

North Lanarkshire Council

Report

Policy & Strategy Committee

approval noting

Ref EK/ KS

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Revenue Resources Budget Strategy

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Executive Summary

This report sets out the rationale for the development of a revised approach to budgeting and the identification of future savings and examines the approach taken in recent years, highlighting some strengths and weaknesses of these previous approaches.

In order to improve upon the current budget setting process, some guiding principles for a revised Revenue Resources Budget Strategy have been identified.

Next steps to further develop this Strategy are highlighted.

Recommendations

It is recommended that the Policy and Strategy Committee:

- 1) Approve the key principles of the Revenue Resources Budget Strategy outlined in Section 3.3.1.
- 2) Note the Revenue Resources Budget Strategy will be developed over the coming months with the aim of producing a three year Revenue Budget for the period 2020/21 to 2022/23.
- 3) Note the next steps as outlined in Section 3.5.

Supporting Documents

The plan for North Lanarkshire Improve North Lanarkshire's resource base.

1. Introduction

1.1. All Local Authorities in Scotland face a highly challenging financial environment. However, North Lanarkshire Council is in a good position relative to other local authorities thanks to prudent control over our finances to date. Future plans will develop and build on these previous successes.

1.2. In response to reducing government funding for core services and rising cost pressures the Council has been required to reduce spending and generate increased or additional income over the last few years by making changes to service delivery models, implementing efficiency measures, reducing levels of service provision in some areas and introducing or increasing fees and charges for others.

- 1.3. This has inevitably involved making hard choices. North Lanarkshire Council has delivered savings of almost £215m since 2011/12 and with further grant reductions anticipated over the short to medium term, further hard choices will be required.
- 1.4. This report establishes a set of principles and an outline framework which will enable the Council to develop a Revenue Resources Budget Strategy to facilitate a more strategic approach to establishing future budgets and associated savings options. The Strategy will be developed alongside the Plan for North Lanarkshire to ensure integration of strategic plans and ambitions with financial plans.
- 1.5. A number of the key drivers of the budget strategy, for example, detailed service plans to deliver the Plan for North Lanarkshire, are currently under development and will be fully reported to Committee over the coming months. Therefore, the detailed approach and methodologies to support the Revenue Resources Budget Strategy will evolve over the summer months to support the development of a 3 year budget for 2020/21 to 2022/23.

2. Background

- 2.1. The continued challenging financial climate means the Council constantly faces competing demands for the limited resources available. Scottish Government's priorities and new burdens which develop as a result have to be managed alongside increasing demand for Council services.
- 2.2. In the context of further anticipated year on year funding reductions, a more structured, longer term approach needs to be developed.
- 2.3. It is recognised that setting a one year budget based around short term savings options is becoming increasingly difficult. Single year financial settlements from Scottish Government and resulting one year budgets have limited the Council's ability to plan ahead and have resulted in an approach to developing options which are focussed on the savings required annually to close the budget gap. Preparation of a budget covering a longer term will facilitate effective future planning but will require a radically different approach to the current revenue budget process.
- 2.4. Therefore, the Council needs to develop a more strategic approach to budgeting to ensure resources are appropriately allocated across the competing priorities. Robust decision making relies on good financial planning and establishing a more strategic approach to budget setting will ensure elected members have information which will assist them in making robust and financially sustainable decisions in setting a budget which supports the delivery of the Plan for North Lanarkshire.

3. Report

3.1. Recent Approaches to Revenue Budget Setting

- 3.1.1. The Council has a well-established and recognised financial planning framework, which includes a five year medium term financial plan that sets out the anticipated budget gap likely to be faced by the Council over a five year period, based on a number of planning assumptions. The medium term plan represents the baseline of the budget process and is regularly reviewed in light of the changing political and economic environment. Financial Outlook reports update these planning assumptions for the period ahead. These are updated until budget setting day in light of emerging information such as the Local Government Settlement and other announcements. These reports ultimately culminate in the annual revenue budget each February.

- 3.1.2. The Council has historically taken an incremental approach to budgeting, recognising known cost pressures and incremental movements in funding allocations, in order to determine an estimated budgeted surplus or deficit. For a number of years now the Council has faced material funding gaps. Services have historically been allocated targets to determine a level of savings or efficiencies required to close the gap to enable the Council to approve a balanced revenue budget.
- 3.1.3. In June 2016, Policy and Resources Committee approved the Development of a Strategic Approach to Budgeting, facilitating an integrated approach to planning, budgeting, and resource management, and focusing on linking budget decisions to the Council's priorities. A key aspect of the revised approach included assessing services delivered by the Council and their contribution to corporate priorities, in order to identify and rank priority services. This approach aimed to ensure that the budget methodology was clearly focused on ensuring that available budget is directed towards priority services.
- 3.1.4. To ensure appropriate governance and to support the principle that the budget process should be member led, a Sounding Board was established, made up of elected members, selected from cross party representation with support from senior Council officers. The role of the Sounding Board was to develop and implement the service prioritisation process and to consider options for producing a balanced budget which was in line with these priorities.
- 3.1.5. In setting the current budget for 2019/20, all services were allocated a "target" based on the anticipated budget gap and came forward with a number of savings options which were then presented to political groups for consideration.
- 3.1.6. Recent approaches to budget setting have been successful in that they have resulted in robust budgets and savings plans which have been delivered by the Council and have been commented on favourably by Audit Scotland. In addition, improvements to the process in recent years have resulted in elected member involvement at an earlier stage and closer working between political groups and Council officers.
- 3.1.7. However, current arrangements need further refinement to ensure that future budgets are developed using a more strategic approach to allocating available resources and better integration with the Plan for North Lanarkshire and the associated programme of work.
- 3.1.8. It is clear that the current approach to budget setting is driven by the need to find in year savings to close the projected budget gap. This approach to budgeting in recent years has been predominantly driven by annual funding settlements from Scottish Government. However, it is recognised that there are a number of inherent weaknesses in the current approach which include the following;
- an inability to plan over the longer term inevitably leads to shorter term decisions
 - limited ability to take a corporate and more holistic approach to decision making
 - risk that inefficiencies or non-value added activities remain
 - savings are not necessarily aligned to Council priorities or giving due consideration to service levels required under statute
 - identification of savings is planned to coincide with the budget timetable
 - limited integration with budget setting processes in partner organisations e.g. IJB

3.2. Development of a New Approach to Budgeting

3.2.1. The scale and pace of change within the Council provides an ideal opportunity to develop more strategic, longer term approach to revenue budgeting whilst giving assurances over deliverability of the Plan for North Lanarkshire.

3.2.2. In December 2018, the Scottish Government committed to providing three year local government funding settlements from 2020/21. This will assist the Council to develop plans over an extended period with more confidence over future funding levels.

3.2.3. Audit Scotland has commented positively on financial planning and management arrangements already in place within North Lanarkshire Council. The Revenue Resources Budget Strategy will strengthen these existing arrangements and will build upon achievements of previous budget processes.

3.3. Key Principles

3.3.1. In order to improve upon the current budget setting process, some guiding principles for a revised Revenue Resources Budget Strategy have been identified and are outlined below:

- i. Future budgets will be developed to cover a rolling three year period. The Revenue Resources Budget for 2020/21 to 2022/23 will take account of all opportunities flowing from the Plan for North Lanarkshire and the associated Programme of Work, ensuring full integration of the Plan and the budget. A longer term approach to the budget process will provide for longer term planning and delivery of more complex projects, linked to the Plan to deliver efficiencies and savings over an extended period.
- ii. Budgets will be clearly linked to the achievement of Council priorities.
- iii. The identification of savings opportunities will remain under continuous consideration rather than being restricted to deliberation as part of the annual budget setting exercise. Approval from appropriate Committees will be sought as savings are identified, allowing consideration by elected members well in advance of the annual budget setting meeting. The identification and approval of savings will become an integral part of normal Committee activity.
- iv. Opportunities for service redesign which will inevitably flow from the Plan for North Lanarkshire and the associated Programme of Work will become the new drivers of future years' savings.
- v. Services must ensure full understanding and recognition of the revenue consequences of future capital investment decisions to enable capital and revenue budget plans which are fully integrated. This will facilitate the development of an approach to growth which meets the objectives of the Community Investment fund by ring fencing elements future of Council Tax increases.
- vi. Future charging models for services provided will be informed by benchmarking and the principles of full cost recovery. Once costs are established on this basis, future increases will be index-linked. Additionally, consideration will be given to appropriate revenue generating opportunities.
- vii. Consideration will continue to be given to the planned, sustainable use of available balances.
- viii. Consideration will be given to proposals to fully implement the use of participatory budgeting

- ix. Active member involvement is essential. In its recently published 2017/18 Financial Overview report, the Accounts Commission recognises that “with the financial pressures, Councillors need to make difficult decisions. This requires effective political leadership and communications. It is essential that all Councillors, not just the administration, work effectively with officers and other stakeholders to identify and deliver necessary savings.”

3.3.2. Whilst the identification of longer term savings will be driven by the future Budget Strategy, the development of this longer term approach needs to be considered alongside a revised shorter term methodology which will be priority based and will build on the work done by previous Sounding Boards. This will be required to meet immediate savings requirements and to bridge the gap to allow for a longer term approach to be fully embedded. As a result, a hybrid approach likely to be required for the early years.

3.3.3. The service prioritisation exercise carried out in 2016 will be revisited to ensure limited resources are directed to priority services. More robust scrutiny or challenging of current service provision will be required. This will involve considering options to reduce spend on discretionary or lower priority services or a focus on stripping back service provision to statutory levels where appropriate.

3.4. Planned Use of Balances

3.4.1. Over recent years the Council has used one-off resources to smooth out the vagaries of multi-year savings proposals. In addition, one-off resources have been committed to allow time to develop transformational reform or to support longer term transformation initiatives, such as Digital NL, which will deliver savings over time. Due to the increasing commitment on unallocated reserves it is appropriate that consideration is given to a Use of Reserves policy which will ensure robust process in allocating resources demonstrating affordability and sustainability.

3.5. Next Steps

3.5.1. Given that it is highly likely that further significant savings will require to be delivered across the next few years, it is recommended that work commences now to develop the principles outlined in this report and to provide for advance work on budget proposals for the three years 2020/21 to 2022/23.

3.5.2. To deliver the objectives outlined in this report, robust methodologies, including governance arrangements, will be developed over the summer months through development sessions with key stakeholders.

3.5.3. The following arrangements and timeframes will apply:

- Medium term financial planning will continue to inform the anticipated level of savings required. Hence, the current Medium Term Financial Plan 2019/20 to 2023/24 will be updated and reported to Committee September 2019
- Updates on the development of the Revenue Resources Budget Strategy will be reported to Committee in September and December
- A draft budget will be developed by officers and issued to all political groups in the autumn to allow earlier consideration of options by all political parties
- This will be updated following the receipt of detailed funding allocations expected from Scottish Government as part of the Local Government Finance Settlement expected mid December 2019
- A Revenue Resources Budget will be prepared covering the three year period from 2020/21 to 2022/23.

4. Equality and Diversity

4.1. Fairer Scotland

Specific equality impact assessments will be undertaken by services when developing savings options. This will be carried out in line with Council policy and The Fairer Scotland Duty assessment process.

5. Implications

5.1. Financial Impact

Financial impacts will remain under continuous review as the development of the budget process and identification of savings progress.

5.2. HR/Policy/Legislative Impact

HR / policy / legislative impacts will be identified in subsequent reports to Committee that will outline details of the Budget Strategy and associated savings options.

5.3. Environmental Impact

Environmental impacts will be identified in subsequent reports to Committee that will outline details of the Budget Strategy and associated savings options.

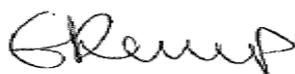
5.4. Risk Impact

It is recognised that the Strategy needs to enable the Council to adapt to changing circumstances, for example changes to future funding levels or changes in priorities, therefore flexibility in the planning process will be required.

6. Measures of success

Measures of success will include:

- Delivery of a robust, sustainable and balanced budget for the period 2020/21 to 2022/23.
- Better alignment of resources and more holistic approach to achieving corporate priorities to deliver the planned outcome of We Aspire - A shared ambition for inclusive growth and prosperity for the people and communities of North Lanarkshire.



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