
Report To:	Policy & Resources Committee	Date:	29th September 2016
Report By:	Chief Financial Officer	Report No:	FIN/87/16/AP/CM
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Subject:	Budget Strategy 2017/20		

1.0 PURPOSE

- 1.1 The purpose of this report is to seek agreement by the Policy & Resources Committee of the proposed Budget Strategy and to note the impact on the Council's finances.

2.0 SUMMARY

- 2.1 2017/18 currently has a funding gap of approximately £3.41 million based on latest estimates. The Corporate Management Team (CMT) is committed to delivering non front line/efficiency savings totalling at least £600,000 in 2017/18 thus leaving £2.81 million to be funded from Reserves and Council Tax increases. The position in respect of the £600,000 saving is shown in Appendix 1.
- 2.2 The Members' Budget Working Group gave a clear indication that it would not wish a detailed savings exercise to be undertaken over this autumn/winter and as such, unless the Government Grant Settlement for 2017/18 is considerably better than currently estimated, further Reserves will be required to balance the 2017/18 Revenue Budget. The Policy & Resources Committee is asked to consider this approach.
- 2.3 At the June Council meeting a presentation was given to Members highlighting the estimated funding gap for the period 2017/20 based on latest information. The funding gap ranged from £13.1 million (optimistic) to £37.4 million (pessimistic) for the period 2017/20. The mid-range estimate of £22.5 million represents over 11% of the current Council Revenue Budget. To address a funding gap of this scale requires a considerable lead in time which will require a fundamental review of many of the Council's services and extensive consultation. This will be resource intensive for senior officers and a clear political steer will be needed in order to minimise abortive work and reduce unnecessary stress and concern to residents and service users.
- 2.4 Recent events in respect of the European Referendum and the resultant impact on the constitutional question within Scotland allied to the new Fiscal Powers for the new Scottish Government have greatly increased uncertainty regarding the strength of the public finances and the potential impact on Council budgets. It has also been confirmed that the Scottish Government spending announcement in December 2016 will only cover 2017/18 in detail.
- 2.5 All these factors point to the need for Officers to spend coming months developing comprehensive options for the new Council to consider post May 2017. The base data for this exercise should be the 10%/25% savings exercise carried out by officers in the summer of 2015.
- 2.6 In respect of any consultation then the CMT would recommend that in order to ensure that feedback is received by the current Council as part of the 2017 Budget Report, then the Consultation will need to commence prior to the Christmas period. If this general approach is agreed by Committee then it is proposed that a detailed Consultation proposal is presented to the November Policy & Resources Committee.
- 2.7 Based on the approach outlined above, Appendix 2 contains a timetable which illustrates the sequence of high level tasks leading to the setting of the 2018/20 budgets.

- 2.8 A further item which was due to be considered by the Policy & Resources Committee in September is in relation to the use of Free Reserves. The unaudited accounts report that there is almost £5.0 million of Free Reserves available for Members to consider. Even based on progressing ground work over 2016 and early 2017 it will not be possible for a new Council to deliver sufficient savings to balance the 2018/19 budget due to the lead in time for consultation/ de-commissioning/release of employees. As such and based on a 2017/19 funding gap of £12.8 million then it is estimated that at least a third of this funding gap will not be closed in 2018/19.
- 2.9 Paragraph 8.1 contains the advice from the Chief Financial Officer regarding the use of Reserves to meet the estimated funding gap. This advice accords with LAAP Bulletin 99 issued by CIPFA.
- 2.10 Appendix 3 contains a list of potential uses for the Free Reserves which have been covered by reports to Committee or discussed by the MBWG. From Appendix 3 however it can be seen there is very limited room for manoeuvre especially given the previously reported pressures on the 2017/20 Capital Programme. A more fundamental review of existing Reserves will be required to free up resources if Members wish to add new projects.
- 2.11 It is recommended therefore that Committee only approve the bare minimum of new projects to be funded from Reserves given the significant increase in global uncertainty, and need for Reserves to be used to meet projected funding shortfalls in both 2017/18 and 2018/19 plus the pressure on the 2017/20 Capital Programme. It therefore follows that Members defer any further decisions regarding the use of any available Reserves until considering the budget in February 2017.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee approve the proposed approach to the 2017/20 Budget as outlined in the report.
- 3.2 It is recommended that the Committee approve the proposed non front line/efficiency savings outlined in Appendix 1.
- 3.3 It is recommended that the Committee approve the approach and timetable outlined in Appendix 2 and agree that a report detailing the Council's approach to Public Consultation be presented to the November Committee.
- 3.4 It is recommended that the Committee note and support the advice from the Chief Financial Officer outlined in Paragraph 8.1 and consider the proposed uses of reserves outlined in Appendix 3.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 The MBWG have agreed that it is not Members wish to have a “traditional” budget process over the autumn/winter of 2016/17 but would rather spend the time preparing information for the new Council, post May 2017, to consider.
- 4.2 The UK and in particular Scotland is entering a period of significant constitutional and financial uncertainty in coming years and this clearly increases potential risks to the public finances which need to be considered when developing the Budget Strategy and considering the use of Reserves.
- 4.3 The capacity of the Senior Management Team is going to be under pressure over the autumn/winter period and this needs to be considered when deciding on the approach to developing savings proposals.

5.0 UPDATED POSITION – 2017/20 BUDGET PERIOD

- 5.1 2017/18 currently has a funding gap of approximately £3.41 million based on latest estimates. The Corporate Management Team is committed to delivering non front line/efficiency savings totalling at least £600,000 in 2017/18 thus leaving £2.81 million to be funded from Reserves and Council Tax increases.
- 5.2 Appendix 1 contains the latest position regarding £601,000 of non front line/efficiency savings proposals. It can be seen that the target can be reached albeit there is no scope to remove any of the proposals without there being a shortfall.
- 5.3 The Scottish Government have now confirmed that the Grant Settlement announcement for next Budget will only cover 2017/18 and due to the new complexities arising from the new Fiscal Powers, the announcement will be delayed until later in December. This lack of information for the period after 2017/18 gives weight to the decision to focus on preparing information for the new Council, post May 2017.
- 5.4 The financial impact of not taking any further savings decisions beyond the £601,000 savings proposals contained in Appendix 1 is that, unless the 2017/18 grant settlement is better than that estimated or unless the Council agrees to increase Council Tax (over and above the Band E-H increases already announced by the Scottish Government), there will be a £0.8 million increase in the use of Reserves to balance the budget in 2017/18.
- 5.5 In addition, by delaying approving the actual savings decisions to close the estimated funding gap in 2017/18 and beyond then this will have the knock on impact on the implementation of some savings thus inevitably leaving a funding gap in 2018/19 which will require further use of Reserves.
- 5.6 At the June Council meeting a presentation was given to Members highlighting the estimated funding gap for the period 2017/20 based on latest information. The funding gap ranged from £13.1 million (optimistic) to £37.4 million (pessimistic) for the period 2017/20. The mid-range estimate of £22.5 million represents over 11% of the current Council Revenue Budget.
- 5.7 Using the mid-range scenario then the Council faces a funding gap of £12.8million over 2017/19 and even assuming that the new Council identifies deliverable savings in the autumn of 2017, the CMT would recommend that at least 33% of the 2018/19 funding gap be met from Reserves. The impact of this is illustrated later in the paper.

6.0 CONSULTATION PROPOSALS

- 6.1 The MBWG confirmed that they do not wish to take any further savings decisions beyond the proposals in Appendix 1 this side of the May 2017 Local Government elections. There was however a clear wish that officers undertake a consultation exercise and that this be concluded well in advance of the purdah period for the local elections.

- 6.2 The CMT would recommend that in order to ensure that the consultation feedback is received by the current Council as part of the 2017 Budget Report, then the Consultation will need to commence prior to the Christmas period. If this general approach is agreed then it is proposed that a detailed Consultation proposal is presented to the November Policy & Resources Committee.
- 6.3 Based on the approach outlined above, Appendix 2 contains a timetable which illustrates the sequence of high level tasks leading to the setting of the 2018/20 budgets.
- 6.4 Using a 2017/19 funding gap of £12.8million then proposals for consideration by the new Council will need to be of the order of at least £20million. It goes without saying that generating savings options of this order will not only be a significant piece of work but will raise concerns amongst a large proportion of the Council's workforce and customers and as such a clear communication strategy will require to be agreed at that time.

7.0 USE OF FREE RESERVES

- 7.1 The Unaudited Annual Accounts for 2015/16 show that the Council has Unallocated Reserves of £8.8million. £3.8million of this sum represents the Council's 2% contingency leaving £5.0million "free" for Members to consider. Given the major upheaval caused by the recent decision to leave the EU and the resultant indications that public finances will be adversely impacted in the short/medium term plus the likelihood of increased inflation, then there is an argument that the 2% figure should be increased. This is an issue which may have to be revisited in coming months.
- 7.2 Appendix 3 contains a list of potential uses for the Free Reserves which have been covered by reports to Committee or discussed by the MBWG. From Appendix 3 however it can be seen there is very limited room for manoeuvre especially given the previously reported pressures on the 2017/20 Capital Programme. A more fundamental review of existing Reserves would be required to free up resources if Members wish to add new projects over and above those listed.
- 7.3 It would therefore be the CMT recommendation that Members only approve the bare minimum of new projects to be funded from Reserves and that Members take decisions regarding the use of any available Reserves when considering the budget in February 2017 by which time the 2017/18 settlement will be known and the need for a greater contingency will be clearer.
- 7.4 The advice from the Chief Financial Officer regarding the allocation of reserves to meet a future estimated funding gap is included in Paragraph 8.1 below.

8.0 IMPLICATIONS

8.1 Finance

The Local Authority Accounting Panel (LAAP) Bulletin 99 on Reserves and Balances provides guidance to Chief Financial Officers in the area of using Reserves to fund recurrent expenditure as follows:

"It is not normally prudent for reserves to be deployed to finance recurrent expenditure. CIPFA has commented that Councils should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is taken, this should be made explicit, and an explanation given as to how such expenditure will be funded in the medium to long term. Advice should be given on the adequacy of reserves over the lifetime of the medium term financial plan, and should also take account of the expected need for reserves in the longer term"

This report supported by the table in Appendix 3 and the current Reserves Policy meet the requirements of this guidance but it is important that Members understand that the proposed use of Reserves as outlined in this Strategy is a short term, one off measure and is justifiable on the basis that there will be a fundamental review of Council Services, Eligibility Criteria and Charging

Policies over the next 18 months.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (if Applicable)	Other Comments
N/A					

8.2 Legal

There are no legal implications arising at this point in time.

8.3 Human Resources

Developing savings options of the scale envisaged will raise concerns amongst Council employees and close working with the Trades Unions and clear communications with employees will be imperative during this exercise.

8.4 Equalities

Has an Equality Impact Assessment been carried out?

Yes See attached appendix

No This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

8.5 Repopulation

Budget reductions of this order will have an adverse impact on the services the Council currently delivers and could make the area less attractive to current and potential residents.

9.0 CONSULTATIONS

9.1 The MBWG have endorsed the proposals in this report and the Trades Unions have been consulted via the Joint Budget Group.

10.0 LIST OF BACKGROUND PAPERS

10.1 None

2017/18 - £600k Savings

Opportunity	Update	Saving £000	Status
1/ Business Support in Schools	Report to CMT - 10/3/16 identified £36k FY savings. Being Implemented.	36	Confirmed
2/ SPT - 2017/18 Requisition Reduction	SPT to work on over the summer. Indications are a 1-2% Cash Reduction.	20	Estimate
3/ Clyde Muirshiel Park	Reduction in 2016/17 Requisition.	28	Confirmed
4/ L&PS Admin Review - Ph2	Report to CMT - 10/3/16 approved. Saving is £29k but some to be reinvested in service.	20	Confirmed
5/ Learning Disability Review	John St/Caladh House phase agreed by IJB 5/3/16. Includes a further saving of £73k.	150	Confirmed
6/ Homelessness Restructure	FYE of release of Homelessness Service Manager offset by regrading.	10	Confirmed
7/ Printers in Schools	Target agreed by Corporate Director following Clydeview Academy pilot	8	Confirmed
8/ ASN Travel	Review budget in line with 2015/16 out-turn. Reverses 2015/16 Pressure.	40	Confirmed
9/ Benefit Subsidy	Based on 16/17 initial estimate and 15/16 out-turn	100	Confirmed
10/ UC Delivery Partnership Income	16/17 sum confirmed for Management costs as £17k. Found income.	17	Confirmed

11/ Increased Government Funding	Saving due to Council already implementing aspects of Childrens & Young Persons Act for which extra funding was received.	50	Confirmed
12/ Finance - Exchequer VER	PT Clerical post holder released. Cost £7.6k.	3	Confirmed
13/ Cleaning in Schools	Reported to CMT 28/4/16. Final net saving of £164k by 2018/19. £37k saving in 16/17.	100	Confirmed
14/ Waterfront CHP	Surplus of Council saving after paying loans charges on investment.	15	Confirmed
15/ Chief Executive's Salary	Reduction in salary plus on-costs of new Chief Executive.	4	Confirmed
Total Potential Savings (£600k Target)		601	

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28/7/16

Budget 2018/20 High Level Timetable

- 12 August 2016 - Consultation Proposal considered by MBWG.
- 20 September 2016 - P&R Committee agree process and impact on Finances.
- 15 November 2016 - Consultation approach approved by P&R Committee.
- 1 December 2016 - Updated Financial Strategy considered by the Council.
- February 2017 - Consultation Responses included in overall Budget Report.
- May 2017 - Local Government Elections
- August 2017 - Political steer on savings proposals to undertake detailed consultation/undertake VS Trawls.
- December 2017 - 2018/20 Settlement figures.
- February – March 2018 - Comprehensive package of phased savings agreed for 2018/20.

AP/LA
3/8/16

Possible Uses of Free Reserves

<u>Issue</u>	<u>£000</u>	<u>Comment</u>
1. Summer Playschemes - 2016 - 2017	20 49	Meet both years from Contingency. Includes £17k for Craigmarnoch.
2. Delay in School Transport Review.	200	Fund from SEMP Model.
3. 2017/18 i-Zone Funding.	180	Subject to report to September E&C Committee.
4. 2017/19 Budget – Bridging Finance.	5100	See Calculation Below.

<u>Bridging Finance</u>	<u>2017/18</u> <u>£m</u>	<u>2018/19</u> <u>£m</u>
Annual Deficit	2.8	10.0
Cumulative Deficit	2.8	12.8
Reserves Budget For	(2.0)	-
Reserves Required	0.8	4.3 Based on 33% of Deficit in 18/19

Note

Above figures exclude any use of reserves to supplement the 2017/20 Capital Programme over and above current decisions. Expected Capital Pressures include RAMP post 2017/18, Replacement Cremators and Cemetery provision.

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28/7/16