

WEST DUNBARTONSHIRE COUNCIL

Report by Chief Officer - Resources

Council: 25 October 2023

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 second financial update of 2023/24 since the 2023/24 budget was set on 1 March 2023. It rolls forward previous estimates, considers assumptions and documents changes to cost and demand pressures since the last financial update was reported to Council on 28 June 2023.
- 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 £17.274m.

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. A report to Council on 28 June 2023 provided a further update on the financial challenges faced by the Council and updated the estimated budget gaps as set out in Exhibit 1.

Exhibit 1 – Future Year Estimated Cumulative Budget Gaps as at 28 June 2023

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

4. MAIN ISSUES

- 4.1 I have revisited the key assumptions and cost pressures detailed in the 28 June 2023 Council report. This is summarised in the paragraphs below.

Scottish Government Finance Settlement

- 4.2 On the 30 June 2023 the Scottish Government and COSLA signed an agreement, known as the Verity House Agreement (VHA) to forge a stronger partnership between local and national government.
- 4.3 The VHA set out principles for joint working to empower local communities, tackle poverty, transform the economy and provide high-quality public services.
- 4.4 In signing the VHA the First Minister noted a commitment to '*build a stronger relationship with local government, with mutual trust and respect at its core*' whilst acknowledging that '*Councils know best how to serve the people in their communities. By giving them greater flexibility over how they use their budgets and regularly reviewing their powers and funding, we can empower them to put that knowledge into practice – whether that's to tackle poverty, transform our economy to deliver net zero, or to provide the high-quality public services on which we all rely*'.
- 4.5 A key aspect of the VHA is the development of a 'Fiscal Framework' between the Scottish Government and councils that will seek to agree a set of rules around funding in an effort to provide increased visibility and certainty whilst promoting longer-term financial planning. This will include increased discretion for councils through a reduction in the extent to which funding provided to councils is ringfenced. Ringfenced funding has been a topic of much debate in recent years. Easing of ringfencing is to be welcomed but the scale of this remains unknown at the time of writing this report. Discussions on options regarding how to set future local authority funding levels are ongoing between COSLA and Scottish Government officials.
- 4.6 Whilst commitments within the Verity House Agreement provide a shared framework for improved financial sustainability the lack of certainty over how this will be implemented means I have made no changes to my assumptions in relation to future year Scottish Government funding. These remain as:
- Best Case - Flat Cash
 - Mid-Range – Flat Cash
 - Worst Case - 1.0% reduction.
- 4.7 *Change to Base Budget – PPP Sinking Fund*

The Council previously had a PPP sinking fund which was a reserve originally established to smooth the costs of the unitary charge over the lifetime of the PPP thereby reducing the impact on the annual revenue budget. However

over a number of years the PPP fund has been eroded through additional use of it to address financial challenges. As a consequence the fund has now been depleted which creates a cost pressure on the revenue budget from 2024/25 onwards as there are no earmarked funds left to be released. The Council's base budget needs to be increased by £758k as a consequence.

Cost Pressures Over £100k

4.8 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. There are a number of new, or changed cost pressures, since the last Finance Update to Council in June 2023. These are summarised in the chapters below.

4.9 Bank Interest Rates / Loan Charges

The Bank of England Monetary Policy committee (MPC) raised the bank rate by a further 0.25% to 5.25% in August 2023 which was the fourteenth consecutive rate increase. This put borrowing costs at a level not seen since 2008 as the central bank continues to try and battle inflation. A review of the Council's estimated future loan charges has now been carried out taking account of the most up to date interest rate projections provided by Link, the Council's treasury advisors. Link's current advice is that interest rates have peaked at 5.25% although there is an outside chance of one more rate increase. It is expected that interest rates will remain at that peak for approximately ten months before any easing of rates is undertaken.

Allowing for the rate of interest on current borrowing and future borrowing requirements I have assumed Local Authority temporary borrowing rates of 5.5% in 2023/24 and 2024/25. On this basis a further cost pressure of £2.818m has been identified for 2024/25.

The material impact on the Council's revenue budget is due to the sizeable proportion of the Council debt which is short term temporary loans which require to be re-borrowed regularly and is therefore subject to fluctuations in interest rates. Given the current uncertainty over interest rates short term temporary loans reduce the risk. I am continuing to engage with the Council's treasury advisors regarding options and timescales for reprofiling debt to longer term loans depending on interest rates.

I have not made any changes to the future years' cost pressure at the current time as the timing of interest rate cuts in 2024 remains uncertain. As a result, loan charges will be subject to regular review and any updates reported to future meetings of the Council and the budget gap adjusted accordingly.

4.10 Housing Maintenance Trading Account Surplus

For a number of years, the surplus from the Housing Maintenance Trading Account has been used to fund the general services budget. There has been ongoing discussions between the Council and the West Dunbartonshire Tenants and Residents Organisation (WDTRO) in relation to how this surplus

is managed and a commitment has been given to the WDTR0 to phase out the use of any surplus in this manner over a reasonable period of time. Furthermore it is anticipated that inflationary pressures including pay awards will reduce the surplus generated in future years. It is therefore considered necessary to remove a projected £0.290m of surplus per annum from the budget (cumulatively £0.870m over three years).

4.11 *Cost of Insurance*

The Council's insurance policies have recently been renewed and the revised policies have increased excesses with an increased requirement of 'self-insurance.' This, and a review of historic excess payment, has resulted in an estimated additional £0.300m requiring to be added to the revenue budget.

4.12 *School Transport Costs*

Post COVID there has been a decline in taxi provision for school transportation This has resulted in increased costs of available taxis and also a requirement to fund bus transportation buses to cover the shortfalls. This is having an impact on the current year's outturn and it is estimated will increase costs by £0.300m in 2024/25 and future years.

In addition the on 7 July 2023 the Education Committee agreed to reverse a budget savings proposal in relation to school transportation and replace it with an alternative proposal which see the Council save £0.185m per annum rather than £0.200m in 2023/24 and £0.300m in future years. This requires the shortfall of £0.115m to be added to the budget in 2024/25 and beyond.

In total these two elements combined add £0.415m to the budget.

4.13 *Inflationary Impact on Homeless Accommodation Costs*

The ongoing high levels of inflation has increased the cost pressure on homeless accommodation for items such as white goods, furniture and fittings and contract cleaning. Review of costs against budget has identified a need to increase the budget by £0.150m.

4.14 *Reduction in Housing Benefit Overpayment Subsidy*

There has been a reduction in overpayment recoveries due to the Department for Work and Pensions recovering some Housing Benefit Overpayments against Universal Credit, subject to the overpayment reason. Previously the Council would have received 40% subsidy on overpayments with the ability to also recover 100% of the overpayment, therefore providing the potential to receive up to 140% of the overpayment value. However, this change means the Council receive 100% subsidy of the overpayment resulting in a reduction from the potential 140% that could have been recovered. This has created a cost pressure of £0.127m per annum.

4.15 *School Clothing Grants*

A review of the school clothing grant budget has been carried out to ensure future budgets are sufficient to cover anticipated payments. This highlighted a need to increase the budget by £0.115m to reflect the anticipated caseload in 2024/25.

4.16 Education Let Budgets

A review of income budgets for secondary school lets has resulted in a need to reduce projected income by £0.111m to reflect current levels of demand. Note however that work is ongoing to identify potential options to increase let income and, in the event that these deliver a positive benefit, future budget assumptions will be adjusted accordingly.

Other Cost Pressures Under £100k

4.17 In addition to the more material cost pressures detailed in paragraphs 4.8 to 4.16 there are a number of smaller ones which are summarised in Exhibit 2.

Exhibit 2 – New/Changed Cost Pressures Under £100k

Cost Pressure	2024/25 £0000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
Realign Apprentice levy	73	65	58	50	43
Reduction in Housing Benefit admin subsidy	30	35	40	45	50
Local Development Plan	30	0	30	0	30
Early Years Sustainable Rate	84	84	84	84	84
Homeless Income	41	41	41	41	41
Working 4 U Income	61	61	61	61	61
School Meal Income	21	21	21	21	21
Expansion of Free School Meals to ASN Schools	21	21	21	21	21
Total	361	328	356	323	351

Unquantified Cost Pressure

4.18 There is potentially a new cost pressure which it is important to bring to Member's attention however it is not quantified at this stage. Persistent Organic Pollutants (POPs) are present in upholstered seating such as sofas, beanbags and armchairs. These are pollutants that can enter the atmosphere and do not naturally decompose. Recent guidance has been provided for councils and contractors in relation to the collection, storage and treatment of material containing POPs. Waste containing POPs must be separated from other bulky waste and can no longer be treated as landfill. This will have a financial impact on the operational service delivery and treatment of this waste stream and the cost implications are not yet known. This will be determined

following consideration of the operational guidance expected imminently from the regulator SEPA.

Employee Costs

- 4.19 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 amount the Council needs to fund exceeds the 4% allowed for in the budget.
- 4.20 The Teachers pay award for 2023/24 has already been agreed (28 months deal covering the period 1 April 2022 – 31 July 2024). Future negotiations on teacher pay awards beyond 31 July 2024 will have an impact on the budget gap.
- 4.21 For 2024/25 and beyond I have maintained the assumptions reported to Council on 28 June 2023 of:
- Best Case – 2% per annum from 2024/25 onwards
 - Mid-Range – 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.

Revised Mid-Range Estimated Budget Gap

- 4.22 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 £17.274m in 2024/25 rising cumulatively to £48.669m in 2028/29. Exhibit 3b shows that the cumulative 5 year gap ranges from £35.146m in the best case scenario to £72.438m 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 28 June	3.1	11,829	19,984	28,992	38,249	47,940
PPP Sinking Fund	4.7	758	758	758	758	758
Loan Charges	4.9	2,818	1,103	(237)	(1,351)	(2,468)
HMTA Surplus	4.10	290	580	870	870	870
Insurance Costs	4.11	300	300	300	300	300
School Transport	4.12	415	415	415	415	415
Homeless Accommodation	4.13	150	150	150	150	150
Housing Benefit Overpayments	4.14	127	127	127	127	127
School Clothing Grant	4.15	115	115	115	115	115
Education Lets	4.16	111	111	111	111	111

Other Cost Pressures Under £100k	4.17	361	328	356	323	351
Revised Estimated Budget Gap		17,274	23,971	31,957	40,067	48,669

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	14,460	18,760	24,065	29,405	35,146
Mid-Range	17,274	23,971	31,957	40,067	48,669
Worst Case	21,829	33,174	45,908	58,871	72,438

Other Issues

4.23 Council Tax Consultations

During the summer the Scottish Government launched two significant consultations in relation to potential changes to systems and charges for Council Tax, in particular centred around:

- charging more for higher value properties
- charging a premium on second homes.

In relation to the consultation on higher band properties, the consultation proposes changes to the underlying multipliers for properties banded E,F,G and H. Variations in underlying multipliers were previously used in 2017 to make the system of taxation more progressive with this continuing to be a feature of the consultation. There are a range of potential outcomes following the conclusion of the consultation, with potential for increased income for the Council. However, the timing of the implementation and extent to which any additional income can be relied upon, or will be distributed remains uncertain.

The consultation on second and long-term empty homes included an option that Councils are able to levy up to a 100% premium on second homes. The consultation sets out that this seeks to contribute to a fairer housing system, and to encourage more residential accommodation to be in occupation and used as homes for living in. The consultation notes that second homes can negatively impact on the availability of housing stock in local areas. Early analysis indicates that, if this was to be implemented, it could generate up to £85k of additional revenue for West Dunbartonshire Council.

4.24 Strathclyde Pension Fund (SPF) Contribution Rates

In September 2023 the SPF Board approved a proposal to reduce the main employer group (of which the Council are one) employer pension contributions in the years 2024/25 and 2025/26 and revert to a prudent estimate of a sustainable long-term rate in 2026/27.

Employers in this group have paid a contribution rate of 19.3% of pensionable payroll since 1 April 2011. The approved reduced contribution rates are:

- 6.5% (of pensionable payroll) from 1 April 2024
- 6.5% (of pensionable payroll) from 1 April 2025
- 17.5% (of pensionable payroll) from 1 April 2026

Specific rates will continue to be based on each employer's individual characteristics including their membership and risk profile. Reductions will only be applied where the rate achieves an acceptable likelihood of success for the employer's funding target. All employers will receive individual results schedules setting out their own:

- membership details;
- funding position as at 31 March 2023
- contribution rates for the 3 years from 1 April 2024.

These are expected to be received in November 2023 so an update will be provided to Council in December 2023 setting out the specific benefit this will generate for the Council's revenue budget and a proposal for Council to consider on how to use the benefit prudently to assist with the Council's medium to longer term financial challenges.

4.25 *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.

4.26 *Council Tax*

The estimated budget gap makes no assumptions over future Council Tax increases. This will be a matter for Council to decide when agreeing the budget in March 2024.

4.27 *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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Background Papers

Budget Report to Council - 1 March 2023

Financial Update Report to Council – 28 June 2023