presented to Council. All areas of the TOM across People, Process and Technology are being considered in the development of the future Service and Financial sustainability of the Council.
- 5.3.2 Specific Budget Briefings have been organised for Elected Members and TU's through December, January and February to provide an update on progress.
- 5.3.3 The current formal Trade Union/ Management engagement on the budget and transformation has also continued as agreed and in line with existing arrangements.
- 5.4 Further updates on the budget setting process will continue to be provided through budget strategy reports and Elected Member and TU briefings over the next few months in the lead up to budget setting.

6.0 General Fund Capital – City Region Deal (CRD)

- 6.1 The Clackmannanshire CRD projects include specific projects being developed as part of the overall Deal programmes of Culture, Heritage and Tourism, Active Travel, and Regional Digital Hubs.
- 6.2 Risk analysis done jointly with the Regional Programme Management Office indicates that developing detailed and robust business cases in good time is critical to ensuring that projects are developed and approved such that spend against the approved funding profile can be achieved.
- 6.3 The grant funding profile for CRD is profiled at a set amount each year, over the life of the deal. If projects are not delivered in line with the funding profile, any underspend is moved to the end of the profile. This means that funding may not be available to support the projects at the time of implementation, incurring a cost to the Council due to borrowing requirements.
- 6.4 In order to manage this risk, it is recommended that Council approves to repurpose the sum of £0.200m from the approved Capital Budget to fund the development of the associated business cases. It is important to note that these costs will be recoverable at the point of business case approval by both governments and the Stirling and Clackmannanshire City Region Deal Joint Committee.
- 6.5 Council is asked to approve the following changes to the approved capital programme for 2022/23:
- Repurpose £0.200m to support progression of the approved City Region Deal projects from the £0.436m approved budget for the City Region Deal Innovation Hub and Land purchase.

As a result of this change there is no increase to the approved Capital Programme and no additional borrowing or associated revenue costs.

HRA Capital Budget

- 6.6 The HRA Capital Budget was approved as part of the Housing Revenue Account Budget 2022/23 and Capital Programme 2022/23 by Council at its meeting on 10 February 2022. Further changes were approved by Council at its meeting on 11 August 2022 to reflect progress in delivering the approved programme. This report asks Council to approve a further change to the approved Capital programme for the reasons outlined below.
- 6.7 Work has continued to deliver the agreed investment in our existing stock, however a number of challenges have emerged in recent weeks including:
- significant delays in delivering key elements of the Affordable Housing Supply Programme;
 - rising demand for homeless temporary accommodation driven by higher presentations, and

- a growing risk of increased homelessness caused by private landlords seeking to sell and leave the market.

- 6.8 The current approved capital programme includes £0.900m to support the purchase of up to 20 properties on the open market. This commitment is mirrored in the approved Strategic Housing Investment Programme (SHIP) and associated programme agreement with the Scottish Government. Good progress has been made in achieving this spending target in year, however, slippage in other areas of the programme mean that it is now likely that our overall resource planning assumptions on other projects will be underspent which would allow repurposing of the approved capital programme level.
- 6.9 In light of this projected underspend, Council is asked to agree to commit up to an additional £0.900m this financial year to support up to a further 20 house purchases. This will be funded from repurposing the approved capital budget forecast to underspend. This would maintain the programme at the approved level of £12.5m
- 6.10 If agreed, officers will target smaller properties with the intention of increasing our stock of temporary accommodation, reducing the use of expensive out of area placements and sales by private landlords looking to reduce or end their involvement in private renting. Officers will also consider any opportunity to prevent homelessness arises through the purchase of a property with a sitting tenant at risk of eviction or an owner at risk of repossession.
- 6.11 As Scottish Government support these type of house purchases, they have previously indicated that they will be happy to agree further second hand property purchases to ensure that the full additional capital budget allocation is spent.

7.0 Sustainability Implications

- 7.1 There are no direct environmental sustainability implications arising from this report.

8.0 Resource Implications

8.1 Financial Details

- 8.2 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

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

8.4 Staffing

- 8.5 There are no direct staffing implications arising from this report.

9.0 Exempt Reports

9.1 Is this report exempt? Yes (please detail the reasons for exemption below) 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
- 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)

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".

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)

- General Services Revenue and Capital Budget 2022/23
- Housing Revenue Account Budget 2022/23 and Capital Programme 2022/23

Author(s)

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Approved by

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