

**WEST DUNBARTONSHIRE COUNCIL****Report by Chief Officer - Resources****Council: 19 June 2024**

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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 2025/26 – 2029/30 revenue budget gaps.
- 1.2 This is the first financial update of 2024/25 since the 2024/25 budget was set on 6 March 2024 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:
  - a) Note the updated position regarding projections for the Council's estimated revenue budget gaps in 2025/26-2029/30, in particular the updated mid-range 2025/26 budget gap of £9.235m as summarised at paragraph 4.11.
  - b) Agree the 3 year strategy to replenish the Council's reserves using the additional £1.129m of recurring Revenue Support Grant funding, the increased benefit associated with the reduction in the employers Strathclyde Pension Fund contribution rate and the release of £0.860m of earmarked funding to the general fund.
  - c) Note the preliminary discussions between the S95 Officers of Inverclyde Council, Renfrewshire Council and West Dunbartonshire Council in relation to a potential future delivery model for Internal Audit and Fraud Services and agree these discussions should be further progressed with a report being brought back to Council with options at an appropriate time.

**3. BACKGROUND**

- 3.1 On 6 March 2024, the Council agreed a balanced 2024/25 revenue budget, a revised capital budget and revenue estimates for 2025/26-2028/29. 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 6 March to agree a balanced 2024/25 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	6 March 2024 Budget				Post Budget Setting			
	25/26 £000	26/27 £000	27/28 £000	28/29 £000	25/26 £000	26/27 £000	27/28 £000	28/29 £000
Best Case	9,691	15,136	20,617	31,854	4,398	9,793	15,274	26,511
Mid-Range	15,053	23,260	31,596	45,783	9,760	17,917	26,253	40,440
Worst Case	24,409	37,447	50,726	69,975	19,116	32,104	45,383	64,632

3.2 Appendix 1 provides further detail on how the mid-range estimated budget gap was affected by the decisions made when setting the 2024/25 budget on 6 March 2024.

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

4.1 Since the budget was agreed on 6 March 2024 I have revisited the key assumptions and cost pressures detailed in the Council Budget Paper. This is summarised in the paragraphs below.

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

In my report on 6 March 2024, 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.

After the 2024/25 budget was set additional consequential of £62.7m (our share being £1.129m) was made available by the Scottish Government to support the freezing of Council Tax. This brought the Council's overall 2024/25 funding reduction to around a 0.5% reduction. As such it may be prudent to assume a 0.5% reduction in future years within the mid-range scenario. The Scottish Government was due to publish its medium term financial strategy in May 2024 however this has been delayed until June 2024 due to the change in Scotland's First Minister. Once published this may provide more insight as to future year estimates. Consequently I have not changed my flat cash mid-range assumption at the current time however there may be a need to revisit this prior to the next Financial Update report to Council on 30 October 2024. By means of illustration a 0.5% reduction in funding would increase the budget gap by circa £1.2m.

##### *4.3 Changes to Base Budget*

There have been two changes to the Council's base budget since the 6 March

2024 Budget report to Council. These are set out below.

4.4 *Base Budget Adjustment 1 – Adult Social Care Pay Uplift in Commissioned Services*

The Scottish Government is providing £230m to fund the pay uplift to a minimum rate of £12 per hour for workers providing direct adult social care in the third and independent sectors. Our share of the £230m is £3.916m. This funding is passed through to the Health & Social Care Partnership (HSCP). The base budget adjustment is required to reflect the need to increase the HSCP requisition by this amount however as the income is also received there is no impact on the budget gap.

4.5 *Base Budget Adjustment 2 – Criminal Justice Funding*

In previous years, the Council acknowledged receipt of criminal justice funding from the Scottish Government, offset by a criminal justice requisition payment passed through to the HSCP. Since the funding is paid direct to HSCP, a base budget adjustment is required to remove both this cost and income from the General Services budget, this has no impact on the budget gap.

4.6 *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.

In prior years there has been an annual adjustment to the budget to reflect income due from services outwith General Services (e.g. HRA, Capital etc) for corporate support services provided to them. These charges tend to increase annually due to the increase in costs associated with provider services, pay awards, and other inflationary increases such as utilities, NDR, fuel etc). The amount of the budget adjustment was built into historic versions of the Council's Financial Strategy however there was no clarity over how the adjustments were calculated or uplifted. This adjustment has been removed however it does not affect the budget gap until 2026/27 (and beyond) as the amount in the base budget in 2025/26 was not projected to increase from the 2024/25 level. Going forwards these estimated adjustments will be replaced with actual increases as and when they are identified.

**Cost Pressures**

4.7 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 has been one new cost pressure identified since the 6 March 2024 Budget report to Council.

4.8 *Cost Pressure 1 – Additional Support Needs*

In 2024/25 there has been a significant increase in numbers of primary school

children with severe and complex needs who require support, in particular in mainstream schools. The Council is taking measures to enable three schools to manage the needs of these children in a responsive manner consistent with the presumption to mainstream guidance. This has a recurring revenue implication of £0.252m for associated staff costs.

## Employee Costs

- 4.9 The Scottish Joint Council (SJC) 2024/25 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 3% assumption allowed for in the budget. The Teachers pay award has been agreed up to 31 July 2024 as part of a previous 28 month deal and any increase beyond that date has still to be negotiated.
- 4.10 For 2025/26 and beyond I had previously assumed pay awards of 3% 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. On 26 April 2024, in relation to the 2024/25 pay award, COSLA Leaders agreed to mandate the relevant spokesperson to enter into negotiations with the Trade Unions with an overall financial envelope for of up to 3.2% including discussions around terms and conditions.

On this basis I have changed my assumptions to:

Scenario	Annual Increase from 2025/26 Onwards
Best Case	3.2%
Mid-Range	3.2%
Worst Case	4.0%

The increase from 3% to 3.2% increases the estimated 2025/26 budget gap by £0.352m.

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 £1.76m

## Revised Mid-Range Estimated Budget Gap

- 4.11 Exhibit 2a sets out the revised cumulative estimated budget gap in the mid-range in between 2025/26 and 2029/30 and Exhibit 2b summarises the total cumulative budget gaps in all three scenarios. Exhibit 2a illustrates that, in the mid-range scenario the Council are faced with a budget gap of £9.235m in 2025/26 rising cumulatively to £50.953m in 2029/30. Exhibit 2b shows that the cumulative 5 year gap ranges from £46.681m in the best case scenario to £74.096m in the worst case.

### *Exhibit 2a – Revised Mid-Range Estimated Budget Gaps (Cumulative)*

	Para Ref	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000

Budget Gap 6 March	3.1	9,760	17,917	26,253	40,440	48,666
Additional Funding	4.2	(1,129)	(1,129)	(1,129)	(1,129)	(1,129)
Adult Social Care Pay Uplift Funding	4.4	(3,916)	(3,916)	(3,916)	(3,916)	(3,916)
Adult Social Care Pay Uplift Expenditure	4.4	3,916	3,916	3,916	3,916	3,916
Criminal Justice Reducing Funding	4.5	1,697	1,697	1,697	1,697	1,697
Criminal Justice Reducing Expenditure	4.5	(1,697)	(1,697)	(1,697)	(1,697)	(1,697)
Internal income budget adjustment	4.6	0	76	442	808	1,174
ASN Cost Pressure	4.8	252	252	252	252	252
Increase in pay award assumption	4.10	352	726	1,123	1,544	1,990
<b>Revised Estimated Budget Gap</b>		<b>9,235</b>	<b>17,842</b>	<b>26,941</b>	<b>41,915</b>	<b>50,953</b>

*Exhibit 2b – Estimated Budget Gaps (Cumulative) – Scenario Analysis*

<b>Budget Gap</b>	<b>2025/26 £000</b>	<b>2026/27 £000</b>	<b>2027/28 £000</b>	<b>2028/29 £000</b>	<b>2029/30 £000</b>
Best Case	8,473	16,202	24,424	33,189	46,681
Mid-Range	<b>9,235</b>	<b>17,842</b>	<b>26,941</b>	<b>41,915</b>	<b>50,953</b>
Worst Case	13,787	26,909	40,607	54,940	74,096

### **2025/26 Budget Process**

4.12 Given the scale of the financial challenge facing the Council in 2025/26 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 session on 21 May 2024 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**

#### *Rebuilding Reserves*

4.13 When setting a balanced 2024/25 revenue budget on 6 March 2024 the Council agreed the use of £3.077 million of temporary reserves and that a report will be brought to Council in June to provide:

- an update on the £62.7m of additional funding to be distributed to local government
- options to replenish the Council's reserves.

4.14 Share of £62.7m

Since the 6 March 2024 budget meeting the Council's share of the £62.7m

has been confirmed as £1.129m (as per paragraph 4.1).

4.15 Revised Strathclyde Pension Fund Benefit

On 20 December 2023 a report to Council presented the financial benefit to the Council as a consequence of the Strathclyde Pension Fund (SPF) Board reducing employer pension contribution rate in the years 2024/25 and 2025/26 (to 6.5%) and revert to a prudent estimate of a sustainable long-term rate in 2026/27 of 17.5%. This generated an estimated saving to the Council of £21.327m over the three year period which Council agreed to smooth over a four year period thus generating £5.332m in savings in the years 2024/25 – 2027/28.

4.16 The December 2024 report stated that these figures were based on the staff establishment in 2023/24 and still need to be uplifted to reflect the estimated 2024/25 salary calculations. Furthermore they need to be uplifted to reflect a revised assumption that pay awards will be 3.2% per annum from 2025/26 onwards (refer to paragraph 4.10)

4.17 These two factors have been built into a financial model and Exhibit 3 summarises the revised benefit

4.18 *Exhibit 3 – Revised benefit from reduction in employer pension contributions*

	<b>2024/25 £000</b>	<b>2025/26 £000</b>	<b>2026/27 £000</b>	<b>Total</b>
December Council Report	9,963	9,963	1,401	21,327
Additional Benefit	1,051	1,381	240	2,672
<b>Revised Benefit</b>	<b>11,014</b>	<b>11,344</b>	<b>1,641</b>	<b>23,999</b>

4.19 In summary this increases the total benefit from the £21.327m reported in December to £23.999m (a total increase over the three years of £2.672m). This three year benefit should be used to rebuild the Council reserves.

4.20 *Release of Matched ESF Funding to General Fund*

The last two European Structural Fund (ESF) Programme ran from 2007-2013 and then from 2015-2023. Each year the Council committed match funding to the programme. Throughout the life of the programmes the Council faced challenges and operated in effect at risk; due to the suspension of the programme by the European Commission and uncertainty around cost model/ claiming process with the Scottish Government. ESF funding was regarded as the funder of last resort so the Council carried unspent matched funding forward to mitigate against the risk of any shortfall between funding provided and expenditure.

4.21 ESF funding has come to an end and in May 2023 the Council submitted a final notification of change to Scottish Government reducing the operational cost and match funding of our final ESF operations. This has been accepted by the Scottish Government. The Council finance team have now completed the final reconciliations of associated income and expenditure and we are now able to release the match funding that was being carried forward. In total

£860,195 can be returned to the general fund.

*Rebuilding Reserves Summary*

4.22 Exhibit 4 summarises how the Council can rebuild its reserves over a three year period. This illustrates that, in total the Council reserves can be replenished by £4.661m over the three year period. This exceeds the £3.077m of ‘temporary’ reserves used to balance the 2024/25 budget by £1.584m however it is recommended that the full £4.661m is committed to rebuilding the reserves as we are currently anticipating an adverse variance in 2024/25 which will need to be funded from reserves.

4.23 *Exhibit 4 – Strategy to Rebuild Reserves*

	<b>Para</b>	<b>2024/25 £000</b>	<b>2025/26 £000</b>	<b>2026/27 £000</b>	<b>Total</b>
Share of £62.7m	4.14	1,129	0	0	1,129
Increased Pension Benefit	4.18	1,051	1,381	240	2,672
Release of Matched Funding	4.21	860	0	0	860
<b>Total</b>		<b>3,040</b>	<b>1,381</b>	<b>240</b>	<b>4,661</b>

*Internal Audit And Fraud Service Provision*

4.24 On 23 November 2023 the now discontinued West Dunbartonshire Council (WDC) / Inverclyde Council (IC) Shared Services Committee agreed to note the continuation of shared Internal Audit and Fraud Services between WDC and IC in the short to medium term and note that wider discussions will continue with neighbouring councils on possible options to create a more sustainable delivery model for Internal Audit and Fraud Services over the longer term.

4.25 Since November informal discussions have been held with the Section 95 Officers of IC, WDC and Renfrewshire Council (RC) to explore possible options and review a range of existing models across the other Scottish local authorities.

4.26 Specifically in relation to their Internal Audit and Fraud Service all three councils have concerns regarding recruiting and retaining staff and ensuring sufficient resilience over service delivery. This has been evidenced recently by a period of absence for the WDC/IC Shared Service Manager for Audit & Fraud and the Chief Internal Auditor for RC is retiring imminently.

4.27 It should be noted that no decisions have been made yet with preliminary discussions focused on considering options with the opportunity to provide:

- improved resilience
- better career progression and staff development
- increased satisfaction and retention of key skills
- knowledge sharing to provide better outcomes for the three councils.

4.28 Before any options can be more formally explored, consideration will need to

be given to issues such as (but not limited to):

- responsibilities, liabilities, and costs
- ensuring sufficient capacity to deliver internal audit across multiple councils including associated bodies such as IJBs, Valuation Joint Boards and other small bodies
- alignment of roles, salaries, grades and role descriptions
- any TUPE implications (if applicable).

4.29 In order to develop any options beyond preliminary discussions there is a need to engage with the existing Internal Audit and Fraud teams, and colleagues in Human Resources. Any discussions of this nature can create uncertainty for staff and members are therefore asked to consider whether they wish the three S95 Officers to progress these discussions and bring back a paper setting out options at an appropriate time.

#### 4.30 *Teacher Numbers*

As part of the 2023/24 Finance Settlement the Scottish Government withheld £45.5m on the condition that councils maintained teacher numbers at the 2022 census level. The December 2023 census showed a reduction in teacher numbers of 160 collectively across all Local Authorities. For West Dunbartonshire Council the teacher number dropped by 12 teachers. Ultimately, the Scottish Government released the withheld £45.5m to all councils, regardless of whether they maintained teacher numbers.

For 2024/25 the Scottish Government has removed £145.5m from the General Revenue Grant with this instead issued as a specific grant, conditional on maintaining teacher numbers at the level set out in each Council's grant letter.

For West Dunbartonshire Council the specific grant is £2.6m and there is an expectation the Council will maintain 938 teachers (this being the figure returned in the 2023 census) which is 8 teachers more than in the Council's base budget.

To maintain a figure of 938 teachers would result in a cost pressure of £0.480m.

This situation applies to all Scottish councils. Discussions are continuing between COSLA and the Scottish Government with an agreed approach to the discussions and correspondence. At this stage the additional cost has not been added to the budget gap but there remains a risk that if teacher numbers are not maintained then some or all of the specific grant could be withheld.

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

The Council, at the budget meeting on 6 March 2024, agreed an HSCP requisition of £85.029m (subsequently increased to £88.945m to reflect the adjustment detailed at paragraph 4.4). 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 made by the Scottish Government. However this is only an assumption and the HSCP requisition

will be a matter for Council to consider as part of the budget process.

#### 4.32 *Council Tax*

The estimated budget gap makes no assumption over future Council Tax increases as setting Council Tax is subject to a political decision when agreeing the budget in March 2025. However, by means of illustration, a 5% increase would generate approximately £2.0m in revenue.

#### 4.33 *Fees and Charges*

In 2024/25 an 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 2025/26 to 2029/30. 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.

**Laurence Slavin**  
**Chief Officer - Resources**  
**Date: 22 May 2024**

**Person to Contact:** Laurence Slavin, Chief Officer - Resources

E-mail: [laurence.slavin@west-dunbarton.gov.uk](mailto:laurence.slavin@west-dunbarton.gov.uk)

### **Appendices**

Appendix 1 – Impact of 2024/25 budget decisions on estimated future budget gaps

### **Background Papers**

Finance Update to Council – 20 December 2023

Budget Report to Council - 6 March 2024

### **Appendix 1 – Impact of 2024/25 budget decisions on estimated future budget gaps**

	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>
6 March Budget Report Mid-Range Budget Gap	15,053	23,260	31,596	45,783
<b>6 March 2024 Council Decisions</b>				
Management Adjustments	(1,122)	(1,172)	(1,172)	(1,172)
Saving Options	(3,679)	(3,679)	(3,679)	(3,679)
Increase in Fees & Charges	(492)	(492)	(492)	(492)
<b>Updated Mid-Range Budget Gap</b>	<b>9,760</b>	<b>17,917</b>	<b>26,253</b>	<b>40,440</b>