APPENDIX 1

West Dunbartonshire COUNCIL

LONG TERM FINANCIAL STRATEGY

December 2023

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1. Introduction

1.1 West Dunbartonshire Council (the Council), like all councils, faces significant financial challenges and is required to operate within tight fiscal constraints for the foreseeable future due to the continuing difficult national economic outlook and increased demand for services. This Long Term Financial Strategy (LTFS) recognises the Council's duty to set a prudent, sustainable budget, and seeks to provide a practical foundation for the provision of the best possible value for money in the delivery of Council services in the longer term.

1.2 The LTFS is an important component of the Council's financial planning process. It underpins the longer term sustainability of the Council. The primary purpose of the LTFS is to ensure the Council lives within its means, balancing expenditure against the income raised through government grants, Non-Domestic Rates, Council Tax and fees and charges. As such the LTFS is a key tool to help ensure that:

- resources are deployed to facilitate delivery of the Council's strategic objectives with decisions on that deployment made within the appropriate financial context
- Elected Members can take full account of the impact of decisions on the overall financial position of the Council in the short, medium and long term
- the Council has a comprehensive balanced budget for General Services and the Housing Revenue Account (HRA)
- there is a clear financial planning link between Council decisions on capital planning and the General Fund and HRA revenue budgets
- resources are invested effectively, efficiently and on a sustainable basis
- there is an ongoing focus on securing efficiencies across the Council and closing our budget gaps;
- there is a clear understanding of the challenges and risks that impact on the Council's finances.

1.3 The adoption of a medium to longer term approach for financial planning enables the Council to plan the delivery of service changes across financial years through modernising services, investing in new technology, and in developing its strategic partnerships to provide longer term benefits. Whilst it is hoped this approach enables required service change to be delivered in a more planned manner and reduces the need for reactive cuts to services, that expectation needs to be considered alongside the fact that the Council continues to be in a period of single year settlements which doesn't provide any degree of financial certainly into the medium term. Furthermore the ring fencing of funding limits what we can do and additional policy and legislative implications, not always fully funded, puts financial pressures on councils.

1.4 The LTFS planning approach encompasses a longer term 10 year look forward that seeks to identify the challenges facing the Council. There is however, nothing to indicate that Local Government will receive a real terms funding boost in the medium term over and above the implementation of Scottish Government policies and national initiatives. In this context it is likely that Local Government in Scotland is faced with a continuing reduction in resources which will have a clear impact on service delivery. Given the current level of uncertainty surrounding future funding, it is therefore considered that a strategy covering the period 2024/25 to 2028/29 in detail with very high level estimates for 2029-2033 is reasonable and appropriate for planning purposes.

1.5 The LTFS makes a number of key estimates and assumptions. These will continue to be reviewed on a regular basis and reported to the Council as part of regular Financial Updates

1.6 The inclusion of information in the LTFS does not infer approval and all financial estimates and issues will have to be subject to approval through the budget process.

2 Current Economic and National Context

2.1 The current national context is one of increasing pressure, volatility and uncertainty. There are ongoing consequences of issues such as the UK's withdrawal from the EU, the economic impact of the UK 'mini-budget' in September 2022 and long lasting by supply chain issues which have led to adverse impacts on the wider economy. The war in Ukraine has resulted in further widespread disruption of goods and displacement of people and has further heightened uncertainty. The conflict shows little sign of ending and the consequential impacts of the war, particularly on markets, which have seen significant disruption and downward valuations, and also on goods and services which have seen prices increasing materially. Moreover the UK has provided substantial financial resources to the Ukraine Government at a time when domestic public finances are seeing unprecedented strain following the economic damage inflicted by the COVID pandemic.

2.2 The scale of the financial intervention by the UK Government during the COVID pandemic was unprecedented with the resultant borrowing levels only surpassed by the relative borrowing that took place during the Great Depression and World War 2. The Office for Budget Responsibility (OBR) estimated in March 2022 that the total cost of pandemic-related support measures would be £311bn and the National Audit Office estimated the lifetime cost of Government spending, predominately financed by borrowing was £376bn. The need to repay the cost of that financial support will require the UK and Scottish Government to implement policies to replenish public finances. It is not unreasonable to assume that the most likely approach is a prolonged period of fiscal constraint that will see public sector grant funding reduce in real terms for a significant period.

2.3 Furthermore the economy is facing inflation rates not experienced since the early 1980s, with rates being pushed up by supply shortages in fuel and materials, with energy prices and food inflation being of particular concern to the more vulnerable members of our society. Signifcant increases in borrowing costs have meant the cost of servicing the government debt is at its highest since the 1980s. In addition, the UK Government faces the rising demand for services and associated costs, alongside pressures to meaningfully tackle climate change. The combination of these pressures may have a negative impact on all public sector spending.

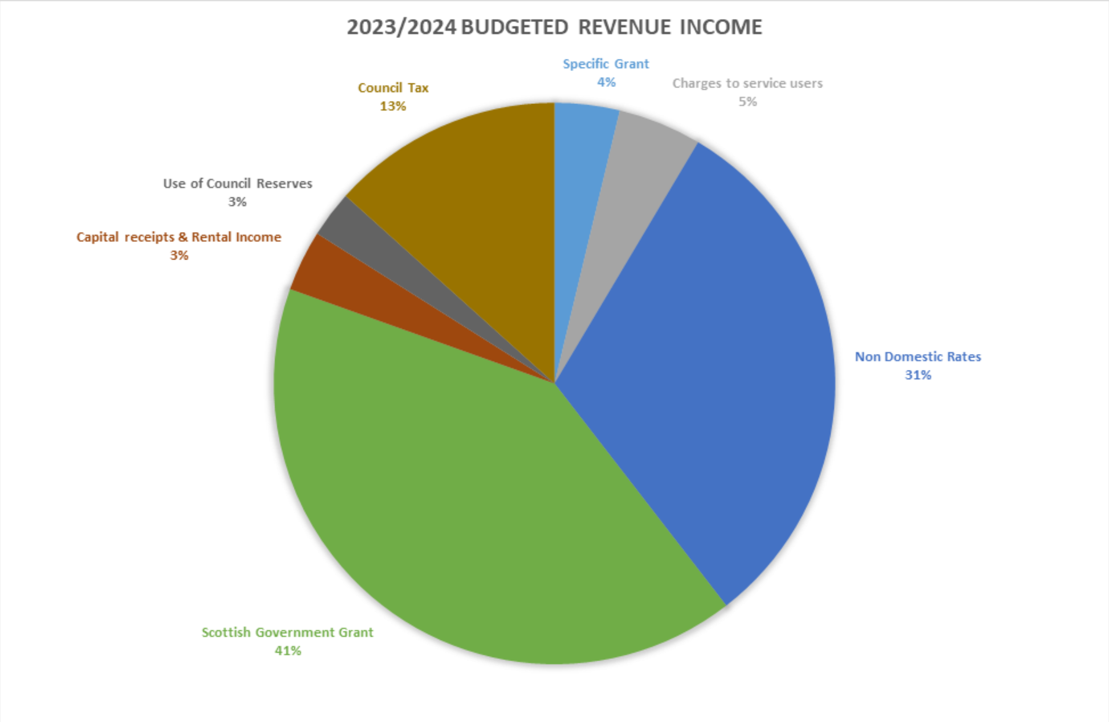
2.4 In summary the continuing and volatile pressures experienced by local government throughout the UK has resulted in some councils facing extreme financial hardship and crisis. Members will already be aware that councils in England are already experiencing severe financial problems leading to some Section 151 Officers (S95 in Scotland) issuing formal S114 Notices to cease all but essential spend. There are inevitable questions emerging around whether councils experiencing significant financial pressure remain a "going concern" and whilst this has been isolated to English councils so far, it is likely this debate will soon come to Scotland. This may lead to greater emphasis from external auditors on the assurance and demonstration of financial management and resilience for local authorities.

3 **Revenue Budget**

<u>Projected Scottish Government Funding Levels</u>

3.1 Approximately 76% of the Council's budget is supported by Aggregated External Finance from the Scottish Government. This includes general revenue grant, specific grants and Non Domestic Rate income. The remaining 24% is made up from Council Tax and other Council sources of finance e.g. fees and charges and rental income. Consequently the Council has limited access to levers to influence income levels. In addition the Scottish Government currently produces single year financial settlements for Local Government making it extremely challenging for the Council to accurately estimate future funding levels. The breakdown of the Council's 2023/24 budgeted revenue income is shown in Exhibit 1.

Exhibit 1 – West Dunbartonshire Budgeted Revenue Income



3.2 The Scottish Government Resource Spending Review published in May 2022 states that Council funding will remain as 'flat cash' (at current 2022/23 levels) until 2025/26 with a £100m added in 2026/27. The real term impact of this (taking inflation into account) for the next four years is a continuing erosion of core funding for councils with a 7% reduction between 2022/23 and 2026/27. A "flat-cash" settlement ignores the impact on Local Government of the material increases in inflation and energy costs and requires councils to absorb the full cost of any pay awards. This is summarised in Exhibit 2.

Exhibit 2 – Local Government Block Grant 2022/23-2026/27 (Cash and Real Terms)

	2022/23 (£bn)	**2023/24 (£bn)**	**2024/25 (£bn)**	**2025/26 (£bn)**	**2026/27 (£bn)**
LG Cash Terms	10.616	10.616	10.616	10.616	10.716
	2022/23 (%)	**2023/24 (%)**	**2024/25 (%)**	**2025/26 (%)**	**2026/27 (%)**
LG Real Terms	100	98	96	94	93
Reduction	-	-2	-4	-6	-7
	2022/23 (£bn)	**2023/24 (£bn)**	**2024/25 (£bn)**	**2025/26 (£bn)**	**2026/27 (£bn)**
LG Real Terms Expressed as Cash	10.616	10.404	10.191	9.979	9.873

3.3 On the 30 June 2023 the Scottish Government and COSLA signed an agreement, known as the Verity House Agreement to forge a stronger partnership between local and national government. The Verity House Agreement set out principles for joint working to empower local communities, tackle poverty, transform the economy and provide high-quality public services.

3.4 A key aspect of the Verity House Agreement 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. In particular the Verity House Agreement states that "*powers and funding for Local Government will be reviewed regularly to ensure adequacy and alignment with effective delivery of outcomes*" and that "*from this point onwards, the default position will be no ring fencing or direction of funding, unless there is a clear joint understanding for a rationale for such arrangements for example where quantum needs to be assessed over a transitional period to ensure the costs are accurately understood. Additionally, current funding lines and in-year transfers will be reviewed ahead of the draft 2024/25 Budget Bill, with a view to merging into General Revenue Grant funding (more details will be set out in the Fiscal Framework)".* It is anticipated that the Fiscal Framework will be available in late 2023, but it is not available at the time of writing this strategy.

3.5 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 strategy. Discussions on options regarding how to set future local authority funding levels are ongoing between COSLA and Scottish Government officials.

3.6 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 it is prudent to retain an assumption that the Scottish Government will not raise levels of local government funding to meet increasing pressures which ultimately means the Council is facing ongoing real-term funding reductions. With interest rates at levels not seen since 2008, resulting in increased costs of borrowing and unpredictable international relations there is greater economic, and therefore financial uncertainty over the medium to longer term.

3.7 The Scottish Government has historically provided one year funding settlements to Local Authorities which has impacted on the ability to plan over the longer term with certainty. Single year settlements from Scottish Government have required the

Council to make assumptions in the revenue plan from years 2-5 and plan on that basis. For financial year 2023/24 another one year settlement was provided in December 2022 and updated in January 2023. There is a commitment from Scottish Government to multi-year settlements in the future.

3.8 Looking forward, the policy intent set out in the Scottish Governments' programme for government and the pressures being experienced in the Health Service budget drive a broad expectation that resources for local government services will continue to be constrained for the foreseeable future. Each 1% deviation from the flat cash position settlement set out at paragraph 3.2 accounts for around £2.1m of movement in funding. A multi-year funding settlement from Scottish Government including clarification on ring-fencing of funding remains an aspiration for local government and it is hoped this may be forthcoming in future years.

3.9 Financial Update Reports

The Council's future revenue budget gap is updated with the latest assumptions and reported to Council as part of Financial Update reports provided by the Chief Officer Resources. These report the projected gap over a five year period which provides a longer term view of the Council's estimated budget gap.

Scenario Planning

3.10 The Financial Update reports uses scenario planning to present estimates using a best case, mid-range and worst case scenario. Scenario planning is an alternative to conventional forecasting that is better suited to an environment with numerous uncertainties. Conventional forecasting encourages organisations to focus on a narrow range of possibilities centred on a single view about the most likely future outcome. Scenario planning, in contrast, does not attempt to use a series of static assumptions to predict the future. Rather, it generates a dynamic series of plausible outcomes that generates a range of possibilities. Relatively small variations in assumptions can lead to fairly significant changes in the outcome. Whilst the outcome will no doubt differ from the scenarios outlined here, they provide a useful illustration of the overall financial envelope.

Baseline Positon

3.11 The starting point for forecasting forward, is to use the current year's budget as the baseline. The Council agreed the 2023/24 budget at its meeting on 1 March 2023. The agreed budget provides a base budget of £265.160m (£178.892m for general services and £86.368m for the Health and Social Care Partnership (HSCP)).

3.12 In terms of using this budget as the base budget going forward, there are a number of adjustments required as summarised in Exhibit 3.

Exhibit 3 – 2024/25 Base Budget

	£,000
2023/24 Base Budget	265,160
Adjust for PPP Sinking Fund expiring	758
Remove procurement and recurring savings targets	(600)
Adjust for profiling of loss of rental income cost pressure	(47)
Adjust for profiling of previous growth items	(60)
Adjust to reflect review of sundry services budgets	(97)
Adjust to reflect 2023/24 LGE Pay Award	3,694
Adjust to reflect 2023/24 Teachers Pay Award	3,670
2024/25 Base Budget	**272,478**

Budget Gap Scenario Assumptions

3.13 The future year assumptions used when projecting future year budget gaps are set out in Exhibit 4.

Exhibit 4 – Future Year Budget Assumptions

Assumption	Best Case	Mid-Range	Worst Case
Scottish Government Funding	Flat Cash	Flat Cash	-1%
Pay Award	2%	3%	4%
Pay Increments	50% of prior year	Equal to prior year	Equal to prior year
General Non-Pay Inflation	£250,000	£500,000	£750,000
Specific Non-Pay Inflation	Based on best info	Based on best info	Based on best info
Identified Cost and Demand Pressures	Based on best info	Based on best info	Based on best info
Unidentified Cost and Demand Pressures	£750,000	£1,000,000	£1,500,000
Sale, Fees & Charges	4%	4%	4%
Council Tax Increase (refer to section 3.15)	No assumption	No assumption	No assumption
Council Tax Base Growth	0.5%	0.5%	0.5%

Five Year Budget Gap (2024/25 to 2027/28)

3.14 The five year budget gap within each scenario are summarised in Exhibits 5-7.

Exhibit 5 – Five Year Budget Gap – Best Case Scenario

	2024/25 £,000	2025/26 £,000	2026/27 £,000	2027/28 £,000	2028/29 £,000
Base Budget	272,478	272,478	272,108	272,108	272,108
Employee Costs	3,755	7,578	11,472	15,436	19,473
Non-Pay Inflation	1,145	2,063	3,007	3,687	4,391
Cost and Demand Pressures	7,497	8,599	10,514	11,862	12,687
Expenditure	**284,875**	**290,718**	**297,101**	**303,093**	**308,659**
Funding	(224,715)	(224,715)	(224,715)	(224,715)	(224,715)
Council Tax	(40,518)	(40,699)	(40,893)	(41,088)	(41,283)

Total Funding	**(265,233)**	**(265,414)**	**(265,608)**	**(265,803)**	**(265,998)**
Budget Gap Prior to Measures to Balance Budget	**19,642**	**25,304**	**31,493**	**37,290**	**42,661**
Measures to Balance Budget					
Fees and Charges	(329)	(671)	(1,026)	(1,396)	(1,783)
Service Concessionary Savings	(3,259)	(3,963)	(4,328)	(4,249)	(3,323)
Saving Options Already Agreed	(1,762)	(2,118)	(2,118)	(2,118)	(2,118)
Council Tax Growth	(10)	(20)	(30)	(40)	(50)
Total Measures to Balance Budget	**(5,360)**	**(6,772)**	**(7,502)**	**(7,803)**	**(7,274)**
Budget Gap (Cumulative)	**14,282**	**18,532**	**23,991**	**29,487**	**35,387**

Exhibit 6 – Five Year Budget Gap – Mid-Range Scenario

	2024/25 £,000	**2025/26 £,000**	**2026/27 £,000**	**2027/28 £,000**	**2028/29 £,000**
Base Budget	272,478	272,478	272,108	272,108	272,108
Employee Costs	5,843	11,840	17,996	24,315	30,802
Non-Pay Inflation	1,395	2,563	3,757	4,687	5,641
Cost and Demand Pressures	7,847	9,199	11,364	12,962	14,037
Expenditure	**287,563**	**296,080**	**305,225**	**314,072**	**322,588**
Funding	(224,715)	(224,715)	(224,715)	(224,715)	(224,715)
Council Tax	(40,518)	(40,699)	(40,893)	(41,088)	(41,283)
Total Funding	**(265,233)**	**(265,414)**	**(265,608)**	**(265,803)**	**(265,998)**
Budget Gap Prior to Measures to Balance Budget	**22,330**	**30,666**	**39,617**	**48,269**	**56,590**
Measures to Balance Budget					
Fees and Charges	(329)	(671)	(1,026)	(1,396)	(1,783)
Service Concessionary Savings	(3,259)	(3,963)	(4,328)	(4,249)	(3,323)
Saving Options Already Agreed	(1,762)	(2,118)	(2,118)	(2,118)	(2,118)
Council Tax Growth	(10)	(20)	(30)	(40)	(50)
Total Measures to Balance Budget	**(5,360)**	**(6,772)**	**(7,502)**	**(7,803)**	**(7,274)**
Budget Gap (Cumulative)	**16,970**	**23,894**	**32,115**	**40,466**	**49,316**

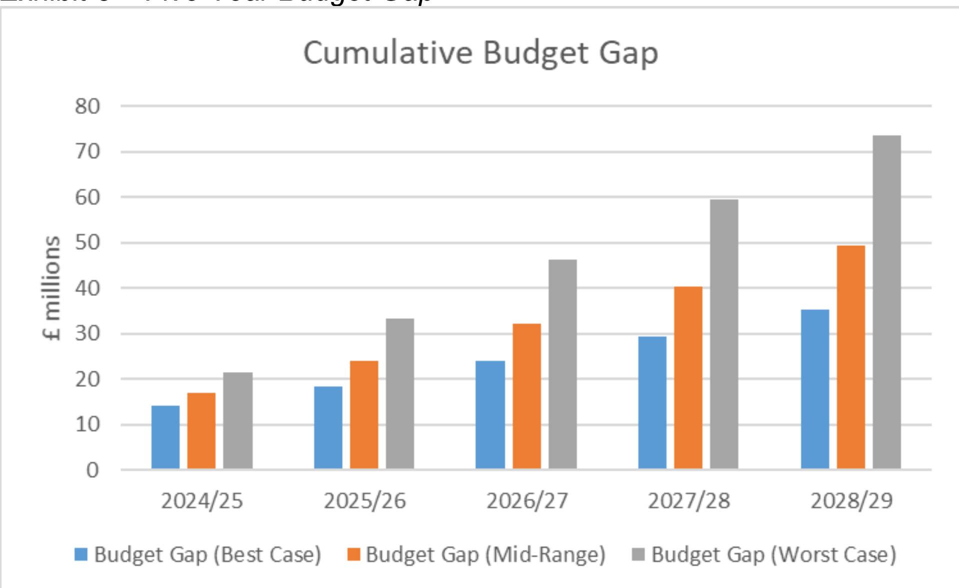
Exhibit 7 – Five Year Budget Gap – Worst Case Scenario

	2024/25 £,000	**2025/26 £,000**	**2026/27 £,000**	**2027/28 £,000**	**2028/29 £,000**
Base Budget	272,478	272,478	272,108	272,108	272,108

Employee Costs	7,554	15,381	23,493	31,901	40,617
Non-Pay Inflation	1,645	3,063	4,507	5,687	6,891
Cost and Demand Pressures	8,347	10,199	12,864	14,962	16,537
Expenditure	**290,024**	**301,121**	**312,972**	**324,658**	**336,153**
Funding	(222,547)	(220,400)	(218,275)	(216,171)	(214,088)
Council Tax	(40,518)	(40,699)	(40,893)	(41,088)	(41,283)
Total Funding	**(263,065)**	**(261,099)**	**(259,168)**	**(257,259)**	**(255,371)**
Budget Gap Prior to Measures to Balance Budget	**29,959**	**40,022**	**53,804**	**67,399**	**80,782**
Measures to Balance Budget					
Fees and Charges	(329)	(671)	(1,026)	(1,396)	(1,783)
Service Concessionary Savings	(3,259)	(3,963)	(4,328)	(4,249)	(3,323)
Saving Options Already Agreed	(1,762)	(2,118)	(2,118)	(2,118)	(2,118)
Council Tax Growth	(10)	(20)	(30)	(40)	(50)
Total Measures to Balance Budget	**(5,360)**	**(6,772)**	**(7,502)**	**(7,803)**	**(7,274)**
Budget Gap (Cumulative)	**21,599**	**33,250**	**46,302**	**59,596**	**73,508**

3.15 The cumulative five year budget gap for each of the scenarios is shown in Exhibit 8.

Exhibit 8 – Five Year Budget Gap



<u>Council Tax Income</u>

3.16 As per Exhibit 4 there are no assumptions made about council tax increases when preparing financial updates. The setting of Council Tax is subject to a political decision and is the means by which the Council, can determine the extent they want to use Council Tax to deliver a legal balanced budget.

3.17 On the 17 October 2023, 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.*'

3.18 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.

3.19 However, by means of illustration, a Scottish Government funded 5% increase in Council Tax in 2024/25 would generate approximately £2.025m in revenue. Exhibit 9 summarises the impact that increases ranging from 3% to 10% would have in terms of the weekly increase in the council tax payer's bill at Band D level (if Council Tax was not frozen), and the additional revenue it would generate. Exhibit 10 provides more context on 2023/24 Council tax rates Scotland wide.

3.20 In Summer 2023 the Scottish Government launched a Council Tax consultation in relation to charging more for higher value properties. The consultation proposed changes to the underlying multipliers for properties banded E,F,G and H. Indicative calculations identified that, were this to be implemented, an additional £1.6m could be raised locally to support service delivery. However the 17 October 2023 Council Tax freeze announcement means this proposal cannot be progressed in 2024/25. There is no clarity over whether it will be introduced in future years therefore no assumptions about additional income have been built into the projected budget gap at this stage. Members will be kept updated on this area through future financial reports.

Exhibit 9 - Estimated Impact of Council Tax Increases (Band D Only)

	3.0%	**4.0%**	**5.0%**	**6.0%**	**7.0%**	**8.0%**	**9.0%**	**10.0%**
23/24 CT	£1,398.98	£1,398.98	£1,398.98	£1,398.98	£1,398.98	£1,398.98	£1,398.98	£1,398.98
24/25 CT	£1,440.95	£1,454.94	£1,468.93	£1,482.92	£1,496.91	£1,510.90	£1,524.89	£1,538.88
Annual Inc	£41.97	£55.96	£69.95	£83.94	£97.93	£111.92	£125.91	£139.90
Weekly Inc	**£0.81**	**£1.08**	**£1.35**	**£1.61**	**£1.88**	**£2.15**	**£2.42**	**£2.69**
Inc Revenue	**£1.215m**	**£1.620m**	**£2.025m**	**£2.430m**	**£2.835m**	**£3.240m**	**£3.645m**	**£4.050m**

Exhibit 10 - Summary of Scotland 2023/24 Council Tax Band D and 2023/24 Increases

Scottish Average Band D	£1,410.31
WDC Band D	£1,398.88 (99.2% of Scottish Average)
Scottish Average Increase 23/24	5.4%
WDC Increase 23/24	5% (92.6% of Scottish Average)
Highest Increase	10%
Lowest Increase	3.9%
No. Councils increasing by more than 5%	11
No. Councils increasing by 5%	16
No. Councils increasing by less than 5%	5
WDC Ranking out of 32 (1 being most expensive)	20th

Strathclyde Pension Fund (SPF) Contribution Rates

3.21 In September 2023 the SPF Board approved a reduction in the main employer group (of which the Council are one) 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

3.22 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

3.23 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. A report to Council in December 2023 will set out the specific benefit this generates for the Council's revenue budget and contains 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 Reserves

4.1 A key aspect for consideration is the position of the Council's General Fund Reserve.

4.2 Reserves can be held for three main purposes:

1. a working balance to help cushion the impact of uneven cash flows
2. a contingency to cushion the impact of unexpected events or emergencies
3. a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

4.3 The Council currently maintains an agreed General Fund contingency level (prudential target) of 3% of the budgeted net expenditure (net of requisitions) for the subsequent year. The adequacy of the prudential target is subject to annual review and was increased to 3% from 2% from 2023/24 onwards due to the volatility of things like inflation, bank interest rates and pay awards. Should this contingency have to be utilised the S95 Officer is required to put a recovery plan in place immediately to ensure the Council's contingency balance is restored.

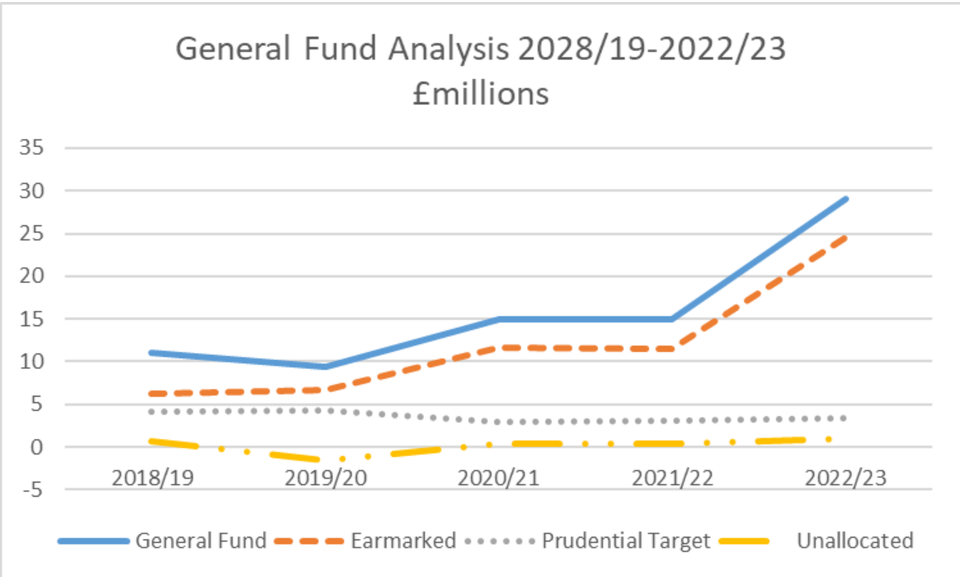
4.4 The Council also assumes the continued use of earmarked reserves. In this way, earmarked reserves can be separated from the core General Fund Reserve which allows the Council to track the underlying reserves position. Earmarked Reserves are reviewed annually as part of the budget process.

4.5 The Council's usable reserves are:

- **General Fund Revenue Reserve** - held for services provided by the Council through Revenue Support Grant. It represents the Council's contingency for unforeseen/ unquantifiable events and includes balances the Council has agreed to earmark for specific purposes. It excludes the Housing Revenue Account.
- **Housing Revenue Account Revenue Reserves** – The Council is required to record all revenue expenditure and income relating to the provision of council dwellings and related services. This reserve holds funds not yet spent.
- **Capital Receipts Reserve** - capital receipts from asset sales are retained within this reserve and used to fund planned capital expenditure.
- **Capital Grant and Receipts Unapplied Reserve** - Grants and other contributions given to the Council are retained within this reserve until all conditions agreed by the grant provider are satisfied.
- **Capital Items Replacement Fund** - This reserve holds funds which are retained and used for the renewal or repair of school non-current assets.

4.6 Exhibit 11 shows how the general fund, and its component parts, have changed over the five year period 2018/19-2022/23 (note the 2022/23 figures are based on the unaudited accounts).

Exhibit 11 – General Fund Revenue Reserve 5 Year Analysis



4.7 This shows that the extent to which the overall general fund has been earmarked has been fairly stable over the past five years. The spike in both the overall general fund balance, and levels of earmarking in 2022/23 is largely as a consequence of the application of an accounting flexibility for service concession arrangements which resulted in the repayment of the service concession liability being reprofiled over the asset life, therefore extending the repayment period. This resulted in a material increase in the overall General Fund balance and the overall level of earmarking as agreed by Council in December 2022.

4.8 Exhibit 11 also shows that the Council has mainly managed to carry forward appropriate contingency and unallocated balances to allow for unforeseen financial challenges of a reasonable scale. The exception to this was in 2019/20 when the unallocated balance fell below the target prudential reserve level by £1.553m. The main reason for that being budget commitments for 2020/21 agreed by Council. The unallocated balance has since been rebuilt.

4.9 Appendix 1 to this report details the Council's Policy on Reserves and Balances.

5 Revenue Outlook Beyond 5 Years – Risks and Issues

5.1 Beyond five years, prediction become even more difficult. There are a number of uncertainties which may emerge and will have a bearing on the quantum of funds available to the Scottish Government and the distribution of that Scottish Government funding to local authorities.

5.2 The further we look into the future the greater the uncertainty about the financial challenges the Council will face. There are a number of further key issues and risks which are likely to impact on the Council's finances and future projections. These include:

- Scottish Government funding reductions and the impact of population change/demographic shifts on funding levels
- pay awards, both in terms of the totality of the award and the complexity
- general inflation including energy and fuel costs
- future decisions of the Scottish Government regarding protection afforded to Local Government or other parts of the national budget
- whether the level of local authority budgets currently subject to ring-fencing is reduced to enable more local control over priorities
- the continuance of Health and Social Care integration within a context of increasing service demand and the potential for a National Care Service
- changes to pension contributions
- costs associated with sustainability including waste disposal and recycling,

5.3 Whenever possible, future costs associated with issues such as those listed in paragraph 5.2 are built into future budget gaps if they can be reasonably estimated. Where it is not possible to estimate them with any degree of accuracy they will be highlighted as unquantifiable future cost pressures and/or future financial risks.

6 Capital Plan

Financing the Capital Plan

6.1 The capital plan is funded by the Scottish Government (General Capital Grant and Specific Ring-Fenced Capital Grants), other capital grants, capital receipts from asset disposals, revenue contributions, earmarked reserves, and prudential borrowing.

6.2 The Scottish Government receive a grant for capital spending from the UK Government which is then allocated to individual councils. West Dunbartonshire Council receives approximately £6m per annum and this is expected to remain fairly constant for the next 4-5 years. Any spend above this level, not funded from other grants, is funded through borrowing which incurs interest charges. As such the Council's revenue budget is inextricably linked to the financing of its capital expenditure. Consequently, when there is sustained pressure on the revenue budget this in turn causes pressure on capital finance and on the management of the capital programme and the debt and borrowing requirement that arises from it

6.3 Capital spend funded from borrowing results in loan charges until the borrowing is fully repaid. Exhibit 12 shows how the Council's ten year capital plan (approved by Council in March 2023) is projected to be funded.

Exhibit 12 – Funding the Capital Plan

Service	**23/24**	**24/25**	**25/26**	**26/27**	**27/28**	**28/29**	**29/30**	**30/31**	**31/22**	**Total 23/24-31/32**	**% of Total**
Borrowing	53,840	50,807	14,751	6,539	4,579	4,449	4,399	4,193	4,192	**147,749**	60%
Ring Fenced Capital Grant	14,396	10,925	7,943	1,140	147	117	117	117	117	**35,019**	14%
General Capital Grant	8,662	6,490	6,490	6,490	6,490	6,490	6,490	6,490	6,490	**60,582**	25%
Matched Funding	2949	235	392	450	450	0	0	0	0	**4,476**	2%
Other	69	-453	-1370	0	0	0	0	0	0	**-1,754**	-1%
Total	***79,916***	***68,004***	***28,206***	***14,619***	***11,666***	***11,056***	***11,006***	***10,800***	***10,799***	***246,072***	

6.4 Exhibit 12 illustrates that 60% of the Council's capital plan is funded from prudential borrowing. The current financial climate, and in particular, increased in the bank interest rates, is having a significant impact on both the affordability and delivery of the capital programme. The repayment of borrowing used to fund capital creates a future revenue budget commitment over the entirety of the anticipated lifespan of the new asset. Additional borrowing to fund more expensive capital projects will increase the Council's overall debt position and will accrue substantial interest charges. These pressures are not unique to the Council and are being faced by all councils however the Council is particularly exposed to increases in the bank interest rate due to the proportion of its debt which is short term in nature (and therefore due to mature within 12 months).

6.5 Decisions on capital spend will need to focus on obtaining best value for money for the Council, including prioritisation to ensure the continued delivery of essential services, a focus on mitigation of key areas of risk and consideration of available external funding, new income generation opportunities and budget efficiency savings that can be achieved.

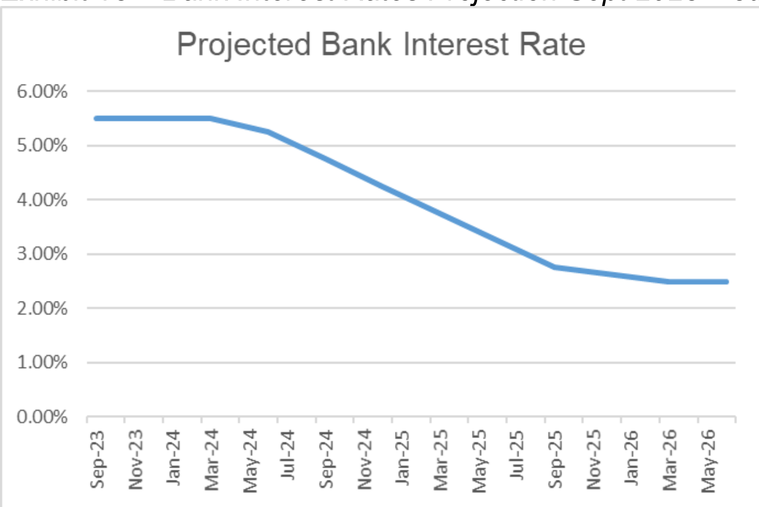
6.6 Another method of funding additional capital is through spend to save schemes where the savings in the revenue budget are used to fund the increase in loans charges to service additional borrowing. It is assumed that projects of this nature are cost neutral game in terms of forecasting, however, there could be additional revenue savings depending on the business case. Spend to save schemes need to be subject to robust financial assessment before consideration is given to their implementation.

7 Treasury Management

7.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return. The second main function of the treasury management service is the funding of the Council's capital plans. As set out in paragraph 6.4 these capital plans provide a guide to the borrowing needs of the Council, essentially the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

7.2 In August 2023 the Bank of England raised its policy interest rate by 25bps to 5.25% marking the 14th consecutive increase in a row. This decision increased borrowing costs to their highest level since the 2008 financial crisis, all in an effort to combat persistent inflation. Exhibit 13 sets out the current interest projections provided by the Council's Treasury Advisors (as at September 2023). It highlights that the rate is expected to start decreasing from about June 2024 and reducing as low as 2.5% by the middle of 2026. Rates for short and long term borrowing are currently very similar and therefore it would not be prudent for the Council to lock any short term borrowing into longer term loans as they would be getting locked in to a rate which will be higher than the projected rate within two years. As such the current strategy is to replace short term borrowing, on maturity, with new short term borrowing for a one year to two year term.

Exhibit 13 – Bank Interest Rates Projection Sept 2023 – June 2026



8 **Housing Revenue Account**

8.1 The Council is required to maintain a separate Housing Revenue Account covering income and expenditure in respect of specified houses, buildings, and land. There is a legal requirement for Housing Revenue Account income and expenditure to be in balance at the end of each financial year.

8.2 The Housing Revenue Account expenditure budget for 2023/24 is set at £49.643m, an increase of £2.098m (4.4% over the previous year's figures). The Housing Revenue Account is financed almost entirely by rents and other charges paid by Council tenants and cannot be funded in any way from the General Fund and revenue raised through the Council Tax (other than in the event the HRA has a deficit and no reserves with which to absotb it). The largest budget lines in HRA revenue are for repairs £16.257m and the repayment of loan charges £15.476m.

8.3 The Housing Revenue Account capital programme must be met from existing resources or funded through prudential borrowing. The 2023/24 budget is £124.846m of which £85.209m is for new build housing . This is funded by

£28.055m new build government grant, £1.729m Capital Funded From Current Revenue (CFCR) with the remaining being funded through prudential borrowing.

8.4 Since the repayment of loan charges makes up 31% of the HRA revenue budget , fluctuation in borrowing interest rates can have a significant impact on the HRA finances . A 30 year HRA business plan is used to look at the longer term viability of the HRA account.

9 Conclusion

9.1 The Council's external auditors have consistently reported that the Council has effective financial management and that elected members are provided with appropriate information on funding gaps and saving options to enable them to make soundly based decisions when setting the budget. Sound financial management and transparency will continue to be crucial in the years ahead as the Council progresses this Financial Strategy and takes action to close the projected budget gap.

9.2 There is limited expectation that the Scottish Government will provide additional funding to local government. This at a time when the cost of living crisis is severe and requires local government to provide support to those most in need. Local Government settlement allocations to Councils will be held at 2022/23 levels until 2026/27. The time value of money means that there will be a real terms cut of 7% in local government funding over this timeline with the financial pressure made worse the high rate of inflation and material increases in the bank interest rate.

9.3 The Council is forecast to have a budget gap of £49.3m for the period 2024/25 to 2028/29 based on current assumptions and the medium risk scenario. Financial planning will be key to meeting the challenges around resources and future funding and this Strategy will prepare the Council to take the necessary actions to counter the pressures and take the necessary informed action to close the budget gap.

Appendix 1 – Policy on Reserves and Balances

Introduction

A key component to sound financial and risk management is that the Council maintains adequate reserves and balances to meet known future commitments or expenditure arising from unforeseen, unexpected or emergency situations.

Where appropriate, this policy adopts:

- Local Authority Reserves and Balances (LAAP Bulletin 99)
- The Statutory Basis for Accounting and Disclosing Reserves in Local Authorities in Scotland
- CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom

The purpose of this policy is to:

- outline the legislative and regulatory framework underpinning the creation, use or assessment of the adequacy of reserves
- identify the principles to be employed by the Council in assessing the adequacy of the Council's balance and reserves
- indicate how frequently the adequacy of the Council's balances and reserves will be reviewed
- set out arrangements relating to the creation, amendment and use of reserves and balances.

The Council has a range of reserves and balances. These fall into two categories:

- Usable Reserves
- Unusable Reserves.

Usable Reserves

These are reserves available for use by the Council. They are held on the Council's Balance Sheet for use, as appropriate, through this Policy.

Usable Reserves can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows - this forms part of general reserves.
- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds to meet unknown or predicted liabilities.

For each reserve held, there should be a clear protocol on:

- the reason for/purpose of the reserve
- how and when the reserve can be used
- a process and timescale for review of the reserve to ensure ongoing relevance and adequacy.

The Usable Reserves held by the Council are:

(a) General Fund Revenue Reserve
The General Fund is held for all services provided by the Council through Revenue Support Grant provided by the Scottish Government and Council Tax paid by residents within the

Council area. It excludes the Housing Revenue Account (HRA), which is funded from tenant rents.

(b) HRA Revenue Reserve
The Council is required by the Local Government and Housing Act (Scotland) 1987 to keep a HRA which records all revenue expenditure and income relating to the provision of council dwellings and related services. The use of this account is prescribed by statute and the Council is not allowed to use it to fund expenditure for non-housing related services.

For both the General Fund and the HRA Reserves the level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Section 95 Officer (Chief Financial Officer). Where the Section 95 Officer's advice is not accepted, this should be recorded formally in the minutes of the appropriate Council meeting.

The balance of these reserves normally comprises three elements:

- Funds that are earmarked or set aside for specific purposes (in Scotland, the Council cannot have a separate Earmarked Reserve within the Balance Sheet, but can highlight elements of the General Fund Reserve balance required for specific purposes).
- Funds which are not earmarked for specific purposes, but are set aside to deal with unexpected events or emergencies. Currently using a risk based assessment, the Council has a specific policy agreed each year and at present this 'prudential target' is set at 3% of net expenditure (excluding requisitions).
- Funds held in excess of the prudential target and the identified earmarked sums. Reserves of this nature can be spent or earmarked at the discretion of Members.

Principles to assess the adequacy of the reserves
In order to assess the adequacy of unallocated reserves, the S95 officer should take account of strategic, operational and financial risks facing the Council. The assessment should include external risks (e.g. environmental or economic factors) as well as internal risks (e.g. the ability to deliver planned efficiency savings).

Use of unallocated reserves
Balancing the annual budget by drawing on unallocated reserves may be a legitimate short term option. However, CIPFA has commented that councils should be wary about the one-off use of reserves to deal with shortfalls in current funding or for recurring expenditure. However, where such action is taken, an explanation as to how expenditure will be funded in future years should be given.

(c) Capital Receipts Reserve
Under Schedule 3, paragraph 22 of the Local Government (Scotland) Act 1975, capital receipts on the sale of non-current assets received by the Council are retained within this Reserve until capital expenditure dictates the required use for the funds. Receipts for both General Fund and HRA are held separately, as specified above. Any receipts unused at 31 March will be held on the Balance Sheet as at that date.

(d) Capital Grant Unapplied Reserve
Grants and other contributions given to the Council are retained within this Reserve until all conditions agreed by the grant provider are satisfied. The use of this fund is specified within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, as revised each year. Any grants unapplied at 31 March will be held on the Balance Sheet as at that date.

(e) Capital Items Replacement Fund (Other Reserve)
Scottish Councils have explicit statutory powers under schedule 3 of the Local Government (Scotland) Act 1975 to establish Renewal and Repairs Funds. This reserve is used for the purpose of defraying expenditure to be incurred in repairing, maintaining and renewing any buildings, works, plant, equipment or articles belonging to the authority. At present the Council only holds one such fund, which is held within the Education Service. Separate and specific guidance is available for the use of this Fund. Funds are used for the renewal or repair of school non-current assets, with funds being linked specifically to the individual schools committing their budget for the purpose of repairs and renewals at a future date.

(f) Capital Reserve
This reserve is used to defray any expenditure of the Council to which capital is properly applicable, or in providing money for repayment of the principal of loans. It holds income (either specific capital receipts income or agreed contributions from revenue) which has been earmarked by Council for the funding of the Public Private Partnership (PPP) unitary charge on a specific annual phased amount. The PPP unitary charge liability can be split into revenue and capital related charges and this Reserve is used specifically to help fund the capital related charges. The Funds can be added to this Fund as agreed by Council (e.g. the sale of specific Education non-current assets) or at the discretion of the Section 95 Officer (i.e.in the event of a review identifying a risk of shortfall in the funding structure over the life of the project).

Unusable Reserves

These are reserves that are not available for use by the Council. They arise from the reconciliation of accounting requirements driven by reporting standards and statutory requirements. They are not resource-backed and are held on the Council's Balance Sheet for use as appropriate through the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. The Unusable Reserves held by the Council are:

(a) Capital Adjustment Account
The Capital Adjustment Account absorbs the timing difference arising from the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system. . The account contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

(b) Revaluation Reserve
The Revaluation Reserve contains the unrealised gains arising from increases in the value of its property, plant and equipment (and intangible assets). The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

(c) Pension Reserve
The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by

employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However statutory arrangements requires benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pension for which it is directly responsible. The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

(d) Statutory Mitigation Account

The Statutory Mitigation Account absorbs the differences that would otherwise arise on the general fund/ HRA balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from this account.

(e) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing difference arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on council tax.

Accounting and Disclosure

Expenditure should not be charged direct to any reserve. Any movement within Revenue Reserves is accounted for as an appropriation and is transparent. Entries within a reserve are specifically restricted to *'contributions to and from the consolidated Income and Expenditure Account'* with expenditure charged to the service revenue account. The appropriation is made from the reserve to the Movement in Reserves to neutralise the impact on the Council Tax or the Housing Rents.

Any revision to this Policy (including creation or amendment to any reserve or use of any reserve) requires to be reported, considered and approved by Council.