
To: Council

On: 24 September 2015

Report by: Director of Finance and Resources

Heading: Financial Outlook 2016/17 – 2017/18

1. Overview and Key Messages

1.1 The report to Council on 13 February 2014 'Revenue Budget and Council Tax 2014/15' established the Council's anticipated medium term financial position through to 2017/18, confirming a likely budget saving requirement of between £20 and £30 million. Since that time, the Council has set two budgets covering 2014/15 - 2015/16, securing agreement over £16 million of the required savings.

1.2 The strategy through to 2017/18 has been kept under ongoing review, recognising the range of uncertainty in relation to key factors underpinning the forecast saving requirement. The most recently completed review of the strategy has scaled back marginally the forecast budget gap over this period to £28 million. Notwithstanding this update, uncertainty remains a major factor, although over the coming months it is expected that a number of key issues will begin to crystallise, the most significant of these will remain both pay and grant. In this context, this report will cover the following key areas of the financial strategy for elected members:

- The Council's current financial position;
- The updated projection covering the current budget strategy period to 2017/18, taking account of decisions already taken by the Council in prior year budgets, developments in key areas such as pay settlements and the Council's future government grant

prospects in the context of the outcome of the UK Government's July budget.

- The medium term financial outlook for the Council through to 2017/18 and beyond, taking account of changes in planned UK public expenditure levels announced as part of the UK Government's July budget;
- The current non-housing capital investment programme.

1.3 Key Messages

1.3.1 The Council's current financial position remains in line with the financial planning assumptions made when the Council set its budget for 2015/16. In addition, Audit Scotland has recently completed their audit of the 2014/15 accounts and the audited financial position remains in line with that reported to Council in June 2015. Notwithstanding the significant financial challenges to be faced in the forthcoming years, as detailed in this report, overall the Council's immediate financial position remains stable and consistent with existing financial and service plans.

1.3.2 The Council, in setting its 2014-16 budgets, continued to take a medium term view of the Council's finances, recognising that in the absence of grant figures beyond 2015/16, it was anticipated that the Council would continue to be required to deliver significant budget savings over the two year period covering 2016/17 – 2017/18. In setting these budget, members agreed a package of savings measures totalling £16 million of which £5 million are due to be delivered in 2016/17 and which also provided scope for investment in priority areas principally covering schools, regeneration and tackling poverty. The most recent update of the medium term outlook for the Council has scaled back marginally the estimated savings target through to 2017/18 to approximately £28 million to address the anticipated budget gap. This remains within the parameters of the £20 million - £30 million range established as part of the original medium term forecast. However, it should be noted that this estimate continues to be underpinned by a range of significant assumptions in relation to key and uncertain factors, the actual outcome of which may result in both positive and negative movements in the estimated saving requirement.

1.3.3 Although the UK Government's budget announcement in July presented a less significant cut in planned UK public sector expenditure in 2016/17 and 2017/18 than that previously anticipated, allocation of the announced £20bn of revenue savings across Whitehall departments has yet to be concluded. Where these savings ultimately impact in terms of devolved and non devolved budgets will have a significant influence on the Scottish Block through the workings of the Barnett formula. Until this becomes clearer it is too early to assume any consequential positive impact on the Council's grant prospects following the July budget statement.

- 1.3.4 The outcome of the UK Government's Comprehensive Spending Review (CSR) is now not expected to be announced until November of this year, at which point the Scottish Government's settlement from the UK Government for 2016/17 and planning figures for future years are anticipated to be confirmed. This will inevitably have consequences for the timing of the Scottish Government setting their own budget for 2016/17 and any planning figures for future years. In the context of this anticipated timeline, there is the risk that the Council may not receive its confirmed grant settlement figures from the Scottish Government, which may be for 2016/17 only, until January 2016. Given the close proximity to the February budget setting period, there would be little time for the Council to respond to any unexpected negative outcomes emerging from a local government settlement announcement in January 2016. As a consequence and in the context of the medium term expectations that the Council will be required to deliver ongoing savings beyond the 2017/18 period, it is important that the Council continues to adopt a strategic and sustainable financial plan linked to the delivery of priorities agreed with partners in the Community Plan.
- 1.3.5 Whilst there are ongoing uncertainties over the scale of the budget deficit leading to 2017/18, the advice of the Director of Finance and Resources is for the Council to continue to focus on the development of a budget strategy which prepares the Council, its services and workforce for the scale of potential challenge highlighted in paragraph 1.3.2 above and in the context of the anticipated financial outlook beyond 2017/18 detailed in the main body of this report. Moving forward towards 2017/18 the budget strategy and financial planning assumptions of the Council will continue to be updated and reported to Members as appropriate. As indicated above, the CSR is expected to be announced in November and which may provide public sector expenditure figures for 2016/17 and planning figures for the following three years. Although any corresponding medium term budget plan from the Scottish Government may not emerge until into 2016/17, the CSR figures will nevertheless provide a greater degree of clarity that will assist in the Council's medium term financial planning.
-

2. **Recommendations**

2.1 It is recommended that the Council:

- Notes the updated position on the 2016 - 18 budget strategy.
- Notes the update on the outcome of the UK Government's July budget, the anticipated timing of the subsequent comprehensive spending review announcement in November and the likely impact on the Scottish Government budget announcement,

- Notes that the Council's confirmed grant settlement figures for 2016/17 may not be confirmed until January 2016 and the consequential risks this poses given the proximity to the February budget setting period.
- Notes the update on the Council's medium term financial outlook through to 2020/21 and the expectation that the Council will be required to deliver significant annual budget savings each year over the medium term.
- Notes the anticipated position on capital grant for 2016/17 and the recommendation to continue to restrict the Council's commitment to new investment supported by capital grant to the period of grant confirmation provided by the Scottish Government in January.
- Approve the Council's ongoing commitment to the financial planning principles outlined at paragraph 3.3.4 and 4.2 below.

3. **Financial Outlook – Revenue Budget**

3.1 Current Financial Position

- 3.1.1 The Council's current financial position remains in line with financial planning assumptions made in the setting of the 2015/16 budget. Audit Scotland has recently completed their audit of the 2014/15 accounts which has confirmed that the audited financial position remains in line with that reported to Council in June. Unallocated reserves are currently £7.7 million and there is currently no dependence on these reserves as part of the 2015/16 budget strategy approved in February 2015. As reported to Council at the February budget meeting, it would not be recommended that unallocated reserves fall below £7 million. Budget monitoring for 2015/16 to date confirms all services remain in line with budget. Notwithstanding the significant financial challenges to be faced in the forthcoming years, overall the Council's immediate financial position remains stable and in line with existing financial plans.

3.2 Update on Budget Strategy 2016-18

- 3.2.1 The report to Council on 13 February 2014 'Revenue Budget and Council Tax 2014/15' established the Council's anticipated medium term financial position through to 2017/18, confirming a likely budget saving requirement of between £20 million and £30 million. Since that time, the Council has set two budgets covering 2014/15 - 2015/16, securing agreement on over £16 million of savings as part of the Council's agreed budgets.

- 3.2.2 The estimated savings requirement over the medium term basis was and continues to be based on a range of assumptions which remain under ongoing review. The main influencing factors being pay levels, government grant, legislative changes to pensions, the financial impact of demographic pressures, and the rising costs of social care. High levels of uncertainty in relation to each of these key factors and the subsequent risk to positive and negative financial impacts has remained an enduring characteristic of the Council's financial environment increasing the challenges for financial planning and the delivery of the Council's shorter term budget strategy.
- 3.2.3 Over the course of 2014 and moving into the Council's budget meeting in February 2015, it was reported to Members that, principally as a consequence of increasingly negative forecasts in the prospects for future government grant levels and upward pressure emerging on potential future pay growth, the updated medium term forecast for the Council through to 2017/18 was that the estimated saving requirement was increasingly expected to be at the high end of the original forecast and potentially beyond the upper £30 million forecast.
- 3.2.4 Over the past number of months a further review of the 2016-18 strategy has been completed taking into account a number of key updates, including:
- progress being achieved on national pay negotiations for 2015/16 – 16/17 albeit they remain to be fully concluded,
 - the emerging picture for UK public spending following the UK Government's July budget statement notwithstanding the recognition that any material detail on the impact on the Scottish Block will not emerge until the comprehensive spending review announcement,
 - a clearer picture emerging on the timing of the Council's commitment to provide temporary support to the city deal infrastructure investment programme reflecting the mismatch between the planned 10 year period of investment and the payment of grant from the government over a 20 year period. The need to make provision in the revenue budget for this temporary support arrangement has now pushed out beyond 2017/18 and is therefore no longer a feature of the revenue budget up to 2017/18,
 - new emerging pressures and risks, most significantly around recent changes in the cost of co-mingled waste disposal for the Council and a potential emerging risk in relation to the impact of Non Domestic Rates revaluation, which at present is expected to take effect from 1st April 2017 following its delay by the Scottish Government from 2015.

- 3.2.5 Taking these updated factors into account, the most recent update of the medium term outlook for the Council has scaled back marginally the estimated savings requirement for 2014/15 through to 2017/18 to approximately £28 million to address the anticipated remaining budget gap. This continues to remain within the parameters of the £20 million - £30 million range established as part of the original medium term financial planning strategy which was set in February 2014. It should be noted that this forecast is in addition to the £22 million of savings being delivered through the Council's debt smoothing strategy over this period and which have already been taken into account as part of establishing the medium term savings forecast.
- 3.2.6 It is important to recognise that notwithstanding this most recent update, the financial outlook continues to be underpinned by a range of significant assumptions in relation to key and uncertain factors, the actual outcome of which may result in both positive and negative movements in the estimated savings requirement moving forward. It is however anticipated that over the coming months certainty in relation to a number of key issues will begin to emerge and crystallise, the most significant of these will remain both pay and grant.
- 3.2.7 In relation to pay, the budget strategy reflects the two year offer currently presented by the employers' side to trade unions for 2015-17. Positive progress has been achieved in the negotiations over recent weeks and it is expected that the balloting of trade union members for acceptance of the offer will commence imminently. Assuming agreement is subsequently reached over the coming weeks, this would leave only the 2017/18 pay position being uncertain. At this stage, there is no indication whether the Scottish Government will follow the lead of the UK Government by committing to a 1% per annum pay increase for the public sector over the medium term. Although local government in Scotland negotiates its own pay settlements with employee groups and is not bound by such national government commitments at either a UK nor Scottish level, they would nevertheless provide important context for future pay negotiations and would clearly be an influencing factor in the Scottish Government's considerations in their own budget setting and the level of resources directed to the local government portfolio.
- 3.2.8 In terms of government grant, the Budget Strategy has been framed on an assumption that over the period 2016-18, the Council is likely to suffer a grant reduction of between 3% - 6% with more recent indications being that this was more likely to be at the higher end of the forecast range. This forecast reflected the position presented in the UK Government budget announced in March 2015. By comparison, the July budget announcement by the new incoming UK Government presented a distinctly different medium term plan for UK public sector expenditure. There remains a planned reduction in UK public sector expenditure over the medium term, but in 2016/17 and 2017/18 this is much shallower and

it now extends into 2019/20 with expected growth not emerging until 2020/21.

3.2.9 Although this presents a different context to the Council's medium term financial outlook, it is important to recognise the detail released to date by the UK Government has been at an overall UK level. Importantly, the allocation of the announced £20bn of revenue savings by the UK Government across Whitehall departments has yet to be concluded. Where these savings fall in terms of devolved and non devolved budgets will have a significant influence on the Scottish Block provided by the UK Government to the Scottish Government through the workings of the Barnett formula. For example, early announcements by the UK government in terms of investing a further £8bn in Health spending will have a positive effect, but conversely the commitment to protect Defence and Overseas aid spending will have negative Barnett consequential effects on Scotland. The outcome of this process will have implications for the Scottish Government budget for 2016/17 and beyond, notwithstanding the political decisions the Scottish Government itself will take in relation to the setting of their budget. For example, whether the Scottish Government chose to continue to protect Health Budgets in real terms will have significant implications for the remainder of the public sector budget in Scotland, including local government.

3.2.10 At this stage therefore, it would be premature to assume any consequential positive impact on the Council's grant prospects following the July budget statement and confirmation of any such expectation, is unlikely to emerge until the Comprehensive Spending Review (CSR) announcement. The CSR is now not expected to be announced until November of this year, at which point the Scottish Block settlement for 2016/17 and planning figures for future years are expected to be confirmed. Given this anticipated timeline, there is the risk that the Council may not receive its confirmed grant settlement figures from the Scottish Government, which may be for 2016/17 only, until January 2016. Given the close proximity to the February budget setting period, there would be little time for the Council to respond to any unexpected negative outcomes emerging from a settlement announcement in January 2016. As a consequence and in the context of the medium term expectations that are outlined below, that the Council will be required to deliver ongoing savings beyond the 2017/18 period, it is important that the Council continues to adopt a strategic medium term approach to the delivery of its budget strategy and financial plans linked to the delivery of priorities agreed with partners in the Community Plan.

3.3 Financial Outlook beyond 2017/18

3.3.1 Looking to the medium term period beyond 2017/18, by its nature becomes more uncertain. Nevertheless, continuing to take a medium to longer term perspective of the Council's likely financial landscape is important for a number of reasons.

- Notwithstanding the uncertainty due to the time period involved, the anticipated overview of the Council's financial outlook over the medium term provides important context to help guide the Council to make informed and financially sustainable decisions when considering the shorter term budget strategy covering 2016-18.
- Appropriate recognition can be given to key changes that are likely to emerge in the medium term that provide important context and require due consideration in terms of shorter term decision making. For example, the Debt Smoothing Strategy and a range of other corporate financing savings have been a key element of the Council's financial planning arrangements over the period 2012 – 2018, providing in excess of £40 million of savings that have helped the Council to protect priority front line services from higher level of savings than otherwise would have been required. However, moving beyond 2017/18 the positive impact of debt smoothing savings are expected to come to an end and will therefore no longer be available to dampen the impact of future cost pressures on the Council over the medium term.
- Medium to longer term planning assists the Council to identify both long term influencing factors on cost growth and emerging risks on the horizon, providing the opportunity to put in place appropriate plans to manage the anticipated impact of those risks and develop appropriate mitigation plans.

3.3.2 Work remains ongoing to update the Council's detailed medium term financial plans, however it is recognised that over coming months a range of key milestone events are expected to emerge that will have a significant influence and which will assist in informing a more robust update, including:

- The outcome of the UK Government's CSR which as detailed earlier is expected to set out the UK public sector expenditure plans for up to the next 4 years, including the planned Scottish Block settlement over this period.
- The Scottish Government's budget announcement, recognising that although the UK Government CSR will provide up to 4 years of Scottish Block figures, the timescales of the announcement are such that the Scottish Government may restrict their budget considerations to 2016/17 only with limited indication given of plans for 2017/18 and beyond.
- Outcome of national pay negotiations and the influence this may have on the future potential pay growth.

- Progress achieved on the Strategic Waste project and the impact this is expected to have on the long term growth that has been experienced in the cost of managing waste.

3.3.3 In this context therefore it would be intended to provide a more substantial update of the medium term financial outlook to the December Council meeting. However, as a general update it is expected that over a five year medium term period from 2016/17 to 2020/21, the Council is likely to face a sustained requirement to deliver significant annual budget savings over the medium term, reflecting a range of factors including:

- The UK Government's July budget announcement, the consequence of which is an expectation of grant reductions continuing post 2017/18 and potentially until 2020 with uncertainty over how and to what extent any anticipated growth in public expenditure at a UK level may feed through to Scottish Local Government grant moving into 2020/21.
- Over the medium term, the Council will continue to face a range of significant ongoing cost pressures. In the period up to 2017/18, the Council has and continues to experience very significant cost pressures that have been the primary factor driving the need for savings over this period. In addition to long term recurring pressures such as demographics, inflationary pressures on key supplies and pay inflation, the Council has been required to manage the impact of a range of very specific cost increases. Some of these have been driven by a range of national policy changes, most significantly around pension reform and welfare reform measures. It is anticipated that moving into the medium term the level of cost pressures faced by the Council is likely drop to a less significant level than that being experienced in 2016 – 2018. Nevertheless, it is expected that this could still be in excess of £10 million per annum over the medium term.
- The Council has set out a range of ambitions in key priority areas in respect to regeneration, including participation in the City Deal, City of Culture 2021 and the Heritage led regeneration of Paisley Town Centre. The financial impact of these in future years will require to be appropriately recognised and planned for in the context of actions taken in setting budgets for 2016 – 2018.

- As detailed earlier in the report, the annual benefit the Council's financial position has accrued from the debt smoothing strategy is unlikely to extend materially beyond 2017/18 and will therefore no longer be available to offset the impact of emerging cost pressures. In the absence of any material increase in grant levels emerging over the medium term period, addressing the likely budget pressures and ensuring the Council sustainably plans for funding key regeneration priorities will inevitably have to rely on the delivery of sustainable cost savings and the redirection of resources across services of less significant priority.

3.3.4 The Council's existing medium term financial strategy which covered the period up to 2017/18, established a range of key financial principles that were endorsed as part of the Council's financial strategy to support the delivery of a sustainable medium term financial plan. Notwithstanding the detailed update of the medium term financial plan being progressed by officers, in the context of the high level position outlined above, the relevance of the principles outlined below, remain equally valid to the Council's medium term outlook:

- (i) The Council has an ongoing commitment to efficiency and modernisation of service delivery.
- (ii) The Council strives to maximise income, grow its tax base and attract external funding.
- (iii) Capital investment is focused on Council priorities including service transformation and early intervention/ prevention, including lifecycle maintenance to protect existing asset condition.
- (iv) New borrowing commitments are capable of repayment on a sustainable basis and overall debt levels are contained within affordable parameters.
- (iv) The Council's core budget is not underwritten by the use of general reserves or speculative capital receipts.
- (v) Council reserves are maintained at a level which provides appropriate financial resilience and should be subject to ongoing annual review in the context of the risk profile faced by the Council.

3.3.5 It is clear that over the medium term the Council will continue to face significant financial challenges, that a focus on delivering savings through the Better Council Change Programme will continue to be a critical feature of the Council's budget strategy for the foreseeable future as will a need

to further prioritise spending to achieve those outcomes of greatest priority to the Council and its partners.

- 3.3.6 The Corporate Management Team continues to be available to work with political groups and elected members as required to develop budget proposals which best reflect political priorities and the delivery of key strategies identified in the Council Plan.
-

4. Financial Outlook - Non-Housing Capital Investment

- 4.1 Similar to the revenue budget, the Council has no visibility of capital grant levels beyond 2015/16 and this is unlikely to emerge until January as part of the Scottish Government budget announcement and the specific detail of the local government settlement. Similar to the revenue grant, this will be heavily influenced by the UK Government CSR announcement in November, as well as decisions the Scottish Government may take in relation to new borrowing powers now available to them.
- 4.2 In considering its strategy for investment, the Council has sought to ensure capital spending remains affordable, financially sustainable and deliverable within the resources that are available over the medium to longer term. In addition, as part of prudently managing its investment commitments, the Council has restricted making investment commitments supported by capital grant until firm figures are confirmed by the Scottish Government, and has sought to protect its existing asset base moving forward through planned and responsible maintenance programmes. In this context, the Council has previously agreed that the medium term investment strategy will progress on the basis of continuing to adopt the following financial planning principles:
- Any new capital borrowing undertaken by the Council will be underpinned by specific investment cases which are capable of delivering efficiencies to support the annual costs of the associated borrowing and or those costs being supported by savings delivered through the Council's wider budget planning process.
 - Future years capital grant funding will continue to be prioritised in the first instance to support ongoing lifecycle maintenance and renewal programmes across the Council's asset base to protect the assets the Council currently holds and its ability to deliver services to citizens.

- Investment commitments will only be taken forward on the basis of capital receipts that have been secured and received by the Council with no reliance being placed on the predicted future generation of receipts from planned disposal programmes.
- The Council will continue to actively pursue other sources of funding to maximise support for investment opportunities including external grant funding sources, partner contributions and where appropriate bid funds which may become available through the Scottish Government and other sources.

4.3 It is proposed that moving forward over the medium term the Council continues to commit to these financial planning principles and given at present there is no visibility of capital grant funding beyond 2015/16, it is proposed that the updating of the capital programme, focuses only on known and estimated resources that are expected to be confirmed in January. Officers will be available to work with political groups and elected members as required, to develop proposals for capital investment, in line with the financial planning principles agreed by Council.

Implications of this report

- 1 **Financial Implications** – The report details an estimated budget position over the period 2016-18, and highlights the likelihood of the need for further budget savings over the medium term period through to 2020/21. The forecast position through to 2017/18 is broadly consistent with that presented to members in previous years and since the original strategy position was framed in February 2014 and this report seeks members ongoing commitment to the set of financial planning principles as set out in the report.
- 2 **HR and Organisational Development Implications** – integration with the Council's workforce planning arrangements will continue to be a key measure required to help address the forecast medium term reduction in Council resources.
- 3 **Community Plan/Council Plan Implications** - The Council remains committed to Community Planning priorities and the priorities outlined within the Council Plan will be key to providing strategic context to support prioritising future budget decisions.
- 4 **Legal Implications** – N/A
- 5 **Property Implications** - N/A
- 6 **Information Technology Implications** - N/A

7. **Equal Opportunity Implications** – Equality Impact Assessment will continue to be a key consideration in the development budget proposals.
 8. **Health and Safety Implications** – N/A
 9. **Procurement Implications** – N/A
 10. **Risk Implications** - N/A
-

List of Background Papers

Author: Alan Russell – 0141 618 7364