

Report To: Policy & Resource Committee **Date:** 14 August 2012
Report By: Chief Financial Officer **Report No:** FIN/48/12/AP/LA
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Subject: Budget Strategy - Proposals

1.0 PURPOSE

- 1.1 The purpose of this report is to ask Committee to approve the strategy for the forthcoming budget round.

2.0 SUMMARY

- 2.1 The Council will be entering a new budget period from 1 April 2013 and the opportunity exists for the Council to consider its approach not only for the next 2 year period but whether a longer period of financial planning would provide benefit.
- 2.2 Based on the Financial Strategy considered on 28 June it is estimated that the financial shortfall on the Revenue Budget 2013/15 is £8.6 million (Appendix 1). It is estimated that this will increase by approximately £7.5 million per year thereafter based on a number of high level assumptions.
- 2.3 The estimated funding gap in respect of Capital for the period 2012/15 is £1.7 million however this funding gap is expected to grow annually by £1.2 million based simply on the Council maintaining its current level of investment in Property, Roads, ICT and Housing.
- 2.4 Officers usually generate a list of budget pressures and service development proposals. It is proposed that unavoidable budget pressures are reported to the relevant thematic Committee for consideration prior to Christmas.
- 2.5 It is also proposed that the Council create a bid fund to address the "Preventative Spend" agenda. This would be a spend to save fund whereby officers could develop suitable proposals for initial pump priming but on the basis that savings/cost avoidance could be guaranteed in future years. It is clear that without the Council looking at ways of reducing the year on year demand for certain services future years funding gaps will not reduce and as such taking pressure "out of the system" needs to form part of the overall budget strategy.
- 2.6 The Council's current Workstreams programme is drawing to a close with 2013/14 the last year of those Workstreams agreed in 2010. Commitment has been given previously for a new series of Workstreams to be developed over the summer. It is important that the Committee recognises that Savings Workstreams alone will not close the funding gap and members will require as part of the forthcoming budget round to look at policy priorities and charging policies. This will be done within individual Political Groupings.
- 2.7 Early engagement with both the Unions via the Joint Budget Group (JBG) and also senior officers and members will make all parties aware of the extent of the budget challenges plus the high level timescales/processes which will inform the overall budget process.

2.8 An HR Strategy will be developed to tie in with the approval timescales/approach and will be discussed at the JBG.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Committee agree to the proposals contained in this report and note that an all Member briefing on the forthcoming budget will take place on 22 August.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 The Council has previously agreed 2 year budgets covering the period 2009/11 and 2011/13. On both occasions the interim year budget has been a reaffirmation of the previous year's budget with minor alterations particularly around the spending of surplus reserves.
- 4.2 The 2 year budget approach has proven to be successful in allowing longer lead in times to address HR/ Policy Impacts and smooth out financial impacts.
- 4.3 The Scottish Government has announced firm grant figures covering the period 2012/15 for both Capital and Revenue.

5.0 BUDGET PERIOD PROPOSALS

- 5.1 Based on the success of the previous 2 two year budgets it is proposed that a firm balanced budget covering the period 2013/15 is approved in February 2013. A firm budget means that individual services would be clear on what their revenue Budget is for the next 2 financial years, Lead Officers would be clear the Workstream Savings targets over the period and that there is total clarity on how specific savings are to be delivered.
- 5.2 Arising from this there will be a review of the level of contingencies/unallocated funds held in the budget as with greater certainty the requirement for such contingencies reduces.
- 5.3 Committee should note however that there will still be an element of uncertainty around a number of the assumptions which underpin the budget. For 2013/15 that uncertainty largely arises around levels of inflation both pay and non pay.
- 5.4 In addition to setting a firm 2 year budget covering the period 2013/15 it is proposed that the Committee agree to setting an indicative budget for the period 2015/16. The rationale for this recommendation is as follows:
 - 1) By taking decisions covering a 3 year period it will build on the advantages gained by setting the 2 year budget and will allow greater strategic planning and longer lead in times to achieving savings/developing services.
 - 2) This longer timescale will tie in with the proposed new Workstream Savings Programme and reflects the longer lead in time which some Savings Workstreams require.
 - 3) The period ties in with the recommended 3 year Capital Programme time frame and will enhance the existing Revenue/Capital budgetary linkages.
 - 4) On the basis that Committee agrees that a "Preventative Spend" fund is created as part of the budget then it allows longer time periods for the delivery of the anticipated savings generated by the initial investment.
- 5.5 Clearly there is more uncertainty around funding levels/inflation in this final year which is why there will need to be a degree of flexibility in terms of the specific nature of some of the savings agreed. However high level targets and clarity over the broad policy areas from which these savings will come would be agreed and enable Officers to begin work well in advance of the savings being required.
- 5.6 Finally it is proposed that the Council continues to prepare a 3 year firm Capital Programme which in this case would cover the period 2013/16. In terms of the Capital Programme the Council is now at a watershed where it needs to consider how it is going

to balance its future capital investment priorities without continually adding to the revenue burden via prudential borrowing. This will require further pressure to be put on the major capital investment strategies of SEMP, AMP Offices and AMP Depots to ensure that possible efficiency/savings are identified and included in the forthcoming budget.

6.0 APPROACH TO PRESSURE/SERVICE DEVELOPMENT/SAVINGS

6.1 It is proposed for the forthcoming revenue budget that the same approach as last budget round is adopted whereby specific unavoidable budget pressures (which should be reflected in the Financial Strategy) are highlighted and the subject of a report to the relevant Committee prior to Christmas.

6.2 As far as Service Development is concerned then this requires to be lead by Members and will be part of the development of specific Political Grouping budgets referred to later on in this report.

6.3 It is proposed that Committee considers having a Preventative Spend Fund for which proposals could be prepared on the basis that all bids are spend to save or spend to reduce future expenditure pressures. By giving early approval to this principle it would allow proposals to be developed. It should be borne in mind however that it is unlikely that many spend to save proposals will generate much savings in the first year of the next 2 year budget and as such this is further justification for the Council considering a 3 year budget process.

6.4 Savings will fall into 4 main categories as follows:

- a. General review of provisions etc. – This exercise will be carried out by the Finance Service on the basis of previous experience and latest information. This will involve a fundamental review of some of the assumptions which underpin the figures in the Financial Strategy and will represent a further squeezing of any flexibility which exists in the current Revenue Budget.
- b. Workstream Savings 2013/16 – A commitment has already been given that Workstreams will be reviewed/refreshed over the summer. This review will be informed by not only the Civica report but other potential corporate areas of savings and larger service specific areas where a fundamental change in the way that services are delivered is required. The nature of these savings is that the majority of the savings are likely to be generated post 2013.
- c. Service Specific Efficiency Savings – Whilst it is recognised that the capacity to generate these types of savings is significantly less than it was a number years ago the Committee is asked to note that there is always capacity to generate a list of such savings as technology changes, opportunities arise or as a fresh eye reviews service provision. For each of the savings a proforma will be prepared.
- d. Service Withdrawal/Reduction/Charging – Similar to Service Development proposals mentioned in 6.2, proposals in this regard need specific direction by Members and will form part of the development of individual Political Grouping budgets.

7.0 ENGAGEMENT

7.1 The Joint Budget Group has proven very successful during the budget process and this forum will continue for the forthcoming budget round. The first Joint Budget Group meeting relating to the new budget cycle took place prior to the 14 August Policy & Resources Committee and a schedule of meetings will be agreed.

- 7.2 Presentations will be done to all Heads of Service, Head Teachers and Senior Managers outlining the overall budget position and the challenges ahead. Thereafter engagement will take place via each Corporate Director within their Directorate in order to give feedback on development of the budget.
- 7.3 It is proposed to commence direct political engagement on the detail of the budget much earlier than previous years. This will allow time for reports on specific budget pressures to be considered by the relevant Committee. In addition those Political Groupings which wish to develop a budget have more time to generate proposals for savings and policy development and ultimately a balanced budget.
- 7.4 The impact of this will be early common clarity on budget pressures and efficiency savings but also greater variance on saving/development proposals.
- 7.5 It is proposed to commence the process by having an all Member Briefing prior to the end of August to run through the overall position and detail the approach. Thereafter individual groupings would engage with relevant Officers prior to February's budget setting day.

8.0 HR IMPLICATIONS

- 8.1 An HR Strategy to tie in with the approved budget strategy is being developed and will be subject to discussions at the JBG.
- 8.2 It is inevitable that given the scale of the budget reductions required that there will be a reduction in the numbers employed with the Council over coming years. As in previous years advanced planning and close working with the Trade Unions will minimise the impacts on employees.
- 8.3 Committee is reminded that the current practice of awarding up to 6 added years in respect of pension for early retriial reduces to up to 3 added years on 31st March 2013.

9.0 CONCLUSIONS

- 9.1 The proposals outlined in this report are believed to provide a robust yet manageable approach to enable the Council to deliver Revenue and Capital budgets which reflect the challenges ahead.
- 9.2 In addition it is believed that the proposals provide greater clarity in the roles of Members and Officers throughout the process and are deliverable based on the capacity available.

Finance Strategy - June 2012
Post 2012/13 Budget Approval

Appendix 1
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	<u>2012/13</u> <u>£m</u>	<u>2013/14</u> <u>£m</u>	<u>2014/15</u> <u>£m</u>
Base Budget for Prior Year	206.388	206.100	204.895
<u>UPLIFTS FROM PRIOR YEAR</u>			
<u>Inflation (Note1)</u>			
Pay Inflation (2.0% from 2013/14)	-	2.130	2.130
Other Inflation	1.600	1.960	1.960
Income	-0.153	-0.158	-0.158
	<u>1.447</u>	<u>3.932</u>	<u>3.932</u>
<u>Council Priorities (Note 2)</u>			
School Estate- Unitary Charge Grant	0.692	-	-
Capital Programme Impact	0.200	0.100	0.100
	<u>0.892</u>	<u>0.100</u>	<u>0.100</u>
<u>Pressures (Note 3)</u>			
Corporate Pressures (movement)	0.634	2.700	2.000
Loan Charges	-0.390	0.200	0.200
	<u>0.244</u>	<u>2.900</u>	<u>2.200</u>
Savings/Adjustments Applied (Feb 2011/2012)	-6.924		
Adjustments Applied		-0.149	
Approved Budget (Note 4)	<u>202.047</u>	<u>212.883</u>	<u>211.127</u>
<u>Funded by: (Note 5)</u>			
Revenue Grant/NDR Income	173.078	171.873	170.801
Council Tax Income	33.022	33.022	33.022
	<u>206.100</u>	<u>204.895</u>	<u>203.823</u>
Annual Budget (Surplus/Deficit)	<u>-4.053</u>	<u>7.988</u>	<u>7.304</u>
Cumulative Savings Needed	<u>-4.053</u>	<u>3.935</u>	<u>11.239</u>
<u>Workstream Savings 2013/14 & On (Note 6)</u>	<u>0.000</u>	<u>-2.622</u>	<u>-0.05</u>
2013/15 Budget Gap		£11.239 million	
less: Workstreams		<u>£2.672 million</u>	
		<u>£8.567 million</u>	

Finance Strategy Notes – June 2012

Note 1 Inflation

a) Pay

	<u>2012/13</u>		<u>2013/14</u>		<u>2014/15</u>
Teaching	0		730	2.00%	730 2.00%
Others	0		1400	2.00%	1400 2.00%
	<u>0</u>		<u>2130</u>		<u>2130</u>

Note : Assumes that this will include any costs relating to the Living Wage.

b) Other Inflation

Utilities	400	400	400
Landfill Tax	260	260	260
Contracts/Joint Boards.	940	1300	1300
	<u>1600</u>	<u>1960</u>	<u>1960</u>

c) Income - based on 2012/13 is estimated to be £158k (2.5%)

Note 2 Council Priorities

- a) School Estate - 2012/13 is the final year of increased Government Grant to fund the SEMP.
- b) Capital Programme Impact – Reflects a General Allowance for increased running costs arising from the Council's Capital Programme.

Note 3 Pressures

- a) Corporate Pressures – 2012/13 figures reflect approvals from December 2010. 2013/15 are a General Allowance with an extra £0.7 million in 2013/14 to reflect the Council's contribution to the Government's 10% cut in Council Tax Benefit.
- b) Loan Charges Movement – 2012/15 figures reflect latest figures resulting from October 2011 review.

Note 4 Approved Budget

- a) Reflects the recurring Approved budget ie: Before any contributions to or from Reserves.

Note 5 Funded By

- a) Reflects 2012/15 Finance Settlement included in Scottish Government Circular 3/2012 and 1/2012.

Note 6 Workstreams

- a) This figure reflects Workstream savings not built into approved annual budgets and reflects latest review in May 2012.

Cumulative savings required over 2013/15 are £8.56million on the assumption that all Workstream savings over that period are fully achieved.