
Report To:	Policy & Resources Committee	Date:	11 August 2015
Report By:	Chief Financial Officer	Report No:	FIN/52/15/AP/LA
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Subject:	Budget Strategy – 2016/18		

1.0 PURPOSE

- 1.1 The purpose of this report is to seek Policy & Resources approval for the 2016/18 Budget Strategy.

2.0 SUMMARY

- 2.1 In February 2015 the Council agreed a 2015/17 Revenue Budget which required the temporary use of £3.3 million from reserves to balance 2016/17 in light of the high level of uncertainty around a number of critical items. In addition the Council agreed a 2015/18 Capital Programme.
- 2.2 The Members Budget Working Group (MBWG) has commenced consideration of the next stage of the budget which includes the delivery of approximately 30 reviews which form the Budget Workplan.
- 2.3 There still remain a number of key issues in 2015/16 and 2016/17 which require to be clarified which could materially impact on the funding gap and thereafter there is even greater uncertainty in respect of 2017/18. It is not expected that the Scottish Government will announce figures in any detail for Local Government for 2017/18 prior to the Holyrood elections in May 2016. There are however strong service delivery and pragmatic arguments for the Council to set a 2016/18 Revenue Budget even if this continues the use of an element of reserves on a temporary basis pending clarification on issues such as the Government Grant Settlement and pay awards.
- 2.4 The Capital Programme for 2015/18 is however far more certain and it is recommended that no decision is taken regarding the 2018/19 Capital Programme in February 2016 but rather that officers concentrate on delivery of the existing extensive Capital Programme.
- 2.5 In line with prior years it would be appropriate that an exercise to identify unavoidable pressures arising from either legislative requirements or contractual issues should be undertaken. This however has to be tightly controlled in order to manage expectations and to effectively utilise the Council's limited resources at a senior level. At present there is no specific pressures allowance in the 2016/17 budget however an allowance of £1 million has been built into 2017/18 within the Financial Strategy.
- 2.6 Unsurprisingly savings will be the most contentious area within the budget and based on the figures in the Financial Strategy the initial high level estimate of the funding gap in 2017/18 is £12.6 million. The expectation would be however that the ultimate saving gap will be lower than this due to pay awards and other inflation being less than budgeted, the pressures allowances not being fully required and the reductions in grant being lower than currently shown. Appendix 1 shows a more realistic savings target of £6.4 million and in order to provide Members with an element of flexibility and choice the Corporate Management Team propose to develop options for £8 million savings, some 25% above the estimated target.

- 2.7 The distribution of savings is a matter which requires to be agreed. Last year the savings target was pro rata to net budget plus variable income and made no allowance for national or local policy priorities. In light of the Scottish Government's policy on teacher numbers the Corporate Management Team recommend that the savings target takes this factor into account. Understandably this will have the impact in increasing the savings target in all other areas of the Council. Appendix 2 shows the distribution of savings targets if this method were used.
- 2.8 Having reviewed the distribution of the savings target using the methodology in Appendix 2, the Corporate Management Team propose that a more targeted savings approach is required albeit in the knowledge that this will potentially lead to significant reductions in certain "unprotected" areas.
- 2.9 Under this proposal the MBWG will be asked to indicate any "no go" areas from the services delivered by the Council. Thereafter those remaining areas will require to generate the savings options. Clearly, depending on the value of the "no go" areas, the percentage savings required from those remaining areas could be quite large.
- 2.10 Members will be aware that there are a significant number of reviews being progressed by officers which arose during the consideration of savings last budget round. The value of the savings proposed by officers at that time and a list of the associated reviews is shown in Appendix 3.
- 2.11 The CMT would recommend that the original savings totalling £2.642 million (by year 2) should form part of the £8.0 million savings for consideration by Members. These savings can then be reconsidered in the context of the reports back and the further savings which officers will require to develop.
- 2.12 Officers within Finance have examined whether a saving could be generated by smoothing future Loan Charges. If this was agreed then it would reduce the initial £6.4 million savings gap identified in Appendix 1. A proposal has been developed and will be reported to Committee in September.
- 2.13 The Policy & Resources Committee has agreed that proposals for the use of any free reserves should be channelled through the Members Budget Working Group and reported to the September Policy & Resources Committee. This consideration will be heavily influenced by the ultimate decision in respect of the Janitors tied houses plus whether a sizeable proportion of the reserve should be set aside as a contingency to temporarily fund the 2017/18 budget pending clarification of the issues identified in 2.3. The £6.4 million savings gap assumes £2.0 million of reserves are used in this way.
- 2.14 All the above figures have assumed the continuation of the Council Tax Freeze in 2016/18 as per the Government stated policy. Given the scale and impact of the savings outlined the MBWG have asked for a report back on the impact of an increase in Council Tax as part of this budget.
- 2.15 It can be seen from the above that there are a number of specific tasks which require to commence sooner rather than later to allow sufficient time for appropriate budget consultation and development of proposals via the Members Budget Working Group. A high level time line is shown in Appendix 4.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee consider the contents of this report and agree the following:
- a) That the Council approve a 2016/18 revenue budget in February 2016.
 - b) That a 2016/18 Capital Programme be confirmed in February 2016.
 - c) That the approach outlined for the identification of potential budget pressures be as outlined in Section 7.

- d) That the proposed 2016/18 Revenue Savings Target be set at £6.4 million plus a 25% excess to provide Members with an element of choice.
- e) That the proposed savings process outlined in 2.9 be agreed.
- f) That the savings reviews included in the Budget Work Plan which are summarised in Appendix 3 form the first £2.64 million of the £8 million savings options.

3.2 That it be noted that a report on the potential use of reserves to generate a loans charge saving be considered by the September meeting of the Committee.

3.3 That the timetable shown in Appendix 4 be approved.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 The Council agreed a 2015/17 Revenue Budget in February 2015 which required the use of £3.3 million of reserves on a temporary basis in 2016/17 pending clarification of a number of critical issues such as the 2016/17 Grant Settlement and the 2015/17 Pay Award.
- 4.2 At the same meeting the Council agreed a 2015/18 Capital Programme based on assumed level of Capital Grant from the Scottish Government for the period 2016/18.
- 4.3 Based on the decisions at the February 2015 Council meeting and subsequent developments the Corporate Management Team have developed a Budget Workplan which contains approximately 30 actions nearly all of which require delivery by December 2015. This Plan will form the bedrock of reporting back to the Members Budget Working Group and thereafter to Committee.
- 4.4 At the May Policy & Resources Committee it was agreed that any decision on the use of surplus reserves would be taken at the September Policy & Resources Committee following consideration by the Members Budget Working Group. However one critical issue within this consideration is the need to clarify and finalise the situation in respect of the Janitors and the payment of rent/Council Tax.

5.0 CURRENT POSITION

- 5.1 The Members Budget Working Group met on 27 May and endorsed the Budget Workplan. Directors are progressing the appointment of temporary resources/consultants to progress the reviews and this matter will be tracked via regular updates to the Members Budget Working Group as well as the Joint Budget Group.
- 5.2 The Financial Strategy was endorsed at the Full Council on 4 June 2015 and within this it identified an estimated funding gap of £9.3 million in 2017/18 to which the balance of savings required on the current 2016/17 budget of £3.3 million should be added giving a total estimated funding gap of £12.6 million for the period 2016/18.
- 5.3 Pay negotiations of the period 2015/17 are at an advanced stage and indications are that the full allowance set aside by the Council for this period will not be required. Given historically low non pay inflation levels it is also anticipated that a further saving will be made on non pay inflation during the period 2015/17. Both the pay and non pay inflation issues will result in a reduction in the £12.6 million savings target identified above.
- 5.4 There is no unallocated pressures funding in the budget for 2016/17 however an allowance of £1 million has been factored in to the initial 2017/18 high level budget. At this point in time the only material pressures identified outwith inflation are the likely requirement for the Council to increase its contribution to the Greenock Arts Guild for the Beacon Arts Centre and continuing pressure in terms of Elderly Care budgets.
- 5.5 A paper to Cosla Leaders in May 2015 estimated ongoing 1.6% reductions in cash funding within the Scottish block. The impact on Local Government can only be estimated at this point in time and thereafter the impact on Inverclyde Council has to be extrapolated and needs to take into account the continuing population reduction. Therefore, there will be a reduction in cash funding for the Council over 2016/18.
- 5.6 The UK Government announced £3bn of cuts in 2015/16 in late May. It is estimated that the negative "consequentials" for Scotland will be £107 million (£60 million Capital and £47 million Revenue). How this will be dealt with and the impact on the Council's 2015/16 budget is not clear.
- 5.7 The 8th July UK budget announced some issues which may impact over the 2016/18 period such as the increase in the minimum wage, potential easing of the squeeze on Public Sector Finances and significant reduction in Welfare Budgets, however any implications on the Council's finances will only become clear by the end of 2015 at the earliest.

6.0 PROPOSALS

- 6.1 It is proposed the Committee agree that the Council should set a 2016/18 Revenue Budget in February 2016. The rationale for this is the same as in prior years in terms of the operational and service delivery certainty it can provide plus it provides officers with more time to deliver any service delivery changes and manage any employee impacts.
- 6.2 In saying this it must be borne in mind that the expectation is that the Scottish Government will not provide a detailed settlement to Local Government beyond 2016/17 this side of the Holyrood elections and therefore any 2017/18 budget requires to be seen in the context of estimated settlement figures. In light of this it is highly likely that Members will wish to continue the temporary use of reserves in 2017/18 to delay the worst of any budget cuts until there is far greater clarity as to the Council's overall financial position in 2017/18.
- 6.3 As highlighted above the Council has already agreed a 2015/18 Capital Programme and at this point in time it is not recommended that a further year be added on to this Capital Programme. If this is agreed it would be anticipated that the Council could agree a 2017/20 Capital Programme in February 2017.

7.0 PRESSURES

- 7.1 As part of the budget process the identification of unavoidable legislative and contractual budget pressures requires to take place. In prior years there has been a diminimus threshold of £50,000 for each individual item. The CMT recommend that this threshold be retained.
- 7.2 It is important that the identification of any budget pressures be tightly controlled in order to save officer time and to manage expectations. This exercise does not include any policy development budget pressures as these should emanate from the Members Budget Working Group as part of the budget development.
- 7.3 In order to allow early consideration of these pressures it is intended that any budget pressures are identified and reported to the Corporate Management Team no later than the middle of August.

8.0 SAVINGS

- 8.1 Last year Members agreed a straight pro rata of savings target across the Directorate net budgets with a small adjustment for controllable income.
- 8.2 In terms of sizing the pot for savings it has been indicated above that the overall savings target for the period 2016/18 could be as high as £12.6 million. However as is already indicated it is unlikely that the full pay and non pay inflation allowances will be required and it would be anticipated that the pressures allowance for the National Insurance Contracting out cost may not be fully required. Once the potential use of reserves to smooth out the continuing uncertainty in 2017/18 is taken into account then it is proposed that a more realistic savings target is £6.4 million as shown on Appendix 1. Thereafter to provide Members with an element of choice it is recommended that the savings target be set at £8 million.
- 8.3 The Corporate Management Team recommend that account should be taken of the national policy priority relating to teacher numbers as reductions cannot take place without incurring a significant financial penalty from the Scottish Government. In light of this there is a strong argument that the teaching salary budget should be removed before the calculation of any savings targets. It is acknowledged that this will put extra pressure on the remaining Council Budgets but this is arguably a more realistic approach to allocating savings. Appendix 2 illustrates the impact.

- 8.4 Having reviewed the distribution of the £8 million savings target using the methodology in Appendix 2, the Corporate Management Team propose that a more targeted savings approach is required albeit in the knowledge that this will potentially lead to significant reductions in certain “unprotected” areas.
- 8.5 Under this proposal the MBWG will be asked to indicate any “no go” areas from the services delivered by the Council. Thereafter those remaining areas will require to deliver the £8 million savings options. Clearly, depending on the value of the “no go” areas, the percentage saving required for those areas remaining could be quite large.
- 8.6 It is acknowledged that this is an extremely challenging target given that officers are still in the process of delivering almost £10 million worth of savings over the period 2015/17. Committee need to be aware that the proposed Policy led approach will lead to significant service reduction in “unprotected” areas.
- 8.7 Committee will be aware that there are a significant number of reviews being progressed by officers which arose during the consideration of savings last budget round. The value of the savings proposed by officers at that time and a list of the associated reviews is shown in Appendix 3.
- 8.8 The CMT would recommend that the original savings totalling £2.642 million (by year 2) should form part of the £8.0 million savings for consideration by the MBWG. These savings can then be reconsidered in the context of the reports back and the further savings which officers will require to develop.
- 8.9 Officers within Finance have been examining whether a saving could be generated by smoothing future Loan Charges. If approved by Members then it would reduce the initial £6.4 million savings gap identified in Appendix 1. A proposal has been developed and is due to be reported to the Committee in September.
- 8.10 All the above figures have assumed the continuation of the Council Tax Freeze in 2016/18 as per the Government stated policy. Given the scale and impact of the savings outlined the MBWG have requested a report back on the impact of an increase in Council Tax.

9.0 NEXT STEPS

- 9.1 An initial summary timetable has been attached as Appendix 4 and from this it can be seen that much of the budget will need to be completed by the end of August to enable Members sufficient time to consider the proposals. The resourcing of this exercise at the same time as the delivery of the budget action plan, delivery of the current budgets and Capital Programme should not be underestimated.

10.0 IMPLICATIONS

Finance

- 10.1 The financial implications are clearly outlined in the report.

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					

Legal

10.2 There are no specific legal implications arising from this report.

Human Resources

10.3 Budget reductions of the level identified in this report will undoubtedly have impacts on the Council's workforce and it is becoming increasingly difficult for the Council to avoid compulsory redundancies especially in the context of the significant funding gap in 2017/18.

Equalities

10.4 As has been the case in prior years equality impact assessments will need to be carried out as part of the development of the budget.

Repopulation

10.5 There are no specific repopulation issues arising from this report.

11.0 CONSULTATIONS

11.1 The MBWG have endorsed the contents of this report.

12.0 LIST OF BACKGROUND PAPERS

12.1 There are no specific background papers associated with this report.

2016/18 Funding Gap
Updated Scenario

Issue	2016/17 £m	2017/18 £m	Note
Finance Strategy Funding Gap	3.3	9.3	
2015/17 Pay Inflation Saving	(2.0)		1
2015/17 Non-Pay Inflation Saving	(0.8)		2
2016/17 Lower Grant Reduction	(0.2)		3
2016/17 Contracting Out Cost Reduction	(0.2)		4
2017/18 Lower Grant Reduction		(1.0)	5
2017/18 Use of Reserves		(2.0)	6
	0.1	6.3	

1/ Based on 2.75% pay award over 2015/17 plus further Living Wage Uplift. Leaves 2.0% allowance in 2017/18

2/ Based on allocations known to date extrapolated forward.

3/ Assumes a 1% Cash cut for Local Government adjusted for NDR but £1 million loss due to depopulation.

4/ Based on current payroll.

5/ Assumes 1.5% GRG cut and £1 million depopulation cut.

6/ Use of Reserves on a temporary basis could be considered however the sum should reduce as a more optimistic view of the areas of uncertainty has been factored in. Proposal equals 1% of Budget.

Reduction in Savings Target £6.200 million ie: New Target £6.400 million

AP/LA
July 2015

Proposed Budget Savings - 2017/18

Appendix 2

Proposed Savings Share - 2016/17 Net Budget at February 2015

	Net Expenditure Budget (Adj for External Income) 2016/17	Detailed Savings Target 2017/18 £8m*	Net Expenditure Budget (Adj for External Income & Teachers) 2016/17	Detailed Savings Target 2017/18 £8m*
<i>Environmental, Regeneration & Resources Directorate</i>	33,924,940	1,548,000	33,924,940	1,942,000
Regeneration & Planning	5,111,470	233,000	5,111,470	293,000
Environmental & Commercial Services	16,038,030	732,000	16,038,030	918,000
Legal & Property Services	5,140,630	235,000	5,140,630	294,000
Finance & ICT	7,634,810	348,000	7,634,810	437,000
<i>Education, Communities & Organisational Development Directorate</i>	91,852,260	4,192,000	56,280,720	3,223,000
Education	69,940,870	3,192,000	38,485,200	2,204,000
Inclusive Education, Culture & Corporate Policy	11,484,870	524,000	7,369,000	422,000
Safer & Inclusive Communities	8,855,330	404,000	8,855,330	507,000
Organisational Development, HR & Communications	1,571,190	72,000	1,571,190	90,000
<i>Community Health & Care Partnership Directorate</i>	49,501,330	2,260,000	49,501,330	2,835,000
Children & Families/ Criminal Justice	10,090,510	461,000	10,090,510	578,000
Community Care & Health	32,380,680	1,478,000	32,380,680	1,854,000
Planning, Health Improvement & Commissioning	3,659,070	167,000	3,659,070	210,000
Mental Health & Addictions	3,371,070	154,000	3,371,070	193,000
Total	175,278,530	8,000,000	139,706,990	8,000,000

Note:

Figures exclude Corporate Director Budgets
2016/17 budget set at February 2015.

Figures are gross of external income and recharges to health boards and other local authorities

Budget Workplan - Potential Savings (Original Target)

	Year 1 £000	Year 2 £000	
ASN Service Review	-	-	Note 1
Universal Credit - Advice Services	-	60	
Community Facilities Provision	-	115	
HSCP - Commissioned Services	-	208	
Barnardo Service Provision	-	282	
Physical Disability Service	-	164	
Business Support in Schools	127	203	
Redesign Public/School Libraries	-	54	
Waivers Policy - Annual Review	-	150	
Future Delivery of Regeneration Services	-	125	
Env & CS Management Restructure	-	100	
Env & CS Parking & General Income	-	90	
Kirn Drive Depot	-	140	
Whinhill Golf Course - Reduced Subsidy	-	125	
SEMP - Review/Acceleration Options	-	200	
School Transport	365	584	
Eary Years Management	-	42	
	<u>492</u>	<u>2642</u>	

Notes:

1/ Indication from MBWG was this was about redistribution of budget rather than a saving. Savings originally proposed were £169k (Year 1), £734k (Year 2).

