

**WEST DUNBARTONSHIRE COUNCIL**

**Report by Chief Officer - Resources**

**Council: 28 June 2023**

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**Subject: Financial Update**

**1. PURPOSE**

- 1.1 To provide an update on the financial challenges facing the Council and the estimated 2024/25 – 2028/29 revenue budget gaps.
- 1.2 This is the first financial update of 2023/24 since the 2023/24 budget was set on 1 March 2023 and rolls forward previous estimates as well as updating some assumptions. The assumptions will continue to be updated and refined as the financial year progresses.
- 1.3 This update has been prepared using three different scenarios, best case, worst case and mid-range. Relatively small variations in assumptions can lead to fairly significant changes in the outcome. Throughout the report the primary focus is on the mid-range, however, where appropriate reference is made to best case and worst case assumptions.

**2. RECOMMENDATIONS**

- 2.1 Members are asked to note the updated position regarding projections for the Council's estimated revenue budget gaps in 2024/25-2028/29, in particular the updated mid-range 2024/25 budget gap of £11.8m as summarised at paragraph 4.17.

**3. BACKGROUND**

- 3.1 On 1 March 2023, the Council agreed a balanced 2023/24 revenue and capital budget and estimates for 2024/25-2027/28. That budget report also highlighted estimated future year budget gaps based on a range of assumptions including future Scottish Government funding, inflation and future interest rates. The consequences of the decisions taken by Council on 1 March to agree a balanced 2023/24 budget reduced the cumulative estimated future budget gap in the best case, mid-range and worst case scenarios as set out in Exhibit 1.

*Exhibit 1 – Future Year Estimated Cumulative Budget Gaps*

Budget Gap	1 March 2023 Budget				Post Budget Setting			
	24/25 £000	25/26 £000	26/27 £000	27/28 £000	24/25 £000	25/26 £000	26/27 £000	27/28 £000
Best Case	16,492	20,855	27,056	33,359	6,475	10,813	16,894	23,207
Mid-Range	19,717	25,186	32,422	39,695	9,690	15,124	22,230	29,493
Worst Case	24,626	33,032	43,132	53,247	14,609	22,990	32,970	43,095

3.2 Appendix 1 provides further detail on how the mid-range estimated budget gap was affected by the decisions made when setting the 2023/24 budget on 1 March 2023.

#### **4. MAIN ISSUES**

4.1 Since the budget was agreed on 1 March 2023 I have revisited the key assumptions and cost pressures detailed in the 1 March Budget Paper. This is summarised in the paragraphs below.

##### *4.2 Scottish Government Finance Settlement*

In my report on 1 March 2023, I advised that my assumptions in relation to future year Scottish Government funding were :

- Best Case - Flat Cash
- Mid-Range – Flat Cash
- Worst Case - 1.0% reduction.

On the basis that the 2023/24 settlement was only a minor cash increase and reflecting on previous funding changes in the past 4 years I have determined that no change is required to these assumptions at the current time.

##### *4.3 Council Tax Increases*

The budget gaps referred to in paragraph 3.1 include no assumption of any increase in Council Tax as setting Council Tax is subject to a political decision when agreeing the budget in March 2024.

##### *4.4 Changes to Base Budget*

There have been three changes to the Council's base budget since the 1 March 2023 Budget report to Council. These are set out below.

##### *4.5 Base Budget Adjustment 1 – Historic HSCP Adjustment*

The Council's medium term financial strategy includes an assumption that the HSCP requisition will reduce in line with the Council's financial settlement. This £0.725m assumption was removed for 2024/25 as part of agreeing the 2023/24 budget however the base budget still needs to be adjusted to remove the assumption in the years beyond 2024/25.

##### *4.6 Base Budget Adjustment 2 – Rightsizing Sundry Services Budgets*

Finance have carried out a review of the sundry services budgets and identified £0.097m of budget that can be removed without impacting on staff or front line services.

##### *4.7 Base Budget Adjustment 3 – Amendment to ICT Inflation Assumption*

In 2023/24 a cost pressure was added to reflect assumptions about ICT

inflation. These ICT costs are subject to annual review and so the base budget has been adjusted to remove the future year impacts estimated last year with a general ICT inflation maintained until such time as the annual review is performed and a more accurate inflationary amount can be reflected.

#### 4.8 *Changes to Non-Pay Inflation*

Inflation is included in future year budget estimates where it is considered necessary to ensure budgets are adjusted to reflect expected increases in costs. There have been two changes to my assumptions relating to inflation since the 1 March 2023 Budget report to Council.

#### 4.9 *Non-Pay Inflation Adjustment 1 – West Dunbartonshire Leisure Trust*

Historically £0.2m per annum has been added as an inflationary increase to the management fee paid by the Council to West Dunbartonshire Leisure Trust. As the Trust's management fee is subject to an annual political decision with a reduction agreed in 2023/24 it is no longer considered appropriate to include a default assumption of an increase.

#### 4.10 *Non-Pay Inflation Adjustment 2 – Public Private Partnership (PPP) Unitary Charge*

The Council are contractually obliged to increase the annual PPP unitary charge by 50% of the retail price index (excluding mortgage interest) (RPIX) in the February of each year. RPIX is currently about 12% but is projected to decrease significantly over the next two years. This is creating a significant impact on the Council's revenue budget and there is a need to add £0.554m to the revenue budget in 2024/25 with future year increases estimated on the basis of RPIX being at a lower amount of 4%. This assumption will be kept under review as inflation rates change.

#### 4.11 *Bank Interest Rates*

The Bank of England raised the bank rate by 0.25% to 4.5% in May which was the twelfth consecutive rate increase. This puts borrowing costs at a level not seen since 2008 as the central bank continues to try and battle double-digit inflation. The central bank is now predicting inflation falling to 5.1% in the fourth quarter of 2023 which compares to a 3.9% projection in their February forecast. They are now estimating meeting their 2% target by late 2024. So it is clear that projections and actuals are still very volatile and if inflationary pressures continue then further tightening in monetary policy will be required.

In 2023/24 there were multiple cost pressures added to the Council's budget due to the impact of regular increases in bank interest rates on the cost of Council borrowing. This was due to the sizeable proportion of the Council debt which is short term which requires to be re-borrowed regularly and is therefore subject to fluctuations in interest rates. I have not made any changes to the future year cost pressure at the current time however a full review of the Council's estimated future loan charges will be performed to take account of the most up to date interest rate projections. The outcome of this will be

reported to a future meeting of the Council and the budget gap adjusted accordingly.

### Other Cost Pressures

- 4.12 Generally services work on the basis of having to contain any cost pressures within current resources, however, there are cost pressures which are unavoidable and need to be factored into future budget processes.
- 4.13 The Council currently funds the cost of the pay award for staff employed by the West Dunbartonshire Leisure Trust. The cost of this is not currently included in future years budgets. The impact of this on the Council's revenue budget is summarised in Exhibit 2 based on an assumed pay rise of 3% per annum (see paragraph 4.16). This is the only change to cost pressures since the budget meeting on 1 March 2023.

*Exhibit 2 – Changes to cost pressures since March 2023*

Service	Cost Pressure	2024/25 (£000)	2025/26 (£000)	2026/27 (£000)	2027/28 (£000)	2028/29 (£000)
Leisure Management	3% Pay Award	201	410	624	845	1,072

### Employee Costs

- 4.14 The Scottish Joint Council (SJC) 2023/24 pay award has still to be agreed and this may have an impact on the base budget if the pay award is greater than the 4% allowed for in the budget. The Scottish Government have agreed funding towards the SJC 2023/24 pay award equivalent to 2.5%, however this is subject to ongoing negotiations.
- 4.15 The Teachers pay award for 2023/24 has already been agreed (28 months deal covering the period 1 April 2022 – 31 July 2024) and the current year budget is sufficient to cover the deal. Future negotiations on teacher pay awards beyond 31 July 2024 will have an impact on the budget outlook.
- 4.16 For 2024/25 and beyond I had previously assumed pay awards of 2% in all three scenarios with an expectation that future projected reductions in inflation would take pressure off pay awards and also to reflect what is affordable to Local Government. Ongoing negotiations in relation to the 2023/24 pay award provide a strong indication that pay awards are going to continue being in excess of 2% however the last offer made included a Scottish Government commitment to fund 2.5% of a 5.5% offer (leaving Local Government to fund 3%). On this basis I have changed my assumptions to:
- Best Case – 2% per annum from 2024/25 onwards
  - Mid-Rage – 3% per annum from 2024/25 onwards
  - Worst Case – 4% per annum from 2024/25 onwards

There remains a risk that the pay award could be higher and this will be monitored and updated throughout the year if more information becomes

available. Every 1% over and above what is budgeted would add an additional pressure of circa £1.64m

### Revised Mid-Range Estimated Budget Gap

- 4.17 Exhibit 3a sets out the revised cumulative estimated budget gap in the mid-range in between 2024/25 and 2028/29 and Exhibit 3b summarises the total cumulative budget gaps in all three scenarios. Exhibit 3a illustrates that, in the mid-range scenario the Council are faced with a budget gap of £11.829m in 2024/25 rising cumulatively to £47.940m in 2028/29. Exhibit 3b shows that the cumulative 5 year gap ranges from £34.479m in the best case scenario to £72.594m in the worst case.

*Exhibit 3a – Revised Mid-Range Estimated Budget Gaps (Cumulative)*

	Para Ref	2024/25 £0000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
Budget Gap 1 March	3.1	9,690	15,124	22,230	29,493	37,043
Historic HSCP Adjustment	4.5	0	725	725	725	725
Rightsizing Sundry Services Budgets	4.6	(97)	(97)	(97)	(97)	(97)
Adjust ICT inflation assumption	4.7	44	(11)	(61)	(113)	(115)
Leisure Trust Management Fee Assumption	4.9	(200)	(400)	(600)	(800)	(1,000)
PPP Inflation	4.10	554	877	1,011	1,144	1,276
Leisure Trust Pay Award Cost Pressure	4.13	201	410	624	845	1,072
Increase in pay award assumption	4.16	1,637	3,356	5,160	7,052	9,036
<b>Revised Estimated Budget Gap</b>		<b>11,829</b>	<b>19,984</b>	<b>28,992</b>	<b>38,249</b>	<b>47,940</b>

*Exhibit 3b – Estimated Budget Gaps (Cumulative) – Scenario Analysis*

Budget Gap	2024/25 £0000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
Best Case	9,696	15,044	21,256	27,696	34,479
Mid-Range	11,829	19,984	28,992	38,249	47,940
Worst Case	17,234	30,072	43,838	57,958	72,624

### 2024/25 Budget Process

- 4.18 Given the scale of the financial challenge facing the Council in 2024/25 and future years, it is important that immediate progress is made to identify saving options with momentum on this maintained between now and setting the budget in March 2024. The Senior Leadership Team held a budget workshop on 22 May 2023 to commence this process and will continue to meet periodically to develop saving options which will be presented to members for their consideration at an appropriate time.

## **Other Issues**

### **4.19 *Health and Social Care Partnership Requisition***

The Council, at the budget meeting on 1 March 2023, agreed an HSCP requisition of £86.4m. There is a working assumption that the future allocation to the HSCP is on the basis of 'flat cash' plus the appropriate share of the Health & Social Care funding commitments. However this is only an assumption and the HSCP requisition will be a matter for Council to consider as part of the budget process.

### **4.20 *Council Tax***

As per paragraph 4.3 the estimated budget gap makes no assumptions over future Council Tax increases. This will be a matter for Council to decide however, by means of illustration, a 5% increase would generate approximately £2.0m in revenue.

### **4.21 *Fees and Charges***

In 2023/24 a general inflationary increase of 10% was applied to fees and charges. The current assumption built into the estimated future budget gaps is an annual increase of 4% in all three scenarios (best case, mid-range and worst case). Every 1% increase beyond 4% would generate an estimated £0.320m in revenue.

## **5. PEOPLE IMPLICATIONS**

- 5.1 None directly from this report but there is a strong link between HR and budgets.

## **6. FINANCIAL AND PROCUREMENT IMPLICATIONS**

- 6.1 Sets out the estimated revenue budget gaps in 2024/25 to 2028/29. There are no direct procurement implications arising from this report.

## **7. RISK ANALYSIS**

- 7.1 None directly from this report but any proposals to address the estimated budget gap will need to consider risk.

## **8. EQUALITIES IMPACT ASSESSMENT (EIA)**

- 8.1 None directly from this report but any proposals to address the estimated budget gap will need to consider equality issues.

## **9. CONSULTATION**

- 9.1 The views of all Chief Officers have been requested on this report and feedback incorporated herein.

## **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 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: 28 June 2023**

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### **Appendices**

Appendix 1 – Impact of 2022/23 budget decisions on estimated future budget gaps

### **Background Papers**

Budget Report to Council - 1 March 2023

**Appendix 1 – Impact of 2023/23 budget decisions on estimated future budget gaps**

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
1 March Budget Report Mid-Range Budget Gap	19,717	25,186	32,422	39,695
<b>1 March 2023 Council Decisions</b>				
Council growth items	260	260	140	140
Management Adjustments	(1,140)	(1,140)	(1,140)	(1,140)
Saving Options	(6,972)	(6,997)	(6,997)	(6,997)
Increase in Turnover Target	(250)	(250)	(250)	(250)
Council Tax Increase	(1,915)	(1,915)	(1,915)	(1,915)
Council tax Growth Element	(10)	(20)	(30)	(40)
<b>Updated Mid-Range Budget Gap</b>	<b>9,690</b>	<b>15,124</b>	<b>22,230</b>	<b>29,493</b>