

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Council: 29 January 2020

Subject: General Services Budget Preparation 2020/21 to 2022/23 – Budget Update

1. Purpose

- 1.1** To provide Members with an update in relation to setting the General Fund budget for 2020/21 and gap projections to 2022/23.

2. Recommendations

2.1 Members are asked to:

- (a) Note the update provided regarding the Scottish Government settlement position;
- (b) Note the update of the gaps following the budget alterations and management adjustments as detailed at 4.2 and 4.3 of the report that have been applied to the draft budget position;
- (c) Note the outcome of the further Loans Fund Review and agree the option identified to reschedule loans fund advances to generate and use a revenue reserve within the General Fund detailed at 4.12 of the report;
- (d) Note the position regarding anticipated capital receipts which may be used to assist in closing future funding gaps and agree the proposed approach identified at 4.12 of the report;
- (e) Note the Corporate Management Team (CMT) are finalising a set of savings options for potential future consideration by Members in closing the projected gaps should these be required; and
- (f) Note that this projected position is subject to amendment as the settlement implications for the Council are identified and as all other assumptions are finalised between now and the Council meeting in March 2020.

3. Background

- 3.1** In the refresh of the Long Term Finance Strategy and budget update reported to Council on 27 November 2019 the following cumulative budget gaps were reported:

- 2020/21 £5.644m;

- 2021/22 £10.621m; and
- 2022/23 £16.871m.

3.2 Council on 27 November 2019 noted that the Corporate Management Team were in the process of generating efficiencies which would be reported to a future Council meeting.

4. Main Issues

Settlement

4.1 On 13 January 2020 the Scottish Government (SG) announced that it would set its budget for 2020/21 on 6 February 2020. It is understood that the SG will also advise of the local government finance settlement for 2020/21 on the same date. Until the settlement is issued the assumptions used within the updated Long Term Finance Strategy, reported to November 2019 Council, continue to be used.

Update

4.2 Since the November 2019 Council report officers have continued to check the budget submissions from service areas and have identified alterations valued at -£0.315m in 2020/21; £0.291m in 2021/22; and £1.414m in 2022/23 (cumulative values). These have been applied to the previously reported position. The changes are as follows:

	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)
Community Centre saving removed in error	-0.130	-0.130	-0.130
Education – errors in Early Years budget	0.113	0.716	0.742
HSCP requisition miscalculation	0	0	1.100
Budget Book Review - Various corrections	-0.298	-0.295	-0.298
Total	-0.315	0.291	1.414

4.3 As reported to November 2019 Council, the CMT has been working on options to assist in closing the projected funding gaps and have identified a number of management adjustments which will be implemented from 2020/21 onwards as detailed at Appendix 1. These are valued at £0.910m in 2020/21; £1,220m in 2021/22; and £1.295m in 2022/23 (cumulative).

4.4 The application of the budget adjustments noted at 4.2 above and the management adjustments noted at 4.3 above has changed the projected gaps to:

- 2020/21 £4.418m;
- 2021/22 £9.691m; and
- 2022/23 £16.989m.

- 4.5** As reported to November 2019 Council, Members may wish to consider use of reserves when setting the budget and an up-to-date position on reserves will be provided in the budget-setting report to March 2020 Council. This is considered later in the report.

Loans Fund Review

- 4.6** As reported to November 2019 Council, a further review of options for the management of the Loans Fund and loan charges to revenue has been undertaken.

- 4.6.1** The outcome of this review has identified that an opportunity exists to extend the Loans Fund Review to adjust retrospectively loans fund payments going back to 1996. What this means is that the assets which have been funded from the loans fund since 1996 have been reviewed to consider the appropriate period of loan write-off to better reflect the anticipated asset life. This review has used the same parameters as were used in the Loans Fund Review agreed on 27 March 2019.

- 4.6.2** The retrospective review has generated lower historic loans fund repayments (as a number of assets have had their repayment period lengthened, in line with expected asset life). This change effectively generates refunds from the Loans Fund to the General Fund which would be placed into a reserve. The value of this reserve is £19.763m. By agreeing the change in 2019/20 an in-year net benefit on principal repayment element of the loans charges, offset by additional interest on the higher loans fund balance, within the General Services revenue budget is also generated of £0.968m which would also be placed into a reserve, giving a total reserve of £21.731m. However by implementing in 2019/20 this reduces the loans charges principal payment value available to be able to be funded from the planned use of capital receipts by £0.901m. This reduction can be funded from the £0.968m from the in-year effect resulting in an available capital reserve of £19.830m at 31 March 2020 and therefore available for use in closing future year funding gaps.

It should be noted that the application of the review has also been applied to the Housing Revenue Account (HRA) part of the Loans Fund – as we require to be consistent in practice. This has generated a reserve within the HRA of £9.162m and annual financial benefits. The detail on this will be reported to Council when setting the rent on 4 March 2020.

- 4.6.3** The Loans Fund Review sees the repayment of principal aligned to the expected asset lives as advised by the relevant professional officers within the Council, and therefore, in my view is a prudent approach as this aligns the write-off of the asset value against the future service users. The change generally spreads the principal payments over a longer period of time which does mean that interest payments over the lives of the assets will be higher than through the previous approach – this being subject to future interest rates.

- 4.6.4** In order for this reserve to be created Council requires to agree to the application of the Loans Fund review retrospectively.

Capital Receipts

- 4.7** As reported to February 2019 Council, under legislation and guidance councils are able to use capital receipts in different ways:

- As currently used in the capital plan;
- Use to pay debt; and
- Use to fund debt repayments.

Of the three options above, the third option has the largest immediate revenue impact.

- 4.7.1** Members will be aware of a number of reports presented to Infrastructure, Regeneration & Economic Development Committee in November 2019 which agreed the sale of a number of sites and properties. Many of these were expected to be completed and receipts attained in financial year 2019/20. However two of the agreed sales: Garshake site; and former Our Lady & St. Patrick's (OLSP) school site are expected to be completed and receipts attained within financial year 2020/21. The sale values for these two sites were reported as being £6.055m for Garshake and £3.205m for OLSP, both subject to site abnormalities and planning conditions. These two receipts, together with other planned site sales are expected to provide Members with the opportunity to use some capital receipts to fund debt repayments. An update on this option will be provided to the March 2020 Council meeting.

- 4.7.2** It should be noted that the value of this option will be linked to the rescheduled loans fund advances payments that remain following the implementation of the loans fund review (already agreed in March 2019 and the effect of the further loans fund review as detailed at 4.6 above, if agreed). The value of the annual advance repayments element of the loan charges in 2020/21 remaining after the implementation of the further Loans Fund Review is £2.526m; £2.170m in 2021/22; and £2.471m in 2022/23; and these are the maximum values that can be funded from the capital receipts in these years.

The General Election and Brexit

- 4.8** Following the December 2019 General Election there is more clarity as to UK Government policy in relation to Brexit, however there remains significant uncertainty as to how Brexit will progress and how this affects the UK economy and whether the UK budget requires to be revisited. It is also unclear as to what impact and approach the new UK Government will have to funding local government and the implications of this on the funding for the SG and from there onto local government in Scotland through the settlement. From previous UK Government funding announcements analysts have advised that, subject to the next UK budget, the SG will have more funding than available in 2019/20 (estimated to be £1.2b additional from Barnett consequential arising from the UK

Government's spending plans for 2020/21 announced in September 2019). However the SG position is tempered by the fact that it has a short-term funding issue arising from it not having collected as much in Scottish taxation as had been budgeted. How these issues work through into Council settlements will not be known until the settlement is provided.

Capital Plan Update

- 4.9** Officers are in the process of updating the capital plan to ensure all aspects are up to date, phasing of projects is appropriate, etc. Part of this process is to check whether any further projects are required to be considered by Members for approval. An update on the capital plan will be reported to members at the Council meeting on 4 March 2020.

Historic Child Abuse: Financial Redress

- 4.10** Members will be aware of the SG approach to this issue and it is likely that this Council, along with all others, will receive claims arising from recent legislation. This issue is complex and the numbers of potential claims are not known, nor the likely outcome of such claims in terms of whether the Council will require to fund compensation payments or whether insurers will be covering all or some of any such successful claims. It is recommended that in order to be prudent that a sum of £2m is set aside as an earmarked reserve to mitigate the future risk of such claims.

European Union (EU) Suspension on European Social Fund (ESF) claims

- 4.11** Members will be aware that the EU has notified the SG that it has suspended payment to them for projects part-funded by the ESF. This issue has arisen due to SG guidance to Councils as to how to maintain financial records in support of the funding claims was not in line with EU guidance to SG. This situation is being worked-on by the SG and local government in order to present claims to the EU in a manner and format that will allow the EU to remove the suspension and provide payment on these projects. As a result of the suspension all claims made by Councils to the SG under ESF are subject to risk of non payment by the EU to the SG and then from SG to Councils. The projected value of grant claims under ESF for WDC to 31 March 2020 is estimated at around £2.275m and this sum is at risk. The position on this issue will be updated to the Council meeting on 4 March 2020, however at this point the expectation is that this situation will be resolved.

Potential Use of Reserves

- 4.12** The following approaches have been identified to utilise reserves arising from capital receipts and the Loans Fund Review:
- 4.12.1** It is recommended that the capital receipts (as detailed in 4.7.1) are placed in to a reserve for future use in assisting the Council smooth future financial planning processes with the sums noted in 4.7.2 being used in the next three financial years to assist in closing the gaps.
- 4.12.2** Based on the above changes to 4.12.1 above the remaining gaps for the next three years would be:

- 2020/21 £1.893m;
- 2021/22 £7.522m; and
- 2022/23 £14.518m

4.12.3 Based on the information provided in this report in relation to the outcome of the further Loans Fund Review, Capital Receipts, Historic Child Abuse the following approach is recommended:

- Based on the information provided at 4.10 and 4.11 above, it is recommended that the £19.830m reserve from the Loans Fund Review is top-sliced to earmark £2.000m for potential claims arising from Historic Child Abuse claims; and
- The remainder of the Loans Fund Review reserve (£17.830m) be earmarked and used over a 10 year period to reduce principal repayments for the next 10 financial years, with the first year being sufficient to close the remainder of the projected funding gap in 2021/22 (values here are shown below at 4.13, but subject to change depending on the settlement) and the remaining balance being used evenly for the subsequent nine financial years from 2021/22, this will assist the Council in maintaining service provision and provide time to consider the state of public finances and Council finances as the approach of the new UK Government becomes clearer over the next financial year. The purpose of this reserve should also be to cover for any cashflow timing shortages on capital receipts not received on time when budgeted for use in funding principal payments.

Summary of Changes to Gap Projections

4.13 Taking into account the changes notified in this report on budget adjustments, management adjustments and should the steps described at 4.12 be implemented then, based on current assumptions around the settlement, the projected funding gaps are as follows:

	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)
Gap - Council report November 2019	5.644	10.621	16.871
Budget Adjustments	-0.315	0.291	1.414
Management Adjustments	-0.910	-1.220	-1.295
Use of Capital Receipts	-2.526	-2.170	-2.471
Loans Fund Review	-1.893	-1.771	-1.771
Remaining Gaps	Nil	5.751	12.747

4.14 It should be noted that the above position is a scenario based on current assumptions on the settlement for future years and that it is likely that the settlement to be provided on 6 February 2020 will be a single year settlement and will vary to some extent from the current assumptions. Depending on the settlement it may be possible or a requirement to vary the level of use of loans fund review reserve in 2020/21 to maintain the gap at a nil balance for 2020/21.

- 4.15** The CMT will finalise a list of potential savings options for Members to consider in setting the budget on 4 March 2020 for use should the settlement position turn out to be worse than currently projected.

Sustainability

- 4.16** Members will be aware that the approaches described at 4.12 provide short-term solutions for the 2020/21 gap and that going forward it is anticipated that costs will continue to rise (through ongoing pay awards and continued increasing demand for services, whilst the Long-term Financial Strategy expect SG funding to the Council to continue to reduce year-on-year). For this reason Members should consider taking decisions on the savings options which will be provided to a future Council meeting to allow future gaps to be closed through early decision-making, delays to making such decisions will (based on current projections) see the Council face significant financial challenges at a future point.
- 4.17** In terms of Council Tax increases, the current assumption is that Council Tax will increase in 2020/21 onwards by 3%. In 2019/20 there was an opportunity to increase Council Tax by 4.79%, and a similar opportunity may exist once the settlement is provided by the SG. Members should consider the longer-term projections and the potential cumulative opportunity when setting of the Council Tax on 4 March 2020.

5. People Implications

- 5.1** The potential staffing implications are shown within the management adjustments appended to this report and will be subject to consultation processes where appropriate and managed in accordance with the Council's Switch Policy (Organisational Change).

6. Financial and Procurement Implications

- 6.1** The main variables within the current projections will be refined throughout the budgeting process as more information becomes available.
- 6.2** Financial implications arising from the budget process are detailed in the report and appendices. There are no direct procurement implications arising from this report.

7. Risk Analysis

- 7.1** There are a number of assumptions within the gaps reported above. The gaps could vary if the Council identifies further burdens, or mitigates some. The number of significant variables identified in the report that are outwith the Council's control will also almost certainly vary the gaps between now and the March 2020 Council report. These will be reviewed prior to the March 2020 Council meeting to ensure all assumptions are treated appropriately based on the most up to date information.

8. Equalities Impact Assessment (EIA)

8.1 Equality impact screening has identified no issues.

9. Consultation

9.1 The development of the management adjustments were considered by the Corporate Management Team during November and December 2019 and the views of Legal Services have been requested on this report and have advised there are neither any issues nor concerns with the report.

10. Strategic Assessment

10.1 Proper budgetary control and sound financial practice are cornerstones of good governance and support Council and officers to pursue the 5 strategic priorities of the Council's Strategic Plan.

10.2 The General Services revenue budget contributes to all categories by providing funding in specific areas to help the Council achieve and develop these priorities.

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Date: 23 January 2020

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Appendix: Management Adjustments

Background Papers: Council Draft Budget Book 2020/21 to 2022/23;
Minute of Council meeting – 27 November 2019;
Minute of Council meeting 27 March 2019; and
Equalities Impact Screening.

Wards Affected: All

APPENDIX - MANAGEMENT ADJUSTMENTS 2020/21

Ref	Option	Strategic Lead	Savings 2020/21 (£)	Savings 2021/22 (£)	Savings 2022/23 (£)	Staffing implications (FTE)	Investment Required - Change Fund (£)
MA1	Streamlining of processes within Resources Service, through investment in appropriate resource to speed-up changes to ways of working, processes, etc.	S West	80,000	168,000	227,000	8.06	100,000
MA2	Reduce Leadership Support Team	P Hessett	33,073	33,073	33,073	1.00	0
MA3	Citizen Service and Library Restructure	M Bennie	0	61,000	61,000	3.00	0
MA4	Arts & Heritage restructure	M Bennie	30,000	30,000	46,000	1.20	0
MA5	For probationers allocated to schools the contribution from the schools' core staffing allowance would increase: 0.6 for 1 probationer; 1FTE for 2 probationers; 3 FTE for 6 probationers. This means that the probationer teachers would no longer be an additionality	L Mason	263,000	394,000	394,000	0.00	0
MA6	Reducing Creative Learning Team	L Mason	23,745	23,745	23,745	1.00	0
MA7	Review reactive roads repairs workforce	G McFarlane	60,000	60,000	60,000	2.00	0
MA8	Capitalisation of Salaries	J McAloon	278,337	278,337	278,337	0.00	0
MA9	Reduction in hours for Compliance posts	J McAloon	18,498	18,498	18,498	0.50	0
MA10	Consolidate staff structure through retirements	P Barry	123,574	123,574	123,574	3.67	0
MA11	Reduce employee costs through anticipated future staff retirements	P Barry	0	30,000	30,000	2.00	0
			910,227	1,220,227	1,295,227	22.43	100,000