
Report to: Clackmannanshire Council

Date of Meeting: 28 November 2024

Subject: Budget Strategy Update

Report by: Chief Finance Officer

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 progress update on the Budget process for 2025/26 including upcoming key milestones.

2.0 Recommendations

2.1 Council is asked to:

- 2.1.1 note the forecasted outturn for 2024/25 and the continued extremely challenging financial position faced by the council and current in year financial risks (section 3);
- 2.1.2 note that the indicative funding gap remains at £13.012m in 2025/26, rising to £29.662m by 2028/29 (paragraph 4.1);
- 2.1.3 note that Council officers have been requested to prepare a letter to the UK Government on behalf of the Council Leader in respect of the financial impact of the changes to National Insurance contributions (paragraphs 4.3 and 4.4)
- 2.1.4 note that a medium term financial strategy is being developed and this will be presented to a future Council meeting (paragraph 4.5);
- 2.1.5 note the progress on the 2025/26 budget approach including the focus of the Budget Working Group, the progress of the Budget Challenge sessions and engagement with Scottish Government and COSLA on the Councils funding position (paragraphs 5.3 and 5.5);
- 2.1.6 note the timeline of completed tasks and upcoming key milestones in preparing the budget and briefings (paragraph 5.4 and Appendix A);
- 2.1.7 note the work of the Capital Operations Group and progress to update the approved 20 year capital plan (section 6.0);

- 2.1.8 note the activities underway to prepare the HRA Revenue and Capital Budget for 2025/26 (section 7.0), and
- 2.1.9 approve the amendments to the HRA Revenue and Capital Budget (section 8 and appendix B).

3.0 Outturn 2023/24 and Financial Outlook 2024/25

- 3.1 The draft 2023/24 financial outturn reported to Audit & Scrutiny Committee in October set out an underspend position of £(1.977)m before accounting for earmarked reserves. At the year end, underspends on specific funding of £3.012m were removed and added to earmarked reserves. This resulted in a net overspend of £1.035m.
- 3.2 Following an initial review of current earmarked reserves £(0.801)m were released as no longer required. These movements resulted in a net reduction in uncommitted reserves of £0.234m. The draft position will be confirmed following the audit of the 2023/24 draft accounts.
- 3.3 The first quarter outturn as at June, forecasting spend to the end of the year reported a forecasted overspend of £0.669m. This overspend is mainly across People and Place services and management action plans are being developed to reduce spend by the end of the year.
- 3.4 The forecasted outturn to September is being prepared and will be presented to the Audit & Scrutiny Committee in December.
- 3.5 There are a number of in year risks that may impact the forecasted outturn noted above. The main risks are:
- Increased demand for services, particularly within Childcare and Education,
 - Cost increases as Service Providers pass on increases in pay and inflation on commodities,
 - Increased Capital project costs as suppliers pass on cost increases through contract renewals on new contracts,
 - Ongoing cyber security risks and mitigation,
 - In year government funding reductions as resources are being reprioritised,
 - Cost of living impact on communities – e.g impact of withdrawal of winter fuel allowances,
 - Energy price increases.
- 3.6 These risks will be monitored throughout the year and mitigated where possible within existing budgets.

Financial Management Mitigations

3.7 The Budget strategy report in May continued the spending restraint measures implemented during 2023/24 with a review to be undertaken in June 2024. This approach has been reviewed and concluded that it was prudent to continue the spending restraints in consideration of the forecasted overspend at quarter 1 and the significantly challenging financial gap in 2025/26 and beyond.

3.8 These measures include:

- Recruitment to critical posts only – all requests to fill any vacant posts must be submitted with a business case that is reviewed by the Chief Executive for approval, and
- Essential Spend – only spend that is business critical should be undertaken.

Continued implementation of these measures will help to ensure the Council can maintain spend in line with the approved budget.

3.9 The Budget Working Group is reviewing all earmarked reserves to identify which ones have specific terms of use and which ones could be released or repurposed. Earmarked reserves balances at each quarter are included in outturn reports to Audit & Scrutiny Committee during the year.

Health and Social Care Partnership (HSCP)

3.10 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 Integrated Joint Board (IJB) in October, the Partnership is forecasting an overall net overspend of £12.552m based on forecasts to August. Within this, the Clackmannanshire element is forecasting an overspend of £5.927m. As a consequence of this projected overspend a financial recovery plan is being developed to mitigate the overspend and is due to be presented to the IJB for consideration in November.

3.11 It is essential that this recovery plan is fully developed and actions implemented to ensure the Partnership can manage spend within its budget. The partnership has limited reserves and the forecast above includes a contribution of £3.947m from these reserves. If the recovery plan does not mitigate the forecasted in year overspend by the end of the year the integration scheme provides the option for partners to provide additional one-off contributions or contributions that may be refunded in future years. In previous years partners have made additional contributions on a risk share basis.

3.12 Whilst the integration scheme does not specifically require partners to fund the overspend, the integration scheme is silent on how the gap may be funded. This is a significant risk for the Council if it is required to make an additional contribution considering its own challenging financial position. The Chief Executive and Section 95 Officer have both advised the Interim Chief Officer and Chief Finance Officer of the Partnership that we would be unlikely to have the capacity to contribute on a risk share basis in this financial year or future years. The Councils uncommitted reserves are just over 2% and with its own

in year pressures reflected above alongside the forecasted overspend at quarter 1, the Council has no capacity to support any additional contribution.

4.0 Indicative Funding Gap 2025/26

4.1 The budget gap remains as reported in the General Revenue Budget for 2024/25 approved by Council in March 2024, and in the Budget strategy Report to Council in May 2024 with no changes to assumptions. The indicative budget gap for 2025/26 is estimated to be £13.012m rising to £29.662m by 2028/29 as set out below.

Indicative Funding Gap 2025/26 to 2028/29

	2025/26	2026/27	2027/28	2028/29
	£000	£000	£000	£000
Net Expenditure	167,709	173,157	178,258	183,786
Net Funding	(154,697)	(154,317)	(153,994)	(154,124)
Cumulative indicative Funding Gap	13,012	18,840	24,264	29,662
Annual indicative Funding Gap	13,012	5,828	5,424	5,398

4.2 The indicative gap contains 4 main assumptions; Pay Award, Council Tax, Grant Funding and Demand Pressures.

- An inflationary increase of 2% has been assumed in line with the UK inflationary target and the Scottish Governments public sector pay policy.
- An increase in Council Tax has been assumed at 8% however, based on the indicative gap it was recognised that this may have to be increased. The Scottish Government may also impose a cap on any increase or a Council Tax freeze as it did in 2024/25. Further information will be known as the Finance order which provides the amount to local authorities is progressed through parliament early in the calendar year.
- Grant Funding which makes up the majority of the Councils funding is currently assumed to be reduced by 2.5% in line with previous years reductions, however the actual funding allocation will be contained within the Draft Settlement for Local Government to be published on around the 10th 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 2025.
- 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 It was announced in the UK Governments Budget on the 30 October that the rate of Employers National Insurance would be increased from 1 April 2025 along with a reduction in the threshold above which National Insurance is paid. The rate is being increased from 13.8% to 15.0% and the threshold above which contributions will be paid has reduced from £9,100 to £5,000.
- 4.4 It is estimated that this increase will add an additional £2.5m to the Councils paybill. Whilst there will be additional consequential for Scotland as a result of these changes, it is recognised that due to the size of the public sector workforce in Scotland this may not cover the full additional cost.
- 4.5 As in previous years it is not expected to be able to confirm the funding gap fully until the draft settlement has been received. As further information is known on any of these areas the indicative gap will be updated.
- 4.6 To further inform the budget setting process and address financial sustainability a Medium-Term Financial Strategy is being prepared. This strategy statement will incorporate insights from multiple sources, including the information set out in these Budget Strategy updates and also from the Be the Future updates, which are routinely reported to the Council and relevant committees.

5.0 2025/26 Budget Strategy Progress Update

- 5.1 As noted above, this equates to a cumulative funding gap of £30m over the next four years to March 2029, and an indicative gap of £13m for 2025/26 alone. As a consequence, the Council needs to prioritise reducing its expenditure further on an ongoing basis. The budget approach for 2025/26 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.
- 5.2 Local Government is currently facing significant challenges in maintaining service and financial sustainability. Projected budgets and resources are unlikely to keep pace with growing demand. While short-term measures have allowed for balanced budgets in the past, increasing pressures on services and insufficient funding from the Scottish Government mean the Council may struggle to fully meet its statutory service obligations for 2025/26.
- 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 and Senior Managers were involved in presenting the savings proposals to the Budget Working Group. 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 aswell as identify additional savings to ensure the 10-15% target was met.

The second officer budget challenge session was held during September. 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 including a full list of officer savings proposals and supporting business cases were then shared with all members and Trade Unions at a briefing session in November.

5.4 The timeline of key tasks and milestones in the budget process are set out in Appendix B. Good progress has been made in line with the timetable however, 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 December with the output of the refined savings proposals and contractual pressures being shared with all members at the briefing scheduled for January 2025.
- The Budget Consultation and Engagement process continues the previous rolling approach with a priorities piece being prepared for roll out in November. A public consultation on all policy proposals will also be held during December/January. Feedback from this session will be presented to members to support them in making their final decisions on the budget
- The Draft Scottish Budget is also expected to be published around the 10th 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.

5.5 In recognition of the significant financial gap and that the funding from the Scottish Government does not meet the increasing demand for services and

rising costs of service provision, the Council Leader and the Chief Executive supported by the Strategic Directors and the Section 95 Officer have reached out to both the Scottish Government and COSLA to highlight this deficit position. Several sessions have been held with the Scottish Government and information has been shared on an 'open book' approach to highlight the areas where savings may need to be made which will incur a reduction in service provision. This information has also been shared with COSLA.

6.0 Capital Operations Group

6.1 The Capital Operations Group re-established as part of the 2024/25 Budget Setting Approach, has continued to meet through 2024/25. This group is aligned to the work of the Budget Working Group and is lead by the Director for Partnership and Performance with support form 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 for 2024/25 was held in September. The next meeting was held on the 14th November where the group focused on areas that may impact the rolling capital budget which will be updated for 2025/26. This included:

- a review of the outturns as at September – to inform any slippage in existing projects and potential carryforwards to 2025/26;
- a review of new capital bids submitted for 2025/26 and future years, and
- the planned activity for updating the approved programme to reflect reprioritisation, updated cost estimates and updated phasing of project milestones.

6.4 This work will continue over the next few months to inform an updated draft of the capital programme for 2025/26 to 2044/45 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 Preparation 2025/26

- 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 (December to January).
- 7.2 To support the above work for the 2025/26 financial year and over the medium to long term two additional areas of activity are being undertaken:
- a review of the rent charges across differing size of properties, 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 2025/26 HRA Revenue and Capital budget will be put forward to Council in early 2025 in line with the timescales for issuing any notice to tenants of changes in rent levels.

8.0 HRA Revenue and Capital budget 2024/25

- 8.1 Following the review of the Quarter 1 forecast for the HRA Revenue and Capital Budgets for 2024/25 a number of adjustments have been identified to reflect changing circumstances since the budget was approved in February 2024. The proposed adjustments requiring Council approval are set out below and further detail is provided in Appendix B:
- HBMS IT System Upgrade - following review of the nature of the costs for this system, they require to be treated as Revenue rather than Capital as per the approved budget. As such it is proposed that the Capital budget of £0.744m is removed and this amount is earmarked from the Revenue surplus to cover the costs of the system upgrade.
 - Capital Budget Adjustments: - the capital budget adjustments are set out in the table below. This shows the removal of the £0.744m for the HBMS IT System Upgrade (as noted above) along with a reduction in the Kitchen programme. This is offset by corresponding increases in Off the shelf purchases, Damp proof and Structural upgrades.
- 8.2 The net impact of the capital adjustments on the total approved capital programme is nil, however as the available revenue surplus available to fund Capital spend has been reduced to fund the HBMS IT System upgrade, the

level of borrowing will potentially increase by £0.744m (subject to any underspends on the capital programme at year end).

	Current Budget £'000	Movement £'000	Revised Budget £'000
HBMS IT System Upgrade	744	(744)	-
Off the shelf purchases	4,008	283	4,291
Damp Proof	200	371	571
Structural Upgrades	100	288	388
Kitchen Programme	1,515	(198)	1,317
Total Increase/Decrease in programme		-	

8.3 Council is asked to approve the budget adjustments noted above.

9.0 Sustainability Implications

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

10.0 Resource Implications

10.1 *Financial Details*

10.2 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



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

10.4 *Staffing*

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

11.0 Exempt Reports

11.1 Is this report exempt? Yes (please detail the reasons for exemption below) No



12.0 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**

Complies with relevant Council Policies

13.0 Equalities Impact

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

Yes No

14.0 Legality

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

15.0 Appendices

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

Appendix 1 – Budget 2024/25: Key Milestones, Timeline and Outputs

Appendix 2 – HRA proposed capital budget adjustments 2024/25

16.0 Background Papers

16.1 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 2024/25



- Housing Revenue Account Budget 2024/25 and Capital Programme 2024/25

- Budget Strategy Update – Council May 2024

Author(s)

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Approved by

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Budget 2025/26: Key Milestones, Timeline and Outputs

As presented in the Budget Strategy Report to Council in May 2024 (revised for updated timeline)

Completed (as at 18th November)

Task/ milestone	Timing	Stakeholders/ attendees	Output
Budget Challenge Session 1	Weeks commencing 3 and 17 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
HSCP Strategic Plan: Review of Priorities and Funding	August	HSCP Chief Officer & CFO, CEX, Leader and CFO	HSCP Strategic Plan priorities linked to resource transfer and savings requirement & pressures
Budget Challenge Session 2	September	Directors, CEX, CFO	Draft Business Cases
Budget Engagement Preparation	September	SLG, Leader	Draft programme and materials defined
Members Briefing and TU briefing	October	All Elected Members, TU's, Directors, CEX, CFO	Output of Budget Challenge Session 2
Capital Bids Submitted	October	Capital Operations Group (officer operational group)	Draft capital bid preparation
HRA	October	Director Place & HRA Senior Manager	Business Plan Review
Budget Challenge Session 3	November	Directors, CEX, CFO	Advanced Draft Business Cases and draft EQIA
Budget Engagement Commencement	November	SLG, Leader	
Capital Bid Corporate Round Table	November	CFO, Capital Operations Group	Final Capital bids
Draft Capital Plan	November	CFO, Capital Operations Group	Capital Plan Review

FUTURE MILESTONES

Task/ milestone	Timing	Stakeholders/ attendees	Output
Members Briefing and TU Briefing	January	All Elected Members, TU's, Directors, CEX, CFO	Output of Budget Challenge Session 3
Consultation Outcome	January	SLG	Engagement Results, Draft Pack and Advanced Draft EQIA
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
Pre consultation draft Budget	January	Administration, SLG, CFO	Draft Budget subject to consideration of Engagement and EQIA.
Budget setting – General Fund & HRA	By end of February	Special Council	Final Budget

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.

HRA Capital Budget Adjustments

1. HBMS IT System Upgrade

For several years, the Council has allocated funding within the Housing Revenue Account (HRA) Capital budget to facilitate the upgrade of the housing and repairs systems. These systems are critical to maintaining effective management and delivery of housing services and ensuring continued operational efficiency.

A clear and established contractual route has now been confirmed to proceed with the procurement of the upgraded systems. However, following a reassessment of the latest financial guidance regarding capital expenditure, it has been determined that the system upgrade does not qualify as a capital purchase. As a result, the funding for this upgrade must now be sourced from the HRA revenue budget rather than the capital budget.

Financial Implications

This reclassification has the following financial impacts:

- **Reduction in HRA Revenue Surplus:** The cost of the system upgrade will reduce the HRA revenue surplus for the current financial year, as the required funding will now come from this surplus rather than within the capital programme.
- **Reduced CFCR (Capital Funded from Current Revenue):** The HRA revenue surplus contributes to CFCR, which directly supports capital projects. Consequently, this change will reduce the CFCR available within the year.

2. Off the shelf purchases

As reported to Council in June 2023, we had a significant challenge relating to Voids and properties being purchased from the open market and council confirmed additional sums related to this activity. A recent Council briefing highlighted that we have returned back to a usual run rate of properties in the void process and this placing is around 3rd in the Country in respect of the volume by proportion being dealt with at any one time. On departure of the former team leader a reconciliation of the accounts being spent with the contractor, has highlighted that within the overall envelope of funding agreed by Council, we still have around half a million left to utilise. Therefore, in line with Council financial regulations it is proposed to increase the capital budget for Off the Shelf purchases by **£283k**. This will enable the 6 remaining properties to be completed by the end of January for waiting list applicants added to the 17 purchases already completed with new tenants already allocated to them.

3. Damp Proof

Following the death of Awaab Ishak in December 2020, the sector as well as the Council as landlord has had to examine its role and remit in relation to damp reports. The coroners enquiry and media attention has raised awareness and raised enquiries to the council to be investigated. In line with the sectors role and recommendations, a more risk based approach is being taken to ensure that we follow up all reports diligently and seen to take all proportionate and appropriate action. On that basis it is proposed to increase capital budget for Damp Rot Works by **£372k**. As part of our stock condition survey, we need to investigate whether there is any other preventative actions we can take to invest in our stock to reduce the ongoing demand in this area.

4. Structural Upgrades

Following on from storm damage to stock causing additional pressure on last years budget, this has also continued into this year. We have also had some challenges converting some stock to assist in line with the Council priority of the Promise to help accommodate kinship families together in the current family home, thus reducing pressure of the Councils general fund. Therefore, we proposed to increase the Structural Upgrades budget by **£288k**.

5. Kitchen programme

A reduction of **£198k** in the Kitchen Programme is proposed as this programme is already working ahead of the agreed council replacement strategy. There is no impact on any tenants and all those who have been lettered in year to have their kitchen replaced will still have this work completed.