

# Report

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| Report to:       | <b>Executive Committee</b>                                  |
| Date of Meeting: | <b>4 December 2019</b>                                      |
| Report by:       | <b>Executive Director (Finance and Corporate Resources)</b> |

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| Subject: | <b>Revenue Budget Strategy 2020/20201 and Savings Proposals</b> |
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Provide an update on the 2020/2021 Revenue Budget Strategy and present proposals for meeting the savings requirement in preparation of the 2020/2021 budget.

## 2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the revised Revenue Budget Strategy for 2020/2021, including the proposed additional Corporate Solutions of £1.300 million (sections 5.3 and 5.5), be approved;
- (2) that the budget gap of £13.651 million, after Corporate Solutions, including a 3% increase in Council Tax (section 5.7), be noted;
- (3) that £0.478 million of these savings proposals result from decisions already approved, be noted;
- (4) that approval will be sought from the Integrated Joint Board for £1.100 million of these savings proposals (section 6.15), be noted; and
- (5) that the remaining savings proposals totalling £8.428 million (section 6.5), be approved;
- (6) that the remaining budget gap after savings of £3.645 million, and the proposal to fund it from Reserves (section 6.7), be approved; and
- (7) that the intention to submit a paper to this Committee confirming actual Government Grant when the Council is notified of it settlement (section 9.1), be noted.

## 3. Background

- 3.1. At its meeting on 26 June 2019, the Council's Executive Committee approved the Revenue Budget Strategy for 2020/2021. The Strategy took account of a number of assumptions including Grant Reductions, Pay and Pension Increases, Price Increases, Funding for Priorities and Revenue Consequences of Capital. This resulted in an initial budget gap of £41.551 million.
- 3.2. Corporate funding solutions of £26.000 million were identified which reduced the budget gap to £15.551 million.

- 3.3. The report noted that the Strategy did not include any increase in Council Tax but that a 3% increase could generate £3.900 million. It was proposed that following receipt of the Government Grant settlement for 2020/2021, expected in December 2019, a decision on Council Tax can be taken.
- 3.4. As a result, officers were given approval to identify efficiency savings of £11.651 million (The budget gap of £15.551 million less Council Tax of £3.900 million).
- 3.5. Since the 2020/2021 Revenue Budget Strategy was approved in June 2019, an exercise has been undertaken to update the Strategy assumptions and to identify any further corporate funding solutions that could be taken into account.
- 3.6. Section 4 below provides an update on the Strategy Assumptions. Section 5 details further corporate funding solutions for consideration while section 6 provides details on how the savings requirement can be achieved through the presentation of a package of savings for Members.

#### **4. Update on Strategy Assumptions**

- 4.1. The Council's Revenue Budget Strategy was presented to members in June 2019. Since then, while there have been announcements from the UK Government on its budget assumptions, the Scottish Government has stated that "without the tax announcements and economic forecasts of a full UK Budget the Scottish Government will not have clarity on funding for 2020-21." There is therefore no further detail on the Local Government Grant Settlement and as such, there has been no change to the Council's Grant assumptions.
- 4.2. With regard to expenditure, there are some Revenue Budget Strategy assumptions that do need to be revisited. One of these areas is the impact of auto enrolment which took place earlier this year for the Council, and also the impact of the demand for Children and Families Services, that is apparent in the Social Work Resources' Revenue Monitoring. These are taken in turn below.
- 4.3. **Auto Enrolment:** Every 3 years, the Council is legally obliged to automatically enrol all eligible employees who are not currently in the pension scheme, into the pension scheme. The onus is then on employees to opt out if they wish to do so. The Council's pension auto enrolment exercise took place in April 2019. The budget for the current year includes £1.500 million to pay for the potential additional costs of auto enrolment for both the Council and South Lanarkshire Leisure and Culture Trust (SLLCT). The cost of auto enrolment was based on an estimated additional cost of the pension scheme (circa £3.800 million before pay award) and an estimated opt out rate of 60%.
- 4.4. The actual financial impact of auto enrolment is dependent on the number of employees who choose to opt out. This has been closely monitored and for the Council, more employees have remained in the pension scheme than anticipated – an opt out rate of only 40%. Currently, the costs of a full year are £1.300 million higher than the original estimate. This assumes an estimate for SLLCT which cannot be confirmed until later in the year when they complete their auto enrolment exercise.

**Increase in Savings Requirement: £1.300 million**

- 4.5. **Children and Families' Service:** During 2019/2020 to date, the Revenue Budget Monitoring has shown that the Children and Families' Service is experiencing pressures due to increasing demand. The position continues to be closely monitored

during the current year, but current information suggests an in-year pressure of £2.000 million, taking into account management action within the Resource.

**Increase in Savings Requirement: £2.000 million**

- 4.6. The increased costs in sections 4.4 and 4.5 would result in a revised savings requirement of £14.951 million (being the original £11.651 million noted in section 3.4 plus the additional cost of auto enrolment and the Children and Families' pressures, £3.300 million).

**5. Corporate Funding Solutions**

- 5.1. An exercise has been carried out to identify corporate funding solutions to assist in managing the 2020/2021 Revenue Budget Strategy. Two areas have been identified since the June 2019 report to members:

- Council Tax Property Numbers and
- Teachers' Pay.

- 5.2. **Council Tax Collected from New Properties:** The 2020/2021 Budget includes an increase of £1.300 million reflecting approximately 1,100 anticipated new Band D equivalent properties into 2020/2021. This estimate was based on a prudent estimate of new build houses based on the effective land supply as detailed in the South Lanarkshire Housing Land Audit from 2017, and covering years 2019/2020 to 2021/2022. After making an assumption regarding the Council Tax Reduction Scheme, the net increase currently included in the Budget is £1.130 million.

- 5.3. The Scottish Government require the Council to submit a return each September showing information on the number of properties across all council tax bands. Following the recent completion of the 2019 return, approximately 1,000 additional properties were identified over and above those already included in the 2020/2021 Budget. This increase reflects greater than anticipated numbers of new build housing completed in recent years. Based on these 1,000 additional Band D equivalent properties, a further £1.000 million of net additional Council Tax income can be assumed within the Budget (this is net of an assumption re Council Tax Reduction Scheme).

**Reduction in Savings Requirement: (£1.000 million)**

- 5.4. It should be noted that the Council Tax income from additional properties does not give a permanent benefit to the Budget as there will be an impact on grant levels in future years. This is estimated at 80% grant reduction – for every additional £1 of Council Tax, there is an 80p reduction in grant. This will form part of grant assumptions for 2022/2023.
- 5.5. **Teachers' Pay:** As part of the changes to the Teachers' Pay across recent years, an estimate of the additional budget required for 2020/2021 was made. This was included as part of the £15.702 million of Pay Items included in the approved Revenue Budget Strategy (Executive Committee, June 2019). Now that clarity has been received regarding the element funded by the Scottish Government, an amount of £0.300 million can be redirected to fund auto enrolment.

**Reduction in Savings Requirement: (£0.300 million)**

- 5.6. Taking into account the information above (sections 4.1 to 5.5) allows a revision to the Budget position for 2020/2021. This movement is summarised in Table 1.

**Table 1: Revised Efficiency Savings Requirement for 2020/2021**

|   | <b>2020/2021<br/>£m</b> |
|---|-------------------------|
| <b>Efficiency Savings Requirement</b> incl. 3% increase in Council Tax<br>(26 June 2019, Executive Committee) | <b>11.651</b>           |
| Auto Enrolment<br>(section 4.4)   | 1.300                   |
| Children and Families' Pressures<br>(section 4.5)   | 2.000                   |
| Council Tax Income: Additional Property Numbers<br>(September 2019 Base Return) (section 5.3)                 | (1.000)                 |
| Teachers' Pay<br>(section 5.5)  | (0.300)                 |
| <b>Revised Efficiency Savings Requirement</b>   | <b>13.651</b>           |

5.7. Table 1 shows a revised efficiency savings requirement of £13.651 million.

5.8. It is noted in section 4.1 that the Revenue Budget Strategy assumption in relation to Government Grant levels has remained the same. The Council was previously advised that it would receive its grant settlement in mid-December 2019, however, given the announcement of a UK Parliamentary Election on 12 December, this date now needs to be confirmed. The overall position for the budget will be updated following the receipt of the Grant Settlement.

5.9. Savings proposals to meet this are presented for consideration in Section 6.

## **6. Savings Proposals 2020/2021**

6.1. As detailed in Section 5.7 above, the total level of savings required to balance the budget for 2020/2021 is £13.651 million. In order to meet this level of savings, officers have identified proposals for members' consideration.

6.2. A package of savings proposals totalling £10.006 million is attached at Appendix 1 to this report.

6.3. The savings proposals have been categorised to provide Members with more information on how each saving will impact on the Council and its services. The categories are shown below.

**Approved:** These savings proposals result from activity which has already been approved through Committees including previous savings exercises.

**Efficiency and Outturn:** These savings result from more efficient practices. Some of these areas reflect an underspend on budgets in the last financial year and, therefore, the saving is already being delivered.

**Charging:** These savings proposals relate to increases to charges or where new charges are being introduced.

**Service Impact:** These savings have an impact on how services are delivered.

**Service Impact for Integrated Joint Board Approval:** These savings have an impact on how services are delivered, and are for information only. They will be approved by the Integration Joint Board (see section 6.14 and 6.15).

- 6.4. Table 2 shows the split of savings across the categories:

**Table 2: Efficiency Savings Across Categories**

|   | FTE          | £m            |
|---|--------------|---------------|
| Approved  | (1.0)        | 0.478         |
| Efficiency and Outturn                            | 100.8        | 6.597         |
| Charging  | 0.0          | 0.578         |
| Service Impact                                    | 30.5         | 1.253         |
| Service Impact – Integration Joint Board Approval | 5.0          | 1.100         |
| <b>TOTAL Proposed Savings</b>                     | <b>135.3</b> | <b>10.006</b> |

- 6.5. The overall package includes £0.478 million of savings resulting from decisions which have already been approved and £1.100 million of savings to be approved by the Integration Joint Board (see section 6.15). Of the remaining £8.428 million, there are Efficiency and Outturn savings of £6.597 million. In the remaining categories, Service Impact and Charging savings total £1.831 million.
- 6.6. As detailed in Table 3 below, if approved, the savings detailed in Appendix 1 would leave a shortfall in the 2020/2021 Budget of £3.645 million.

**Table 3: Budget Shortfall / Gap**

|   | 2020/2021<br>£m |
|---|-----------------|
| Revised Savings Requirement (section 5.6) | 13.651          |
| Savings Package (section 6.4)             | (10.006)        |
| <b>Budget Shortfall / Gap</b>             | <b>3.645</b>    |

- 6.7. In order to manage the gap, it is proposed that the shortfall of £3.645 million is funded on a one-off basis from the Council's Reserves.
- 6.8. **Treasury Management Strategy:** In June 2019, the Council approved a change to its Treasury Management Strategy, to reflect the new method of debt repayment to be applied. This means that by re-profiling debt, the Council can make repayments over a longer period of time.
- 6.9. In adjusting the timing of debt repayments, there is no change to the level of principal repaid across the full term of the loan. The re-profiling means that the principal will be paid over a longer time period. There is no change to the length of time the asset will be operational.
- 6.10. Members were previously advised that a report showing the potential impact of the debt re-profiling for the Council will be developed and reported to a future meeting of the Executive Committee. Officers are currently working with the Council's Treasury Advisers in looking at principal payments already made, and the impact of extending these for longer. Any benefit realised will be identified to members, with a proposal to use this to assist in supporting future budget strategies.
- 6.11. **Social Work Resources' Savings:** It is noted that the savings proposed in relation to Day Care and Care and Support (SWR01 and SWR02 respectively) were the subject of reports presented to the Social Work Resources Committee in October. The reports detailed the proposed review of services and the intention to identify efficiencies. It is expected that the outcome of these reviews, including the level of efficiencies generated, will be reported to both the Integrated Joint Board and the Council's Social Work Committee in February and March 2020, respectively.

- 6.12. If the value of the savings identified in the reviews is lower than those currently included in the savings proposals (Appendix 1), then any shortfall will require to be managed from the use of reserves or from any other funding identified in the Budget Strategy, once the Government Grant has been confirmed.
- 6.13. These proposed savings in relation to the Council's Adult and Older People Service (Social Work Resources) are included as part of the Council's overall savings package for information only, as these will be approved separately by the Integrated Joint Board (see sections 6.14 and 6.15).
- 6.14. **Integration Joint Board:** The Social Work Resources' savings proposals relate to services delegated to the Integration Joint Board.
- 6.15. The Council delegated the funding to the Integration Joint Board on 1 April 2016. As part of the ongoing partnership working arrangements to manage pay, inflationary and demographic cost pressures and to meet agreed Social Work service priorities, a financial plan comprising of additional funding and proposed savings is agreed annually with the Integration Joint Board. The Integration Joint Board will be presented with the proposed Adult and Older People savings for approval, at its meeting on 3 December 2019. As noted above (6.11), these savings (SWR01 and SWR02) relate to ongoing reviews. The Board's approval of these savings will be subject to the outcome of the reviews.
- 7. Position Beyond 2020/2021**
- 7.1. This paper and the attached savings proposals focus on financial year 2020/2021, and are in line with the Revenue Budget Strategy approved by the Executive Committee on 26 June 2019, updated for the new expenditure and additional corporate solutions in sections 4 and 5 above.
- 7.2. For future years, the estimated savings requirements continue to pose a considerable challenge, and this will require further consideration of areas of service delivery.
- 7.3. **Temporary Solutions:** A number of the Corporate Solutions are one-off benefits. These one-off solutions have to be added to the savings requirement in the following years. In addition, an adjustment is also required for any savings or previous budget solutions that are not permanent.
- 7.4. Details of these temporary solutions across years are shown in Table 4.

**Table 4: Temporary Solutions**

|   | <b>Year of Adjustment</b> |                  |
|---|---------------------------|------------------|
|   | <b>2021/2022</b>          | <b>2022/2023</b> |
|   | <b>£m</b>                 | <b>£m</b>        |
| <b>2019/2020 Savings which were temporary</b>   |                           |                  |
| Early Years Realignment of Early Learning and Childcare Income (EDR04)  | 0.045                     | -                |
|   |                           |                  |
| <b>2020/2021 Proposed Savings which are temporary</b>   |                           |                  |
| Residual Waste (CER17 )   | 0.488                     | -                |
|   |                           |                  |
| <b>Temporary Budget Solutions from Previous Year Budgets</b>  |                           |                  |
| Use of Reserves (£6.1m 2018/2019 to 2020/2021)  | 6.100                     | -                |
| Additional Council Tax from extra properties in 2019/2020 and also additional properties in 2020/2021 (section 5.3) – expected future reduction in Government Grant | 1.382                     | 0.920            |
| Use of 2018/2019 Underspend (Used £2m in 2019/2020 and 2020/2021)   | 2.000                     | -                |
|   |                           |                  |
| <b>2020/2021 Corporate Solutions</b>  |                           |                  |
| 2018/2019 Underspends   | 0.620                     |                  |
| 2019/2020 Underspends   | 0.540                     |                  |
| Loan Charges (use of underspends)   | 12.300                    |                  |
| Capital Receipts (use in 2020/2021 and 2021/2022)   | -                         | 5.000            |
| Use of Reserves (one-off use in 2020/2021 – agreed Executive Committee, June 2019)  | 5.000                     | -                |
| Use of Reserves (one-off use in 2020/2021 – proposed in section 6.7)  | 3.645                     |                  |
| <b>Total Temporary Solutions</b>  | <b>32.120</b>             | <b>5.920</b>     |

- 7.5. The medium term financial strategy estimated that the level of savings required for 2021/2022 was in excess of £20 million. This will be increased by the temporary solutions detailed in Table 4 (£32.120 million), taking the total savings required for 2021/2022 to over £50 million. For 2022/2023, the savings are estimated at a level of around £30 million with the years beyond estimated at £25 million.
- 7.6. Should the Government Grant Settlement for 2020/2021 be more favourable, then the level of temporary solutions employed in that year, including the use of Reserves, should be reduced in order to minimise the resultant savings required in 2021/2022. This would also leave the one-off funding (Reserves) available for use in future budget strategies.
- 8. Housing Revenue Account Budget**
- 8.1. In addition to the Council's Budget, a budget is also prepared in relation to the Housing Revenue Account. Tenants are consulted on financial matters and the budget and savings will be presented to tenants as part of the annual rent setting consultation process. Any savings proposed will be considered and approved by members, as part of the approval of the Housing Revenue Account Budget.

## **9. Next Steps**

- 9.1. As discussed at section 5.8, following the recent announcement of the UK Parliamentary Election on 12 December 2019, the Council awaits confirmation of the date of the Local Government grant settlement. However, it is likely to be beyond the original mid-December date. As the Council has to set a balanced budget early in 2020/2021, the Government Grant Settlement assumptions made in the approved 2020/2021 Revenue Budget Strategy (Executive Committee, June 2019), will continue to be used until this confirmation is received. An updated position will be provided to this Committee following confirmation of the grant figures from the Scottish Government.

## **10. Employee Implications**

- 10.1. Each saving proposed in the Appendices shows the number of full time equivalent posts that will be affected. The savings options in Appendix 1 would require a net reduction of 135.3 FTE posts in 2020/2021. The number of employees affected is 201.
- 10.2. Of the 135.3 FTE posts, 63.7 FTE are currently vacant or have been filled on a temporary basis. The balance of 71.6 FTE posts can be managed through a combination of anticipated turnover and redeployment through SWITCH 2.

## **11. Financial Implications**

- 11.1. As detailed within this report.

## **12. Other Implications (Including Environmental and Risk Issues)**

- 12.1. The assumptions on which the savings target is based are defined within the Financial Strategy for the Council as approved by the Executive Committee on 26 June 2019, and updated for new costs identified and additional corporate solutions (sections 4, 5 and 6.7). The Financial Strategy is a way of managing a number of key risks which directly impact on the funding available to deliver the Council's Objectives.
- 12.2. In relation to individual savings, work has been carried out within Resources to ensure their deliverability. Through this exercise, any risks which may impact on service delivery have been considered.
- 12.3. **Requirement to Set a Budget:** Under statute and internal governance rules, Council Members have duties around setting budgets. Failure to set a balanced budget would have serious implications, not just for the Council but also potentially for individual members who could incur personal responsibility for failure to comply with their statutory duty.
- 12.4. Any failure to set a balanced budget would almost certainly provoke intervention by Scottish Ministers and the Accounts Commission who have legislative powers to carry out investigations and make recommendations which could result in Scottish Ministers issuing binding directions to the Council. Under the Local Government (Scotland) Act 1973, special reporting processes exist (Section 102) which, if the Controller of Audit is not satisfied with the Council's steps to remedy such an issue then he/she can make special report to the Accounts Commission on the matter.
- 12.5. The Commission can then recommend that Scottish Ministers direct the Council to rectify the issue. Individual members who unreasonably contribute to the failure or delay in setting a budget could be ultimately censured, suspended or disqualified from standing for election for a prescribed period of time by the Standards Commission.



- 12.6. If a new budget is not set, then the Council could not enter into any new unfunded commitments including contracts, and spend would be restricted to meeting existing liabilities. As the Council's current position is that there is a budget shortfall that requires to be met through savings, without Council agreement on a 2020/2021 budget, a gap in our budget would remain.

### **13. Equality Impact Assessment and Consultation Arrangements**

- 13.1. Equality Impact Assessments have been undertaken for all relevant savings proposals and have been provided to Members. For details of work undertaken, please contact the Employee Development and Diversity Manager, Finance and Corporate Resources.
- 13.2. The Fairer Scotland Duty (part 1 of Equality Act 2010) places a legal responsibility on the Council to actively consider how it can reduce inequalities of outcome caused by socioeconomic disadvantage when making strategic decisions. It does not override other considerations such as equality or best value.
- 13.3. The Duty is set at a strategic level and is applicable to the key, high-level decisions that the public sector takes. Preparation of the annual budget is considered to be relevant for a Fairer Scotland Duty Impact Assessment. An assessment in line with the requirements of the Fairer Scotland Duty has been provided to Members.
- 13.4. Each of the savings proposals has also been assessed with regard to any potential negative impact on the environment.
- 13.5. In terms of consultation, the Trade Unions will be consulted. With regard to consultation with the public, all members of the public will be invited to comment on budget proposals through a dedicated e-mail address and an online survey. This will be advertised through the use of Social Media (Twitter and Facebook) from the corporate Council account, as well as school social media streams.
- 13.6. In addition, as in previous years, targeted Public Consultation on the budget will be carried out. This will look to undertake face to face community engagement, and online consultation with a wide range of participants, including members of the Citizens' Panel, the Council's Employee Network, South Lanarkshire Youth Council, Seniors Together, Disability Groups and Lanarkshire Ethnic Minority Action Group, Secondary Schools and other community groups. The consultation process will commence following this Executive Committee meeting, and will run until mid-January.
- 13.7. The outcome of the Public Consultation events will be advised to all Elected Members in a separately issued briefing paper later in the budget setting process.
- 13.8. Where savings proposals have identified potential negative impact on service users, appropriate consultation and engagement will take place with those who may be affected, as detailed in the individual EqlAs and the Fairer Scotland duty.

### **14. Environmental Impact**

- 14.1. An exercise has been undertaken to consider the environmental impact of all of the savings proposed for approval. The majority of savings are assessed as having a neutral impact on climate change. The remainder are expected to have some impact, both positive and negative, but on the whole, the package of savings is not

expected to have a material impact on the Council's approach to tackling climate change. Details of this exercise are available on request.

**Paul Manning**  
**Executive Director (Finance and Corporate Resources)**

15 November 2019

**Link(s) to Council Values/Ambitions/Objectives**

- ◆ Accountable, Effective, Efficient and Transparent

**Previous References**

- ◆ Executive Committee, 26 June 2019

**List of Background Papers**

- ◆ None

**Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:-

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