

North Lanarkshire Council

Report

Policy & Strategy Committee

approval noting

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Revenue Resources Budget Strategy Update

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Executive Summary

This report provides an update on the Revenue Resources Budget Strategy presented to Policy and Strategy in June 2019, highlighting both progress to date and future developments.

In addition, given the significantly increased financial risks the Council faces in both responding to and recovering from COVID-19, the report also sets out some of the high level challenges faced by the Council and how these will need to be addressed in line with the Revenue Resources Budget Strategy.

Recommendations

It is recommended that the Policy and Strategy Committee:

- 1) Notes the progress made in developing the key principles of the Revenue Resources Budget Strategy and the further actions to be taken in 2020/21 to further embed these principles.
- 2) Notes the financial challenges presented by COVID-19 response and recovery.

Supporting Documents

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

1. Background

1.1. As a result of the highly challenging financial environment facing Local Authorities arising from reducing funding for core services and increasing cost pressures, the Council has been required to reduce spending and generate additional income over a number of years. This has been achieved through various means, including revising service delivery models, implementing efficiency measures, reducing levels of service provision in some areas and introducing or increasing fees and charges for others. This has inevitably involved making hard choices with savings of around £270m approved since 2011/12.

1.2. To facilitate a more strategic approach to establishing budgets and associated savings options, a Revenue Resources Budget Strategy was approved by this Committee in

June 2019. This laid out a set of principles and an outline framework to develop the Strategy to ensure alignment with the Plan for North Lanarkshire.

- 1.3. This report provides an update on the implementation of the approved Strategy and outlines areas which continue to be developed to ensure these principles are further embedded.
- 1.4. However, it is important to recognise that COVID-19 presents additional financial challenges for Local Government, some of which are largely unknown at the current time. The report also outlines the potential impact of the pandemic on the Strategy.

2. Report

Revenue Resources Budget Strategy Principles

- 2.1. In order to improve upon previous budget setting processes, the Revenue Resources Budget Strategy outlined nine guiding principles. Appendix 1 outlines those nine principles and provides an update on progress to date and future developments against each principle. Highlights of progress to date include:
 - i. The development of a Medium Term Financial Plan (MTFP) providing for a number of potential scenarios for the Council's financial outlook.
 - ii. The MTFP allowed for the development of budget savings across three financial years approved at Council in February 2020. This provides the Council the ability to plan for savings delivery over the longer term rather than continued focus on annual budgets.
 - iii. The Council set a balanced budget for 2020/21 at its meeting on February 2020.
 - iv. Service redesign and savings proposals were considered by various committees throughout 2019/20 in accordance with one of the key principles that service redesign and efficiency should be an ongoing consideration throughout the financial year. This includes service delivery changes agreed on office accommodation, depot rationalisation and home support service and the introduction of charges for areas like duty of care certification and car parking.
 - v. The consideration of revenue consequences of capital investment has been embedded across a number of areas of activity considered and monitored by the Strategic Capital Delivery Group, including the principles identified for the Community Investment Fund and the Hub delivery programme.
 - vi. Savings proposals agreed at Council in February 2020 have moved several Council service areas to full cost recovery or towards full costs recovery including the school catering service and burials. Work will continue through the Council's ongoing MTFP process to assess other fees and charges.
 - vii. The Council approved its first Reserves Policy in January 2020 which ensures available balances are managed and utilised in accordance with effective governance principles, and continue to support financial plans which are affordable and sustainable.

Potential Impact of COVID-19 on Current and Future Budgets

- 2.2. North Lanarkshire Council has historically demonstrated prudent financial management. This was demonstrated again with the approval of a balanced budget for 2020/21 in February 2020. Despite expectations that a multi-year funding settlement

would be announced by the Scottish Government, a further one year settlement was provided. However, in line with the Revenue Resources Budget Strategy and the key principle to plan for a longer time period, significant progress was made in closing the envisaged budget gap for 2021/22 and 2022/23.

- 2.3. Taking a longer term approach to budget setting remains a sound principle and is essential to ensuring ongoing financial sustainability. However, applying this principle is increasingly challenging in the absence of a multi-year funding package. In addition, it has to be recognised that the financial impact of COVID-19 has the potential to impact on the Council's finances over an extended planning period with significant uncertainty over future economic performance and the impact this may have on public finances. However, it is clear that the Council will be required to plan for changes in service delivery in a post-COVID-19 environment and to ensure that service delivery is financially sustainable.
- 2.4. The reality for Local Government is that cost pressures resulting from both the initial reaction to the crisis and the recovery phase will continue to emerge and the impact of the economic situation will mean further pressures in such areas as Scottish Welfare Fund and the Council Tax Reduction Scheme. In addition, the delivery of approved savings will be increasingly challenging as staff and resources are diverted from the programmes and projects that would have generated recurring savings, placing further pressure on budgets.
- 2.5. The full economic impact of COVID-19 and the resulting effect on future financial settlements for Local Government is unknown. It is anticipated that income collected from Council Tax will reduce as household budgets contract and that a variety of other sources of income will be impacted, including, for example, fees and charges for various Council services.
- 2.6. Some additional funding has been provided to councils by Scottish Government, along with an element of flexibility afforded to some existing grant funding streams. However, it is likely that the Council's reserves will come under additional pressure if the Council is not fully compensated for the increased cost of responding and recovering from the COVID-19 pandemic.
- 2.7. In this context, a review of previous financial planning assumptions and the affordability of existing financial plans is necessary. This work is already underway and will be reported to Committee at the next cycle. However, it is clear that with continuing uncertainty of Scottish Government support for the costs associated with COVID-19 response and recovery, the Council may be required to take significant steps to manage costs throughout the remainder of the current financial year and beyond.
- 2.8. The Revenue Resources Budget Strategy is an integral part of the Council's overarching Financial Strategy developed to ensure that the Council can demonstrate ongoing financial sustainability. The principles which underpin the Strategy remain valid and will be further developed to ensure the continued relevance and effectiveness of the Strategy in determining affordability in delivering the Plan for North Lanarkshire.

3. Equality and Diversity

3.1. 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.

3.2 **Equality Impact Assessment**

There is no specific Equality Impact Assessment required.

4. Implications

4.1. **Financial Impact**

Financial impacts will remain under continuous review as the development of the Revenue Resources Budget Strategy progress.

4.2. **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.

4.3. **Environmental Impact**

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

4.4. **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 to ensure ongoing financial sustainability. Financial Solutions and CMT continue to review the corporate Financial Sustainability risk on an ongoing basis.

5. Measures of success

Measures of success will include:

- Ongoing financial sustainability
 - Alignment of resources and more holistic approach to achieving corporate priorities to deliver on the Plan for North Lanarkshire.
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Elaine Kemp
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Revenue Resources Budget Strategy - Progress Update

Key Principle	Progress to date	Further Development and Next Steps
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.	The Council developed a five year Medium Term Financial Plan which informed the budgeted process for 2020/21 and beyond. This led to the approval of a balanced budget for 2020/21 2020. The Council also approved a number of savings for financial years 2021/22 and 2022/23 to close the envisaged budget gap and ensure that longer-term planning of saving delivery could progress.	The Council's Medium Term Financial Plan Update (MTFP) will advise on the revised envisaged budget gap for the remainder of the planning period. This will be presented to Committee at Cycle 3. Following the principles of the Strategy, officers will work to identify savings options which will address budget gaps for presentation to Elected Members.
ii. Budgets will be clearly linked to the achievement of Council priorities.	During 2019/20 senior officers across the Council participated in exercises aiming to ensure that that financial planning was aligned with the objectives of the Plan for North Lanarkshire. Following this exercise it was agreed that financial implications arising from the Plan and the associated Programme of Work would be managed within existing resources. In addition, savings options developed by officers continue to be linked to the underlying service prioritisation process that considers statutory and non-statutory service delivery and those areas most closely aligned with the Plan for North Lanarkshire.	An annual exercise will be carried out to ensure alignment and to reaffirm financial assumptions. Any new financial impacts will be incorporated in the MTFP update.
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.	Some progress was made in determining savings on a continuous basis which were approved in advance of the budget meeting. These included centralisation of the waste service, office rationalisation proposals, introduction of car parking charges and home support redesign.	Services are continuing to review service delivery models in line with The Plan for North Lanarkshire for consideration at relevant Committees. Any savings arising from these reports will be incorporated into future budget reports.
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.	Service redesign has already identified a number of savings options to improve efficiency and reduce the Council's asset base. These include depot rationalisation and home support redesign. In addition, continuing work on the DigitalNL programme will deliver future savings in support of the Council's budget strategy.	Services are continuing to review service delivery models in line with The Plan for North Lanarkshire for consideration at relevant Committees. Any savings arising from these reports will be incorporated into future budget reports. Future work will also be informed by the Covid-19 recovery process.

Revenue Resources Budget Strategy - Progress Update

Key Principle	Progress to date	Further Development and Next Steps
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.	The Strategic Capital Delivery Group has taken a key role in ensuring that capital investment decisions are taking into account the revenue consequences, including spend to save opportunities. These principles were formalised as part of the Council's Capital Investment Strategy to 2022/23, approved in June 2019. The principles have also been embedded in the decision making around Community Investment Fund activity.	Continue to apply the principles of the Capital Investment Strategy and ensure the recurring revenue consequences are considered as part of the MTFP update.
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.	Significant progress was made in moving towards models of charging informed by benchmarking and the principles of full cost recovery, for example, school meal prices have been increased to reflect full cost recovery, burial charges increased towards full cost recovery and the introduction of charges for services such as community alarms and car parking.	Fees and charges will continue to be reviewed on an ongoing basis and the principle of full cost recovery considered. Increases in fees and charges will be assumed as part of the MTFP update.
vii. Consideration will continue to be given to the planned, sustainable use of available balances.	The Council's first formal Reserves Policy was approved by Policy & Strategy in January 2020 and Services will comply with the provisions contained within the Policy as part of closing down the 2019/20 financial year end.	The policy will be reviewed on an annual basis to ensure it remains relevant and reflects changes in circumstances.
viii. Consideration will be given to proposals to fully implement the use of participatory budgeting	The outcome of a Participatory Budgeting Phase 1 Review Task and Finish Group was reported to the Community Empowerment Committee in February 2020. In addition, a further report in March 2020 on Working with Communities Model Governance and Supporting Governance Structure (Community Boards) outlined steps taken to date on rolling our participatory budgeting and establishing governance arrangements.	Continued development of the participatory budgeting model linked to the Community Board structures.
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."	Budget Groups were established to ensure active member involvement across all political parties. However, a fully cross party approach was not adopted.	Continued engagement with Elected Member groups to adopt the identified best practice cross party approach.