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**Report to: Clackmannanshire Council**

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**Date of Meeting: 30 November 2023**

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**Subject: Budget Strategy Update**

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**Report by: Chief Finance Officer**

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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 a high level financial overview and an update on the Budget process for 2024/25 including upcoming key milestones.

## **2.0 Recommendations**

2.1 Council is asked to:

- 2.1.1 note the extremely challenging financial position faced by the council and current in year risks
- 2.1.2 note that the indicative funding gap remains at £11.6m in 2024/25 rising to £22.0m by 2026/27 (paragraph 4.1 and Appendix A);
- 2.1.3 note the progress on the 2024/25 budget approach including the work of the Budget Working Group and output of Budget Challenge sessions (paragraph 5.3);
- 2.1.4 note the timeline of upcoming key milestones in preparing the budget and briefings (paragraph 5.4 and Appendix B)
- 2.1.5 note the re-established officer Capital Operations Group and the work to progress the update to the approved 20 year capital plan (section 6.0);
- 2.1.6 note the update on progress with the HRA Business plan to support the development of the 2024/25 Revenue and Capital Budgets (section 7.0)

### **3.0 Financial Outlook 2023/24**

- 3.1 The Council is forecasting an underspend of £602k on its Revenue budget by 31<sup>st</sup> March 2024. This is an early indication based on the June outturn figures reported to the Audit & Scrutiny Committee in September.
- 3.2 This underspend is before applying the pay award for 2023/24 that is estimated to add an additional unfunded pressure of around £850k. At this time it is expected that this will be met from the forecasted underspend along with uncommitted reserves above the 2% minimum level. As at 31<sup>st</sup> March the Council reported uncommitted reserves of £385k above minimum, therefore identifying £987k that could be used to offset the additional pay award pressure. However, it should be noted that there is a risk that the forecasted underspend reported as at June may reduce and further funding may need to be found to meet the pay award and any additional in year pressures to ensure reserves are maintained at the minimum level of 2%.
- 3.3 The General Fund forecasted underspend noted above excludes the outturn position of the Clackmannanshire and Stirling Health & Social Care Partnership (HSCP) as this is assumed to be met within the Partnership funding envelope. However, as reported to the HSCP Finance and Performance Committee in November, the Partnership is forecasting an overall net overspend of £4.4m with the Clackmannanshire element forecasting an overspend of £3.8m within this figure based on information as at September. As a consequence of this projected overspend a financial recovery plan is being developed to mitigate the overspend.
- 3.4 There is a risk to the council if the overspend continues to the end of the financial year and cannot be met through HSCP funding. Any overspend will be subject to risk share, required to be covered by the three partners and additional funds may need to be passported from the Council. This is a significant risk for the Council in light of its own challenging financial position noted above and the diminished capacity to meet additional in year pressures.

### **4.0 Indicative Funding Gap 2024/25**

- 4.1 Included within the General Revenue Budget for 2023/24 approved by Council in March 2023, was the indicative budget gap for 2024/25 and the following 2 years to 2026/27 as set out in Appendix A. The indicative budget gap for 2024/25 is estimated to be £11.6m rising to a cumulative gap of £22m by 2026/27.
- 4.2 The indicative gap contains 4 main assumptions; Pay Award, Council Tax, Grant Funding and Demand Pressures.
  - Negotiations on the pay award for 2024/25 have not yet started and as such an increase of 2% has been assumed in line with the UK inflationary target.
  - The increase in Council Tax was assumed at 3% however, based on the indicative gap it was recognised that this may have to be increased. The Scottish Government has also announced a Council Tax Freeze for

2024/25, the actual funding to Local Authorities to offset the lost income as a result of the freeze is not yet known.

- Grant Funding which makes up the majority of the Councils funding is currently assumed at flat cash however the actual funding allocation will be contained within the Draft Settlement for Local Government to be published on the 19<sup>th</sup> December. This will provide indicative allocations for Local Authorities with the final allocations being confirmed in the Local Government Finance Order published in February/March 2024.
- An amount of £2.5m has been assumed to meet demand pressures for contract inflation based on previous levels of contract inflation. Bids are submitted by services and reviewed by the Budget Working Group.

4.3 As in previous years it is not expected to be able to confirm the funding gap until later in the year. As further information is known on any of these areas the indicative gap will be updated.

## **5.0 2024/25 Budget Strategy Progress Update**

5.1 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 £22.0m over the next three years to March 2027, and an indicative gap of £11.6m for 2024/25 alone.

5.2 As a consequence, the Council needs to prioritise reducing its expenditure further on an ongoing basis. The budget approach for 2024/25 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.

5.3 The key milestones in the budget process were set out in the Budget Strategy Report to Council in May. Appendix B lists what has been completed at the date of writing this report and the key milestones over the coming months. Good progress has been made so far in progressing budget proposals and updates on key activities are detailed below.

### **Budget Working Group**

Monthly Budget Working group meetings have been held since May. This group is made up of the Chief Executive, the Chief Financial Officer and the Directors from the three portfolio areas with the purpose of overseeing the full budget process. The group is responsible for directing the key budget tasks, ensuring that the timeline is adhered to. The group will continue to meet to support the budget strategy up until the budget is set.

### **Budget Challenge Sessions**

3 Officer budget challenge sessions have been scheduled throughout the year. The first session was held in June and officers were given a 10-15% target to identify savings from their budgets. The output of this session including the list of savings proposals were then presented to all members and Trade Unions in August.

Following the initial budget challenge session, work was undertaken by officers during the summer to refine and update these savings proposals as well as identify additional savings to ensure the 10-15% target was met.

The second officer budget challenge session was held during September where Senior Managers were involved in presenting the savings proposals to the Budget Working Group. This allowed challenge of proposals including identifying any cross service impacts. This session also led to the formulation of further savings proposals.

The output of the second budget challenge session was then shared in a Briefing to all members and Trade Unions in November.

5.4 As noted in Appendix B there are still a number of key milestones to take place prior to finalising the budget proposals which include:

- The third of the officer budget challenge sessions which is due to conclude by the end of November with the output of the refined savings proposals and contractual pressures being shared with all members at the briefing scheduled for January 2024.
- A Senior Leadership Forum (SLF) has been scheduled for December where Senior Managers will be able to present the transformation and savings proposals for their areas to their peers. This is aimed at improving communication of the savings proposals across Council services so that any cross service impacts are known and any perceived issues can be identified and resolved. It is also hoped to stimulate and generate ideas for improving cross service working.
- The Budget Consultation and Engagement process for 2023/24 consisted of a four stage approach. The first two phases were carried out prior to setting the 2023/24 budget with the third phase focusing on communicating the approved budget decision. The fourth phase focuses on 2024/25 and will be similar to phases one and two and is scheduled for January and February 2024. The feedback from this consultation will inform the policy decisions within the budget proposal.
- The Draft Scottish Budget is also expected to be published on the 19<sup>th</sup> December which will indicate the level of grant funding allocations to Local Authorities. On receipt of this, the budget gap will be reviewed and updated to reflect the impact of the funding allocations and reported to members. This is a key milestone in the budget preparation and will inform the revised budget gap. Any further updates to the draft position will be communicated throughout January and the impact on the budget gap will be updated.

## **6.0 Capital Operations Group**

6.1 As part of the 2024/25 Budget Setting Approach, the Capital Operations Group has been re-established. This group is aligned to the work of the Budget Working Group and is lead by the Director for Partnership and Performance with support from the Chief Finance Officer and the Senior Manager for Transformation & Capital, with representations from each service area.

- 6.2 The Capital Operations Group aims to ensure the capital expenditure requirements of proposed changes to the approved programme are viable in line with the Council's Treasury Management Strategy that states capital plans must be prudent, sustainable and affordable. This approach aims to ensure that in setting out the medium term spending plans for the Council, it is possible to profile the revenue and capital investment required and when savings and efficiencies can subsequently be realised.
- 6.3 The first meeting of the Capital Operations Group was held in September. The next meeting was held on the 16<sup>th</sup> November where the group focused on budget setting for 2024/25. This included:
- a review of the outturns as at September – to inform any slippage in existing projects and potential carryforwards to 2024/25
  - an update on the approved programme for 2024/25 to 2043/44 identifying any rephasing or removal of projects that have been superseded,
  - a review of any new capital bids submitted for 2024/25 and future years,
- 6.4 This work is continuing and the information is being used to inform an updated draft of the capital programme for 2024/25 to 2043/44 which will be assessed to ensure it is affordable, prudent and sustainable in line with the Treasury Management Strategy.
- 6.5 Future meetings of the group are scheduled on a regular basis with additional meetings being called as required to progress specific areas of work aligned to the Budget Working Group.

## **7.0 HRA Revenue & Capital Budget**

- 7.1 As in previous years the budget setting process also includes the preparation of the HRA Revenue and Capital budgets including the setting of the HRA Rent levels. The approach includes three key areas of work which are currently underway:
- Preparing the expected level of Revenue income and expenditure on HRA activities for the coming year,
  - Reviewing and updating the Capital programme
  - The annual Rent consultation with tenants (mid Nov to mid Dec).
- 7.2 To support the above work for the 2024/25 financial year and over the medium to long term two additional areas of activity are being undertaken:
- a refresh of the 30 year business plan which will inform the capital programme over the longer term, and
  - a review of central support recharges between the General Fund and the HRA to ensure that appropriate costs are accounted for in line with national guidance.

7.3 The 2024/25 HRA Revenue and Capital budget will be put forward to Council in early 2024 in line with the timescales for issuing any notice to tenants of changes in rent levels.

## 8.0 Sustainability Implications

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

## 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*

9.5 There are no direct staffing implications arising from this report.

## 10.0 Exempt Reports

10.1 Is this report exempt? Yes  (please detail the reasons for exemption below) 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 – Indicative Budget Gap 2024/25 to 2026/27**

**Appendix 2 - Budget 2024/25: Key Milestones, Timeline and Outputs**

**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)

- General Services Revenue and Capital Budget 2023/24
- Housing Revenue Account Budget 2023/24 and Capital Programme 2022/23
- Budget Strategy Update – Council May 2023

**Author(s)**

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Lindsay Sim	Chief Finance Officer	2022

**Approved by**

NAME	DESIGNATION	SIGNATURE
Lindsay Sim	Chief Finance Officer	
Stuart Crickmar	Director of Partnership & Performance	





**INDICATIVE BUDGET GAP 2024/25 TO 2026/27**

3.1 Included within the General Revenue Budget for 2023/24 approved by Council in March 2023, was the indicative budget gap for 2024/25 and the following 2 years to 2026/27 as set out in the table below. The indicative budget gap for 2024/25 is estimated to be £11.6m rising to a cumulative gap of £22m by 2026/27.

**Table 1: General Services Budget - Indicative funding gap 2024/25 to 2026/27**

<b>Annual Indicative Funding Gap</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Expenditure	160,045	166,588	172,019
Income	(148,484)	(149,304)	(150,052)
Gap	11,561	5,723	4,683
<b>Cumulative Indicative Funding Gap</b>	<b>11,561</b>	<b>17,284</b>	<b>21,967</b>

3.2 The main assumptions included within the indicative budget gap for the years 2024/25 to 2026/27 are set out in the table below:

**Pay Award**

3.3 As the pay award for 2023/24 has not yet been agreed and uncertainty surrounding future levels of inflation, the indicative budget gap for 2024/25 reflects inflation equivalent to approximately 2% and a further 2% in future years. Each 1% increase is equivalent to £0.800m.

**Council Tax**

3.4 The indicative gap reflects a 3% increase in the level of Council Tax for 2024/25 and future years. Each 1% change is equivalent to c£0.244m.

**Grant Funding**

3.5 The indicative gap is based on a flat cash basis for general fund grant for 2024/25 and future years. Each 1% change is equivalent to c£0.850m.

**Demand Pressures**

3.6 The indicative gap includes an amount for inflationary increases of £2.5m in all years. Due to increased inflation over the last 3 years, this figure is only expected to offset Contract Inflation with General Inflation needing to be met through additional savings.

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

## Budget 2024/25: Key Milestones, Timeline and Outputs

As presented in the Budget Strategy Report to Council in May 2023 (revised for updated timeline)

### Completed (as at 21<sup>st</sup> November)

Task/ milestone	Timing	Stakeholders/ attendees	Output
Budget Challenge Session 1	Weeks commencing 5 <sup>th</sup> and 19 <sup>th</sup> June	Directors, CEX, CFO	First tranche for proposed savings & pressures: populate template
Members Briefing and TU Briefing	August	All Elected Members, TU's, Directors, CEX, CFO	Output of Budget Challenge Session 1
Budget Challenge Session 2	September	Directors, CEX, CFO, Senior Managers	Update on proposed savings with SM input
Capital Operations Group re-establishment meeting	September	Capital Operations Group (officer operational group)	Overview of Capital Programme and Budget process
HSCP Strategic Plan: Review of Priorities and Funding	September/ October	HSCP Chief Officer & CFO, CEX, Leader and CFO	HSCP Strategic Plan priorities linked to resource transfer and savings requirement & pressures
Members Briefing and TU Briefing	September/ October	All Elected Members, TU's, Directors, CEX, CFO	Output of Budget Challenge Session 2
Capital Bids Submitted	September/ October	Capital Operations Group (officer operational group)	Draft capital bid preparation
HRA	October	Director Place, HRA Senior Manager & Finance	Business Plan Review
Capital Bid Corporate Round Table	November	CFO, Capital Operations Group	Final Capital bids
HRA	October	Member Briefing	Business Plan Review
Budget Consultation	October	SLG, Leader	

## Future Milestones

Budget Challenge Session 3	November	Directors, CEX, CFO	
Draft Capital Plan	November	CFO, Capital Operations Group	Capital Plan Review
External consultation and engagement	November	SLG, Leader	
SLF Briefing	December	CEX, SLG, CFO & all Senior Managers	Output of Budget Challenge Session 2
Members Briefing and TU Briefing	January	All Elected Members, TU's, Directors, CEX, CFO	Output of Budget Challenge Session 3
Proposed Capital Plan	January	CEX, CFO & Directors	Finalise proposed Capital Plan
HSCP Resource Transfer	January	HSCP Chief Officer & CFO, CEX, Leader and CFO	Resource transfer position consolidated for integration with Council budget
HRA	January	Director Place, HRA Senior Manager & CFO	Finalise proposed HRA Budget
Members Briefing and TU Briefing	January	All Elected Members, TU's, Directors, CEX, CFO	Budget Gap update following draft settlement & Proposed Capital Plan
Consultation Outcome	February		
Pre consultation draft Budget	February	Administration, SLG, CFO	Draft Budget subject to consideration of consultation responses.
<b>Budget setting – General Fund &amp; HRA</b>	<b>By end of February</b>	<b>Special Council</b>	<b>Final Budget</b>

Key			
Pink	Capital Budget development	Sage	Consultation & Engagement
Purple	Budget Challenge Sessions	Red	Budget Setting
Green	HSCP	Orange	Elected Member and TU Briefings
Blue	HRA		

- In addition to the above the Budget Working Group will also be held on a Monthly basis consisting of the Chief Executive, Chief Finance Officer and Directors.
- The Capital Operations Group will meet every second month and consisting of the Chief Finance Officer, Directors and relevant officers.