

WEST DUNBARTONSHIRE COUNCIL**Report by Chief Officer - Resources****Council: 20 December 2023**

Subject: Financial Update**1. PURPOSE**

- 1.1 To provide an update on the financial challenges facing the Council, the estimated 2024/25 – 2028/29 revenue budget gaps and present the first tranche of saving options for members consideration to help the Council deliver a balanced 2024/25 budget.
- 1.2 This is the third financial update of 2023/24 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 that the Council's estimated 2024/25 revenue budget gap has decreased from £17.274m as at October 2023 to £16.970m prior to any measures to balance the budget.
 - b) Approve the smoothing of the financial benefit from the reduction in the Council's employer contribution rate to the Strathclyde Pension Fund over either a four or five year period.
 - c) Approve the £1.841m of saving options requiring political consideration to contribute toward agreeing a balanced 2024/25 budget and assist with future projected budget gaps.
 - d) Note the £0.973m of management adjustments which will contribute to agreeing a balanced 2024/25 budget and assist with future projected budget gaps.

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. Further reports to Council on 28 June 2023 and 25 October 2023 provided further updates 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 Budget Gaps 25 October 2023 Council Report

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

4. MAIN ISSUES

4.1 I have revisited the key assumptions and cost pressures detailed in the 25 October 2023 Council report. This is summarised in the paragraphs below.

Scottish Government Finance Settlement, Council Tax and the UK Government Autumn Statement

4.2 There are no changes to my previous assumptions around the level of future Scottish Government funding. In my report in October, I updated Council on the signing of the Verity House Agreement but retained my funding assumption of:

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

4.3 The setting of Council Tax rates is the responsibility of local government. However, on the 17 October, the First Minister announced the intention to freeze Council Tax rates. Such measures are to be implemented to protect household finances from rising prices with the Scottish Government fully funding the freeze. However, and as COSLA set out, *'this has longer term implications for all Councils at a time when we know there are acute financial pressures, and where we are jointly looking at all local revenue raising options*. The financial pressures councils are facing can be evidenced by a number of local authorities in England declaring effective bankruptcy through issuing a section 114 notice which is an acknowledgement that expenditure will outstrip income and, in summary, means the council must cease all new spending on services that it is not obliged by law to provide, or that it has already committed to.

4.4 The Council Tax announcement also has implications for any assumptions that were being considered in relation to Council Tax multipliers. In June the Scottish Government had consulted on measures to increase the share of the

Council Tax burden towards higher valued properties with that linked to the ability to pay. This was set out as a progressive measure to ensure higher banded properties paid proportionally more Council Tax.

- 4.5 Indicative calculations identified that, were this to be implemented, an additional £1.6m could be raised locally to support service delivery. The consultation also considered options to phase these changes in over several years however the announcement on the 17 October removes this, and the option for any overall Council Tax increases, from Council discretion. In doing so this removed the ability for Council to set rates with reference to local circumstances to meet any residual financial gap as is required by legislation.
- 4.6 The extent to which the Council Tax freeze is fully funded remains subject to ongoing discussions, however there is a risk that, should this not be delivered as anticipated, further service reductions would likely result and financial sustainability would be increasingly challenging.
- 4.7 On the basis that the Scottish Government will need to fund the Council tax freeze I consider it unlikely that the Council will receive a settlement which exceeds my assumption of flat cash.
- 4.8 On the 22 November the Chancellor of the Exchequer set out the UK Government's plans to continue to reduce inflation whilst avoiding increases in government spending and high tax. The full implications of the UK Government Autumn Statement will extend to wages, benefits, borrowing and business tax. The measures set out in the Statement results in estimated additional funding for the Scottish Government through the Barnett formula of £545 million (approximately £233m in 2023/24 and £281m in 2024/25). The main measures generating consequentials are:
- the funding of the 2023/24 NHS pay award in England (£235m)
 - 75% relief on business rates in England for the retail, hospitality and leisure sectors in 2024/25 (£232m)
 - freezing the small business multiplier in England in 2024/25 (£32m)

While the Scottish Government is free to spend this money where it likes, it seems highly likely that the NHS related consequentials, and possibly more, will be ring fenced for the NHS in Scotland. The final destination of the business related sums is less certain. The anticipated impact for the Scottish Government's Budget is not expected to be clear until the 19 December when the Scottish Government sets out its corresponding plans as part of its Draft Budget. This date is after this report was finalised. If possible a verbal update on the settlement will be provided on the day of the Council meeting.

2023/24 Pay Award Update

Teachers Pay Award

- 4.9 The 2023/24 Teachers pay award was agreed in March 2023 (28 months deal

covering the period 1 April 2022 – 31 July 2024).

The elements applying in 2023/24 are:

- Effective from 1 April 2023, a 5% increase on all SNCT pay points with a pay cap at starting salaries of £80,000 and above, where a £4,000 uplift will apply.
- Effective from 1 January 2024, a 2% increase on all SNCT pay points with a pay cap at starting salaries of £80,000 and above, where a £1,600 uplift will apply. This element applies until 31 July 2024.

In respect of the 2023/24 teacher's pay award, the Scottish Government agreed to make a financial contribution of £185m towards the recurring costs associated with the pay award for 2022-2024. The Council's share of this funding is £3.300m and costs associated with the pay award are £3.670m, giving rise to a shortfall in funding of £0.370m.

LGE Pay Award

- 4.10 The 2023/24 LGE pay deal was agreed in November 2023. The pay offer, backdated to 1 April 2023, means that employees currently paid the Scottish Local Government Living Wage and those on National Spinal Column Points 19 to 23 will receive an increase of £1.04 per hour. Employees on all other spinal column points will receive either an increase of £1.00 on their hourly rate or the following (which ever) is more:

Exhibit 2 – LGE Pay Award

Spinal Column Point	2023/24 Pay Award Increase
SCP019-SCP043	7.5%
SCP044-SCP064	6.5%
SCP065 and above including Chief Officers	6.05%

- 4.11 The costs associated with the pay award are £3.694m in 2023/24 which have been added to the Council's base budget.
- 4.12 The financial contribution made available by the Scottish Government towards the recurring costs associated with the 2023/24 LGE Pay Award is complicated and summarised in the table below. The distribution of elements of the funding are not confirmed yet so the figures in the table are estimates.

Exhibit 3 – Scottish Government Funding for 2023/24 Pay Award

Funding Element (£,000)	National Share (£m)	WDC Estimated Share (£,000)
Scottish Government (Revenue)	155	2,821
Scottish Government (Capital) – SG capital underspends to be provided to councils with capacity to convert to revenue which will then be distributed	22	400
Child Abuse Compensation Scheme contribution from	7	127

LG due to less demand than anticipated. Puts an additional £7m into overall LG 2024/25 settlement for the purposes of paying the 2023/24 pay award.		
Underspends nationally in employability funding	21	382
Carried Forward Pupil Equity Funding to be repaid to councils in 2024/25	30	546
Share of £17.2m to backdate pay award to 1 st April 2023	17.2	313
Total	252.2	4,589

- 4.13 As part of the agreement COSLA Leaders agreed that Councils would contribute a total of £10m from Council reserves (WDC Share £182,000)
- 4.14 The £4.589m of funding made available by the Scottish Government for the 2023/24 pay award was based on the total local government workforce. However councils have autonomy to allocate funding based on local needs and priorities. Therefore it is expected that Council, when agreeing the 2024/25 budget on 6 March 2024, may require to take a decision as to whether a share of the funding for the 2023/24 pay award funding is passed through to the HSCP. There has been no assumption made in this report about any political decision in relation to this funding. Consequently the budget gap presented in this report has been calculated with 100% of the funding retained by the Council. The HSCP makes up 31% of the overall Council staff costs (excluding Teachers) so if the full share was to be passed on this would amount to £1.422m and the budget gap for 2024/25 will increase by the amount passed on.
- 4.15 Exhibit 4 summarises the impact of the combined teachers and LGE pay awards on the Council's estimated 2024/25 budget gap. This includes £0.221m for the assumed 3% pay award in 2024/25 being applied to the uplifted 2023/24 base.

Exhibit 4 – Impact of 2023/24 Pay Award on 2024/25 Budget Gap

	(£,000)
Impact of 2023/24 Teacher's Pay Award on base budget	3,670
Impact of 2023/24 LGE Pay Award on base budget	3,694
3% 2024/25 pay award assumption applied to 2023/24 base uplift	221
Deduct SG Funding for Teacher's Pay Award	(3,300)
Deduct SG Funding for LGE Pay Award	(4,589)
Net Impact of 2024/25 Pay Award	(304)

- 4.16 The 2024/25 staff estimates for LGE have been made assuming an employer's contribution to the Strathclyde Pension Fund of 19.3% rather than at the reduced level reported to Council in October 2023. Refer to paragraph 4.20 for more details on how the financial benefit of this reduction could be used to help address the Council's budget gap in 2024/25 and future years.
- 4.17 The Scottish Teachers' Pension Scheme has been subject to its periodic

valuation review to set employer contributions. The valuation has confirmed that an increase in the employer contribution rate is required from its current rate of 23% to 26% from 1 April 2024. The 2024/25 staff estimates for teachers have applied the uplifted 26% pension contribution. The impact of this for the Council is a cost pressure of £1.5m.

The principal reason for this is a UK Government decision to reduce the SCAPE discount rate used in the valuation process. The Chief Secretary to the Treasury’s statement announcing the change in the discount rate said:

The Government is aware that the updated SCAPE discount rate will generally lead to higher employer contribution rates for most unfunded public service pension schemes resulting from the 2020 valuations. In recognition of the cost pressure that an increase to the employer contribution rate would bring to existing departmental budgets, the Government has committed to providing funding for increases in employer contribution rates resulting from the 2020 valuations as a consequence of changes to the SCAPE discount rate.

The circular from the Scottish Public Pensions Agency announcing this change states:

HMT has confirmed that, for devolved administrations, the Barnett formula will apply. The Scottish Ministers will make decisions on funding allocations once Barnett consequential amounts are confirmed

So whilst there is a £1.5m pressure on the Council’s revenue budget there is an expectation that it will be fully funded. However until this is confirmed by the Scottish Government there is a risk this funding will not be passed on to Scottish councils.

- 4.18 Having reflected on the 2023/24 pay award I have maintained my assumption regarding the 2024/25 pay award which is that the Council will need to fund 2% in the best case scenario, 3% in the mid-range scenario and 4% in the worst case scenario.

Revised Mid-Range Estimated Budget Gap

- 4.19 Exhibit 5 sets out the revised cumulative estimated budget gap in the mid-range in 2024/25 – 2028/29. It illustrates that, prior to any measures to balance the budget, the Council is faced with a budget gap of £16.970m in 2024/25 rising cumulatively to £49.316m in 2028/29.

Exhibit 5 – Revised Mid-Range Estimated Budget Gaps (Cumulative)

	Para	2024/25 (£000)	2025/26 (£000)	2026/27 (£000)	2027/28 (£000)	2028/29 (£000)
Budget Gap 25 Oct 2023	3.1	17,274	23,971	31,957	40,067	48,669
Net Impact of 2024/25 Pay Award	4.19	(304)	(304)	(304)	(304)	(304)

Revised Estimated Budget Gap		16,970	23,894	32,115	40,466	49,316
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Measures to Balance the Budget

Strathclyde Pension Fund (SPF) Employer Contributions

4.20 As reported to Council on 25 October 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. 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

The Council has received its individual results schedule confirming these rates. Based on the current employee pensionable pay (prior to implementing the recently announced 2023/24 pay award) this will generate an estimated saving to the Council of £21.327m which breaks down as follows:

- 2024/25 - £9.963m
- 2025/26 - £9.963m
- 2026/27 - £1.401m

4.21 There are a range of options available to the Council in terms of how to manage this overall saving of £21.327m however, in the interest of protecting services and jobs it is recommended that any option should focus on helping reduce the Council's budget gap. Exhibit 6 sets out a range of possible options for applying the benefit to reducing the budget gap.

Exhibit 6 – Options for Managing the SPF Contribution Benefit

	Option	2024/25 (£000)	2025/26 (£000)	2026/27 (£000)	2027/28 (£000)	2028/29 (£000)
1	Apply in year	9,963	9,963	1,401	0	0
2	Smooth over the 3 years of the pension valuation review	7,109	7,109	7,109	0	0
3	Smooth over 4 years	5,332	5,332	5,332	5,332	0
4	Smooth over 5 years of Council's financial strategy	4,265	4,265	4,265	4,265	4,265

4.22 Option 1, whilst providing an opportunity, to materially decrease the budget gap in the coming two years would result in a severe financial pressure in 2026/27 when the rate increases to 17.5%. It is therefore not a recommended option.

Option 2 is aligned to the period of the pension valuation review (as they are

done every three years) however the setting of the contribution rate at 17.5% in 2026/27 is the prudent estimate of the sustainable long-term rate so it is not expected to change again substantially in 2027/28. Whilst this option provides a degree of smoothing it will still create a large budget gap in 2027/28 when the benefit is used up.

Options 3 and 4 providing a further degree of smoothing which will help alleviate financial pressures over a longer period of time and facilitate longer term financial planning.

It is recommended that the Council approve either option 3 or 4 to smooth the benefit over four years or the five years of the Council's financial strategy (presented to Council on 20 December 2023 for approval). The benefit obtained in year but carried forward into future years will be held in reserve to help bring down future budget gaps. In the event that the Council's financial position improves in future years there will be an option to accelerate the application of the benefit.

- 4.23 Note these figures are based on the staff establishment in 2023/24 and still need to be uplifted to reflect the estimated 2024/25 salary calculations. If this creates a material change to the estimated benefit this will be reflected in the Budget Report which will be presented to Council on 6 March 2024.

Sales, Fees and Charges

- 4.24 The Council's financial planning currently assumes a 4% annual increase in sales, fees and charges (SFC) which will generate an estimated £0.316m in 2024/25. This assumption is already built into the 2024/25 budget gap. When agreeing the budget in on 6 March 2024 the Council may wish to consider an option to increase fees and charges by a higher percentage. Each further 1% increase in the Council's fees and charges would generate approximately £0.079m in income.

Saving Options

- 4.25 Between May and December 2023 officers have been developing a range of saving options to help address the budget gap. These are a combination of options not taken in previous years which have been refreshed and new options. They are categorised as either:
- Political options – options which require elected member approval
 - Management adjustments – options which can be implemented as part of normal business, have no front line service impact and the only staff impact can be managed through existing vacancies
- 4.26 A first tranche of saving options has been finalised. The political options are presented to Council for approval and the management adjustments are presented for noting. The savings options identified to date propose a potential reduction to the Council's establishment of 14.9 FTE in 2024/25 rising to 17.6 should they all be accepted by Council. They are summarised in Exhibit 7.

Exhibit 7 – December 2023 Saving Options

		2024/25		2025/26		2026/27 (and future years)	
Category	No	Saving (£,000)	FTE	Saving (£,000)	FTE	Saving (£,000)	FTE
Political	5	1,841	6.3	1,993	9	1,993	9
Mgt Adjustments	24	973	8.6	1,011	8.6	1,011	8.6
Total	29	2,814	14.9	3,004	17.6	3,004	17.6

- 4.27 A more detailed breakdown of these saving options is provided in appendix 1 and 2 with appendices 3 and 4 providing the detail of each saving option including the risk/impact associated with them.
- 4.28 The Chief Executive is authorised to progress voluntary severance and early retirement offers, where appropriate, to support the 2024/25 budget savings exercise. Where appropriate targeted discussions will commence in service areas following the Council decision.
- 4.29 Exhibit 8 sets out the revised 2024/25-2028/29 cumulative budget gap after taking account of the proposed measures to balance the budget. This reduces the 2024/25 budget gap to an estimated £9.891m however this would be on the basis all attached measures to balance the budget are approved and that the key assumptions made when estimating the 2024/25 budget gap are accurate.

Exhibit 8 Updated Mid-Range Estimated Budget Gaps (Cumulative) after Measures to Balance the Budget

	Para	2024/25 (£000)	2025/26 (£000)	2026/27 (£000)	2027/28 (£000)	2028/29 (£000)
Revised Estimated Budget Gap before Measures to Balance Budget	4.19	16,970	23,894	32,115	40,466	49,316
Smooth SPF benefit over 5 years	4.20	(4,265)	(4,265)	(4,265)	(4,265)	(4,265)
Political Saving Options	4.26	(1,841)	(1,993)	(1,993)	(1,993)	(1,993)
Management Adjustments	4.26	(973)	(1,011)	(1,011)	(1,011)	(1,011)
Revised Estimated Budget Gap After Measures to Balance Budget		9,891	16,625	24,846	33,197	42,047

- 4.30 Note that the revised estimated budget gap has made no assumptions about the:
- quantity of funding which will be made available by the Scottish Government in relation to the Council Tax Freeze (para 4.6)

- Passing through any of the 2023/24 pay award monies to the HSCP (para 4.14)
- Council being funded for the increase in Teachers Pension Contributions (para 4.17).

An update on these issues will be reported to Council on 6 March 2024.

- 4.31 It is clear from Exhibit 8 that further work is required to develop options to bridge the remaining estimated budget gap and officers will bring forward a second tranche of saving options as part of the budget report to be considered by Council when setting the 2024/25 budget.

Other Issues

- 4.32 *Health and Social Care Partnership*

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.

5. PEOPLE IMPLICATIONS

- 5.1 The potential staffing implications are shown within the savings options 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 Sets out the estimated revenue budget gaps in 2024/25-2028/29. The financial implications arising from the ongoing budget process are detailed in the report and appendices. 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 All individual savings options have been screened and where relevant, impact assessed.

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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Appendices

Appendix 1 – Summary of Political Saving Options

Appendix 2 – Summary of Management Adjustments

Appendix 3 – Detailed Political Saving Options

Appendix 4 – Detailed Management Adjustments

Appendix 5 – Equality Impact Assessments for All Saving Options

Background Papers

Budget Report to Council - 1 March 2023

Financial Update Report to Council – 28 June 2023

Financial Update Report to Council – 25 October 2023