

WEST DUNBARTONSHIRE COUNCIL**Report by Strategic Lead - Resources****Council: 25 November 2020**

Subject: Long Term Financial Strategy Refresh and General Services and Housing Revenue Account Revenue Estimates Update 2021/22 to 202/24

1. Purpose

- 1.1** The purpose of this report is to provide Members with an update of the Council's Long Term Finance Strategy, together with information on the estimates process for the General Fund and the Housing Revenue Account (HRA).
- 1.2** The report also provides an update on the position regarding reserves, including projections in relation to funds held for provisions, earmarked balances and free reserves.

2. Recommendations**2.1** Members are asked to:

- (i) Note the updated strategy has developed estimates of the Council's funding position to 202/24 and identifies cumulative anticipated revenue funding gaps within General Services of £4.036m for 2021/22; £8.237m for 2022/23; and £10.211m for 2023/24;
- (ii) Note the position regarding the HRA projections to 2023/24;
- (iii) Note the projection for the General Fund of a 10 year position to 2030/31;
- (iv) Approve the long term financial strategy, as attached as Appendix 1;
- (v) Note the current assumed position regarding the impact of COVID-19 in 2020/21 and 2021/22 onwards;
- (vi) Note the update and projected year-end position regarding reserves and provisions;
- (vii) Note that the CMT are in the process of generating efficiencies for consideration at a future Council meeting;
- (viii) Note the current position regarding the long term capital plan;
- (ix) Note the position regarding the Scottish Government planned budget announcement; and

- (x) Note that this projected position is subject to amendment as assumptions continue to be clarified and revised between now and Council in March 2021.

3. Background

3.1 The previous iteration of the Long Term Financial Strategy was presented to and approved by Council on 27 November 2019. Updated indicative budget gaps for 2021/22 to 2022/23 were updated following the approval of the budget, as minuted from Council on 4 March 2020. This is an update to this Financial Strategy and provides information to Members of the revised position.

3.2 At the Council meeting in November 2019 the Finance Strategy was agreed which identified cumulative projected budgets gaps from 2020/21 to 2022/23 of:

- 2020/21 £5.644m;
- 2021/22 £10.621m; and
- 2022/23 £16.781m.

3.3 The Council, on 4 March 2020 agreed a budget which closed the budget gap for 2019/20 and generated revised cumulative gaps for future years, as follows:

- 2020/21 nil;
- 2021/22 £6.051m; and
- 2022/23 £13.069m.

4. Main Issues

Refresh of Long Term Finance Strategy

4.1 The Strategy (Appendix 1) provides information - in a local and national context – on financial issues affecting both funding for the Council and its anticipated spend. It provides information on estimated revenue and capital balances (both for General Services and HRA) rolled-forward in detail to 2023/24.

4.2 The figures have been revised for updated assumptions on Scottish Government funding, pay and non pay inflation, as well as general burdens and pressures. Reserves and the ongoing gap projections have also been updated to reflect the differences arising from the change in the planned outcome of the loans fund review.

4.3 A comparison of the General Services revenue cumulative budget gaps from those last reported to the current position is noted below. Annex 1 of the attached Strategy document highlights the changes in assumptions between the gap identified in March 2020 to the current projections and is summarised in the table below:

	2020/21 £m	2021/22 £m	2022/23 £m
Council meeting (March 2020)	6.051	16.069	n/a
Strategy (November 2020)	4.036	8.237	10.211
Change in identified gap	-2.015	-7.832	10.211

- 4.4** In relation to the HRA, based on current assumptions around rent increases, there are no anticipated gaps forecast to 2023/24.
- 4.5** The Council should consider longer-term financial planning in order to ensure potential future funding issues can be identified early and plans developed to mitigate such longer-term financial risks. Annex 1 of the attached Strategy now projects the Councils General Fund position to 2030/31.
- 4.6** As in previous years a sensitivity analysis has also been used to show possible variations arising from changes to assumptions into the future.
- 4.7** The General Services anticipated reserves position is noted below. The attached Strategy has reviewed the methodology by which the prudential reserve is calculated and the calculation now excludes the requisition to the HSCP, as the HSCP has in place its own prudential target and reserve. As a result of this and the projected updated budgets into future years the prudential reserve target on free revenue reserves for 2020/21 is £3.015m; for 2021/22 is anticipated to be £2.970m; and is anticipated to be £2.952m for 2022/23; and anticipated to be £2.962m for 2023/24. As reported to Council in August 2020 in respect of the draft annual accounts and change in approach in the loans fund review; and as updated in September 2020 the current level of unremarked reserves is below the prudential target (at £2.752m) and the attached strategy assumes that this level is re-established as part of the budget process for 2021/22.

	31/03/2020 £000s	31/03/2021 £000s	31/03/2022 £000s	31/03/2023 £000s
Revenue				
General Service Free Reserve	2,752	2,970	2,952	2,962
General Service Earmarked Reserve	6,643	2,579	1,250	565
Capital				
Capital Item Replacement Fund	214	214	214	214
Capital Grants Unapplied	132	0	0	0
Capital Reserve: Schools Regeneration	2,169	1,446	723	0
	11,910	7,209	5,139	3,741

The HRA anticipated reserves position is noted below. The prudential reserve target on free revenue reserves for the period to 2023/24 is shown below:

	31/03/2020	31/03/2021	31/03/2022	31/03/2023
	£000s	£000s	£000s	£000s
Revenue				
HRA Free Reserve	883	896	915	944
HRA Earmarked Reserve	3,041	0	0	0
	3,924	896	915	944

4.8 The Strategy also provides information in relation to treasury management, covering levels of debt and investments, together with average interest rates thereon. This will be considered in addition to the annual treasury strategy reported to Council prior to the start of each financial year.

4.9 The Strategy also notes the population projections for the Council area as a proportion of Scotland between 2012 and 2037, by population banding. Current projections identify that between the base year and 2039, the proportion of Scotland's population residing in the Council area falls from 1.74% to 1.46%. This is anticipated to have a direct impact on Scottish Government's allocation of funding to the Council, though the reality will not be known for some time.

4.10 The Strategy also notes policies and specific strategies adhered to by the Council to ensure adequate financial controls are in place.

4.11 Annexes 4, 5 and 6 of the Strategy identifies short, medium and longer term issues with planned actions to minimise financial risks from these issues.

4.12 The Finance Strategy assumes inflationary uplifts as follows:

- on non staffing lines assumed at 0% (any inflationary uplift required by contract conditions will be implemented as a burden); and
- on sales, fees and charges at 4%. The assumption excludes internal, statutory and identified HSCP charges which cannot be higher than the cost of service provision).

At present it has been assumed that pay awards will be 2% for the next two financial years and 3% thereafter, based on current low levels of inflation which are expected to increase gradually in the future. This is subject to national agreement and may vary.

4.13 The Strategy includes assumptions around the settlement from Scottish Government. This is based on officers' estimates around the likely position. It should be noted that settlement figures for 2021/22 would normally be due to be announced in mid-December 2020; however it is now understood that this is now unlikely to be available late January 2021, due to the impact of COVID-19 on budget-setting at UK Government level. The Scottish Government therefore does not have sufficient information from the UK Government to allow them to set a budget and notify Councils of a settlement.

- 4.14** The Scottish Government, in the settlement for 2019/20, agreed a cap on Council Tax increases at 4.79% and provided for a similar inflation-linked increase for 2020/21. It is anticipated at this stage that this flexibility in setting a Council Tax with an inflationary uplift will be allowed in 2021/22, with a current assumption within the updated attached strategy of an increase of 4.8%. This is, of course subject to the confirmation of the Scottish Government position and a Council decision on this when setting the Council Tax.
- 4.15** The Strategy includes an approach around scenario planning where the main financial issues for the Council are considered through three different circumstances: Likely; Worst Case; and Best Case. The figures used to identify anticipated budget gaps going forward are based on the Likely scenario which is illustrated in Annex 1 to the Strategy.
- 4.16** The Strategy also provides a longer term view of the potential cost of loan charges in order than Members may consider the revenue impact of capital investment decisions under varying potential interest rate scenarios. Again, in determining the anticipated funding gaps going forward the Likely scenario has been used.

General Services and Housing Revenue Account Revenue Estimates Update 2021/22 to 2023/24

- 4.18** Based on the above and the information provided below the Council's financial position has been projected to 2023/24.
- 4.19** For 2021/22 to 2023/24 the grant settlement from the Scottish Government to the Council is estimated to reduce by 0.75% each year. The expected reduction is due to a combination of expected funding reduction due to demographics projections and likely reductions due to expected grant reductions from the UK Government being passed-on to Councils via the Scottish Government.

As a result of the above changes in assumptions the estimated funding is currently estimated as:

- 2020/21 £190.157m
- 2021/22 £188.812m;
- 2022/23 £187.457m; and
- 2023/24 £186.051m.

The actual funding provided will not be known until the Scottish Government provide settlement figures later in this financial year and Members should note that these are likely to be different to the projections noted above and almost certainly will only cover 2020/21.

- 4.20** In recognition of the steady improvement in performance full collection rates anticipated for the purposes of this strategy was increased in 2020/21 to 97.5%, from 97.25%. However in updating the gap officers have made an allowance over the next two financial years for additional bad debt of £0.200m

in each financial year as a result of the impact of COVID-19. Officer will review the position in respect of this issue as the current financial year progresses between now and setting the 2021/22 budget.

The attached strategy recognizes that the Scottish Government has, over the last two financial years allowed Councils to set Council tax at a rate based on 3% plus inflation and anticipates that this practice will continue. On that basis within the updated figures, officers have updated the council tax position based upon an assumed increase of 4.8% per year, together with an expected growth in the Council Tax base due to new house building, resulting in the following estimated Council Tax income:

- 2020/21 – Budgeted charges raised of £36.890m;
- 2021/22 – Projected charges raised of £38.830m;
- 2022/23 – Projected charges raised of £40.541m; and
- 2023/24 – Projected charges raised of £42.598m.

4.21 Reports on the General Services and HRA Revenue Estimates 2020/21; and Treasury Strategy 2020/21 – which consider the impact of capital planning projections, will be presented to the Council meeting in March 2020 to ensure alignment of resources.

4.22 As at 31 March 2020, General Services revenue resources held by the Council was:

	£m
Reserves	9.395
<u>Of which:</u>	
Earmarked	6.643
Unearmarked	2.752
Prudential Target	4.305
Provisions	0.232
<u>Of which:</u>	
Voluntary Retirement/Severance	0.232

4.23 Similar to previous years, the projected position is based on current Council policy and projected levels of service delivery.

4.24 In relation to the WD Health and Social Care Partnership (HSCP), the finance strategy assumes funding to the HSCP will reduce pro-rata to the gap projection for the Council overall.

4.25 As reported in recent Budgetary Control reports and COVID-19 Update reports to Council during 2020/21 the financial impact of COVID-19 in 2020/21 is not yet fully clear as the pandemic continues to significantly impact on the country and this council area and is anticipated to continue to do so for the remainder of this financial year and most likely into next financial year. The recent announcements of an effective vaccine are positive but it is clear that implementation will take a number of months. For 2020/21 it is anticipated that the additional funding from the Scottish

Government along with the financial flexibilities will allow the Council to fully offset the net financial impact of COVID-19. For future years the strategy assumes that any ongoing net financial impacts of COVID-19 into the future will continue to be funded by continued government financial support and financial flexibilities. This position will of course be monitored between now and March 2021 budget-setting Council.

- 4.26** The updated gap position and the strategy do not as yet assume any impact from the Scottish Government agreed financial flexibilities. The guidance on these flexibilities is not yet issued and therefore it is not yet clear as to what financial assistance options these will provide to the Council. Once this is clarified the options around these flexibilities will be reported to Council for consideration – including any impact on future funding gaps.

Projected Reserves and Provisions Position at 31 March 2021

- 4.27** The earmarked balances held at 31 March 2020 (per the annual accounts - £6.643m) will be reviewed over the next few months between now and setting the budget, the current position assumes that all funds are still required for their earmarked purposes.

- 4.28** For the purposes of this strategy a projected outturn breakeven is assumed for 2020/21, which is in alignment with the position reported in the Budgetary Control Report within the document pack for this meeting. This position will be reviewed between now and Council in March 2021. This strategy does not assume use of reserves at this stage.

- 4.29** The prudential target has been re-assessed based upon the current projected budget for 2021/22, and the target of 2% of the net budget becomes £2.970m.

- 4.30** Members will be aware of external audit comments on the level of reserves generally and the level of the prudential target. Members will wish to consider these comments when setting the budget, with the potential to increase the value of reserves through a planned approach to generating a surplus in 2021/22 onwards.

- 4.31** At this time it is anticipated that the provisions held, as noted above, are adequate. This will continue to be considered and assessed again prior to the end of 2020/21.

Consultation on the 2021/22 General Fund budget

- 4.32** The consultation process for the 2021/22 budget will be informed by Elected Members and the funding position of the Council as the budget process proceeds and information becomes available on settlement levels.

Consultation on the 2021/22 HRA budget

- 4.33** The consultation will take place between November 2020 and January 2021, through a range of meetings with tenants and tenants groups and representative groups.

Other Issues

- 4.34** As noted above, the long term capital plan was approved by Council in March 2020. Any additional projects which may be developed will require to come to Council or relevant Committee with appropriate business cases for approval for adding to the capital plan.
- 4.35** Members are reminded that there are a number of significant assumptions within the financial projections, including: national pay awards, the continuing effects of welfare reform and the terms of the Scottish Government financial settlement.
All assumptions remain subject to change and confirmation and will be further considered and any changes advised between now and Council in March 2021.
- 4.36** EU exit continues to present a risk to assumptions made on Scottish Government settlements and the Council's current budget assumptions. In announcements in 2019 the Chancellor of the Exchequer was clear that a "no deal" EU exit would be likely to require the Government to revisit Budget assumptions. It is anticipated that this would impact on the settlement to the Scottish Government and likely onto Councils. The extent of the risk around this is not quantifiable.
- 4.37** Longer-term projections, as advised above, have been made to 2030/31 and highlight, based on a range of assumptions which are detailed in the Finance Strategy a range of funding gaps to 2030/31 between £30.280m and £47.000m, based on a best and worst case scenario – with the likely position being somewhere in between, currently valued at £38.070m. Clearly as projections range further into the future uncertainty is clear, however these figures have been generated to provide Members with an insight as to the potential position going forward and allow Members and officers to generate approaches to manage such funding gaps in a planned manner.

5. People Implications

- 5.1** The strategy itself does not have any direct implications on the workforce; however as savings options generated by the CMT to close the projected gaps are developed there will almost certainly be implications for the workforce.

6. Financial and Procurement Implications

- 6.1** The strategy does not have any direct financial implications. However, it does identify in future years the Council is facing budget gaps which will require Council decisions to mitigate.
- 6.2** The scenario planning consideration within the Strategy illustrates how relatively small movements in assumptions can lead to significantly variable outcomes in terms of the potential future funding gaps facing the Council (General Services). A summary of this is as follows for the next three financial years:

GENERAL SERVICES:			
GAP ANALYSIS UNDER DIFFERENT SCENARIOS			
	2021/22 £000's	2022/23 £000's	2023/24 £000's
LIKELY PROJECTION	£4,036	£8,237	£10,211
BEST	£2,980	£8,159	£9,828
WORST	£9,488	£17,060	£19,914

6.3 The main variables within the strategy will be refined throughout the budgeting process as more information becomes available and in particular when settlement figures are provided by the Scottish Government.

6.4 A summary of the HRA gap analysis under different scenarios is as follows:

HRA:			
GAP ANALYSIS UNDER DIFFERENT SCENARIOS			
	2021/22 £000's	2022/23 £000's	2023/24 £000's
SCENARIOS			
LIKELY PROJECTION	£0.093	£0.184	£0.334
BEST	-£0.036	-£0.074	-£0.024
WORST	£0.250	£0.500	£0.768

6.5 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 Financial Strategy, these assumptions lead to the identified budget gaps. The gaps could vary from that indicated if the Council identifies further burdens, or mitigates some.

7.2 Roll-out of Universal Credit continues and from November 2018 onwards new claimants and people with change of circumstances will start to move from Housing Benefit to Universal Credit, and at some point in the future (date to be set by DWP) the transfer of remaining claimants will commence. These changes present risks to rent collection rates due to the way Universal Credit works compared to Housing Benefit. There is also a risk in relation to Council Tax collection as Council Tax Reduction is not passported from Universal Credit as it currently is from Housing Benefit. The impacts of these changes will be monitored for potential impacts on future years' budgets.

7.3 There a risk is around the current expectation that the net financial impact of COVID-19 will be funded in 2020/21 and into the future from ongoing government financial assistance. This will be monitored and updates provided to Council as the budget process proceeds.

7.4 There are risks around two key assumptions in the strategy around pay awards and Council Tax increase into the future. These will be monitored and updates provided to Council as the budget process proceeds.

8. Equalities Impact Assessment (EIA)

8.1 An initial screening exercise undertaken has confirmed that there are no direct EIA implications as a result of the Finance Strategy.

9. Consultation

9.1 The Long Term Financial Strategy and revised budget position have been considered by the Corporate Management Team on an ongoing basis through August to November 2020 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 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: 17 November 2020

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Appendix: Long Term Financial Strategy

Background Papers: Minute of Council meeting – 4 March 2020;
August 2020 Council: Draft Annual Accounts;
September 2020 Council – Budgetary Control Report;
Reports to Council meetings in August, September and
November 2020 – COVID-19 Updates; and
November 2020 Council – Budgetary Control Reports

Wards Affected: All