

WEST DUNBARTONSHIRE COUNCIL

Report by Chief Officer - Resources

Council: 30 October 2024

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 second financial update of 2024/25. It rolls forward previous estimates, considers assumptions and highlights changes to cost and demand pressures since the last financial update reported to Council on 19 June 2024.
- 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 Council to note the updated estimates for the Council's revenue budget gaps in 2025/26-2029/30, in particular the updated mid-range 2025/26 budget gap of £10.273m as summarised at paragraph 4.19.

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. A report to Council on 19 June 2024 provided a further update on the financial challenges faced by the Council and updated the estimated budget gaps as set out in Exhibit 1.

Exhibit 1 – Future Year Estimated Cumulative Budget Gaps as at 19 June 2024

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

4. MAIN ISSUES

4.1 I have revisited the key assumptions and cost pressures detailed in the 19 June 2024 Council report. This is summarised in the paragraphs below.

4.2 *Scottish Government Finance Settlement*

In my report on 19 June 2024, I advised I was retaining my assumptions in relation to future year Scottish Government funding as:

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

Although the spending review published in May 2022 indicated the total budget for Local Government would remain as flat cash until 2027/28, our Council relies on the floor mechanism to protect our funding and the floor was set at 0.5% below the annual change in 2024/25. There is no indication this is likely to change in 2025/26.

4.3 In recent months both the UK Government and Scottish Government have been highlighting the significant financial challenges the country is facing. The Autumn Budget, including the 2025/26 Spending Review, is due on 30 October. This may provide some clarity over implications for public sector and local government funding. Barnett consequentials are expected for Scotland relating to the announced pay awards but these will not be known until the October Budget. It is also important to highlight that the onward allocation of any Barnett consequentials is a matter for the Scottish Government to determine.

4.4 Similarly the Scottish Government have highlighted significant financial pressures in the current and future financial years. These are evidenced by the manner in which the Scottish Government is funding their contribution to the 2024/25 Local Government employees pay award which highlight potential difficult decisions to balance future budgets. Furthermore the Cabinet Secretary has introduced emergency spending controls including advice that new projects in 2024/25 will only proceed if “truly essential and unavoidable” and that the financial situation is not sustainable.

4.5 In October 2024 the Scottish Government announced it would withhold £145.500m in 2024/25 funding to all Scottish Local Authorities because of the continued row over maintaining teacher numbers. The Council’s share of this is £2.532m. If the Scottish Government do not release this funding it will have a material impact on the Council’s 2024/25 outturn and require even further savings to be made in future years, in particular from the education budget. Note I have not adjusted the budget gap in this report for future years to reflect this reduction in revenue support as I am currently working on the assumption it will ultimately be provided.

4.6 On this basis I do not foresee any reduction in the financial challenges facing the Council in the medium term and I have not changed my flat cash mid-range assumption at the current time. It should be noted that any flat cash settlement is a real terms reduction due to the impact of inflation on council expenditure. Should the settlement be less favourable than flat cash then, by means of illustration, a 1% reduction in funding would increase the budget gap by circa £2.3m.

4.7 *Changes to Base Budget*

There have been no changes to the Council's base budget since the 19 June 2024 report to Council.

4.8 *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. There has been one change to non-pay inflation since the 19 June 2024 report which is a small increase to the estimated future increases of external audit fee costs. A specific cost pressure (refer to paragraph 4.14) has been added to right size the audit fee budget in 2025/26 so this inflationary increase will take effect from 2026/27 onwards. Inflationary increases in the audit fee were already built into the budget so this change reflects the difference between the previous estimate and the revised one. The cumulative effect on the budget gap in the mid-range is:

2026/27 - £9,000
2027/28 - £27,000
2028/29 - £25,000*
2029/30 - £30,000

**Note the cumulative impact decreases slightly in 2028/29 due to the difference between the previous and revised estimate.*

Cost Pressures

4.9 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 nine new cost pressures identified since the 19 June 2024 report to Council.

4.10 *Cost Pressure 1 – Loan Charges*

As previously reported to Council the ongoing volatility in relation to interest rates necessitates an annual review of the Council's loan charges to determine whether previous estimates for purposes of budget setting are accurate. A provision had already been created in the budget for an estimated increase in loan charges of £1.000m in 2025/26. The finance team has completed the annual review and concluded that an additional £1.250m is required in 2025/26 increasing cumulatively to £3.140m in

2026/27 and a further small increase to £3.320m in future years. After accounting for the estimated increase of £1.000m this adds £0.250m to the budget gap in 2025/26. The primary reason for the additional £0.250m is that interest rates have not come down as quickly as forecast by our treasury advisors when we completed the last annual review in September 2023. We will continue to review loan charge budgets on an annual basis until the market stabilises.

4.11 *Cost Pressure 2 – Crematorium and Burial Income*

A review of crematorium and burial income has identified that the level of budgeted income exceeds forecast actual income and this is not anticipated to change. In order to better align budgeted income to expected income there is a need to reduce budgeted income for crematoriums by £0.151m and burial income by £0.052m.

4.12 *Cost Pressure 3 – Unfunded Pension Costs*

A £3.255m budget is set aside for the payment of unfunded pension costs to the Strathclyde Pension Fund (SPF). This primarily relates to costs associated with pension increases and compensation payments to pensioners who are in receipt of compensatory added years through redundancy/efficiency taken in previous years. These costs have been increasing with inflation and the current budget is no longer sufficient.

There is a £0.100m overspend forecast in 2024/25 and I am estimating a continuing increase by £0.100m per annum on a recurring basis for the foreseeable future. This therefore requires a £0.200m cost pressure in 2025/26 increasing by £0.100m per annum thereafter.

4.13 *Cost Pressure 4 – Intromission Provision*

The Local Government (Transitional Financial Provisions) (Scotland) Order 1996, provided for the appointment of Glasgow City Council (GCC), as the relevant accounting authority for residual matters relating to the former Strathclyde Regional Council (SRC), on behalf of the successor authorities. The Order established that any residual right, liability, or obligation to which SRC were entitled or subject to before 1 April 1996 transferred on that date to GCC. This means when any person makes a claim for damages or raises an action for damages for something that SRC would otherwise have been liable had it still existed, GCC takes SRC's place in dealing with claims and litigation.

This, however, does not mean GCC is solely liable for paying claim settlements and other associated expenses. GCC sends intromission statements to the successor authorities. Thereafter, each successor authority is liable to reimburse GCC.

A number of claims have already been settled and payments made and an exercise has been completed with successor authorities to collate known information in relation to outstanding ex-SRC cases. All outstanding claims has been assigned an estimated cost, however have not yet been subject

to any due diligence by the council's claim team and must therefore be considered notional. The actual settlement value remains uncertain until the legal/settlement process has been completed. The estimated settlement value across all successor authorities is £23.855m of which West Dunbartonshire Council's share is £1.000m. The exact timing of any settlements cannot be established so it is appropriate for the Council to set aside a provision to pay these. It would be prudent to set aside £0.200m per annum for the next five years.

4.14 *Cost Pressure 5 – Software Licenses*

The Council's ICT service is continually updating the computer systems and software in use by council employees. In addition to seeking improved solutions the team also renew licences for existing systems. While there is an inflationary assumption already built into future budgets, suppliers are increasing the cost of their services above the rate of inflation meaning the ICT budget is insufficient to keep pace with rising costs. A review of estimated future costs has identified a need to add £0.118m to the budget in 2025/26 with further annual increases of £0.068m.

4.15 *Other Cost Pressures under £50k*

In addition to the larger cost pressures detailed above there are four which are under £50k in value.

- £40k to right size external audit budget
- £24k for winter gritting staff costs
- £16k for server and software costs in relation to the Council's Health & Safety Management / Risk Management system
- £7k as a consequence of Council deciding not to progress the Xmas Closure of Council Offices

4.16 *Reduced Cost Pressures*

There are two existing cost pressures which can be reduced. The first is to reflect estimated increases in the Council's future liability for non-domestic rates. This has been further reviewed and can be decreased by £20k.

The second is a £30k cost pressure which was added in 2026/27 and every second year thereafter, to develop a Local Development Plan. That should have been a one off pressure.

Employee Costs

4.17 Following discussions by Council leaders it has been agreed the 2024/25 pay offer for Local Government Employees will be implemented. The award is backdated to 1 April 2024, and is an increase of either 3.6% or £1,292 (whichever is greater).

A 3.6% uplift on all spinal column points has also been implemented for Chief Officers and, for craft operatives, an agreement has been reached of

a £0.67 uplift in the hourly rate or a 3.6% uplift (whichever is higher).

The Scottish Negotiating Committee for Teachers (SNCT) has reached agreement on pay from 1 August 2024 for teachers and associated professionals. The agreement is an undifferentiated 4.27% uplift at all points in the SNCT pay scales effective from 1 August 2024 to 31 July 2025.

The Council will fund 3.2% of these awards with the Scottish Government providing funding for the balance.

- 4.18 For 2025/26 and beyond I have retained my assumption that the Council will need to fund a 3.2% pay award in the best case and mid-range scenarios with a 4% pay award in the worst case.

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

- 4.19 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 £10.273m in 2025/26 rising cumulatively to £55.563m in 2029/30. Exhibit 2b shows that the cumulative 5 year gap ranges from £50.922m in the best case scenario to £77.095m 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 19 June	3.1	9,235	17,842	26,941	41,916	50,953
Audit Fee – Inflation	4.8	0	9	27	25	30
Increased Loan Charge Pressure	4.10	1,250	3,140	3,320	3,320	3,320
Remove Loan Charge Estimate	4.10	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Cremation Income	4.11	151	151	151	151	151
Burial Income	4.11	52	52	52	52	52
Unfunded Pension	4.12	200	300	400	500	600
Intromission Provision	4.13	200	400	600	800	1,000
Software Licenses	4.14	118	186	254	322	390
Audit Fee – Right Size	4.15	40	40	40	40	40
Winter Gritting	4.15	24	24	24	24	24
Health & Safety / Risk Mgt System	4.15	16	16	16	16	16
Christmas Closure	4.15	7	7	7	7	7
Non Domestic Rates	4.16	(20)	(20)	(20)	(20)	(20)

Local Development Plan	4.16	0	30	0	(30)	0
Revised Estimated Budget Gap		10,273	21,177	30,812	46,123	55,563

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

Budget Gap	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000
Best Case	9,542	19,408	28,126	37,127	50,922
Mid-Range	10,273	21,177	30,812	46,123	55,563
Worst Case	14,514	30,173	43,267	57,736	77,095

4.20 *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 as reported to Council in June to reflect funding provided by Scottish Government 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. 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.

4.21 *Council Tax*

The estimated budget gap makes no assumption over future Council Tax increases as setting the Council Tax is a matter for Council to decide when agreeing the 2025/26 budget on 5 March 2025. Members will be aware that there was no Council tax increase in 2023/24 with funding of £2.219m made available by the Scottish Government equivalent to a 5% increase as part of the original Revenue Support Grant settlement with an additional £1.129m of funding in March 2024 (after the Council set its budget) . The two key factors to consider in relation to the Council Tax freeze are:

1. The Council could have raised council tax by more than the funded 5% however would have needed to forego the funding.
2. A freeze erodes the council tax base so does not only affect the year of the freeze it also impacts the tax base in perpetuity.

Exhibit 3 sets out changes in the Council’s Band D council tax rate and the charges for water and sewerage (approved by the Scottish Water board in conjunction with the Water Industry Commission for Scotland) over the five year period 2020/21 – 2024/25. This illustrates that Council tax has increased by a total of 8.2% over the five year period whereas water and sewerage charges have increased by 22%.

Exhibit 3 – Changes in Council Tax band D, Water and Sewerage Charges 2020/21-2024/25

Band D	CT	Water	Sewerage	Total
2024/25	£1,398.98	£252.90	£293.49	£1,945.37
2023/24	£1,398.98	£232.47	£269.82	£1,901.27
2022/23	£1,332.36	£221.40	£257.04	£1,810.80
2021/22	£1,293.55	£212.49	£246.69	£1,752.73
2020/21	£1,293.55	£207.36	£240.75	£1,741.66
£ Increase 20/21 - 24/25	£105.43	£45.54	£52.74	£203.71
% Increase 20/21 - 24/25	8.2%	22.0%	21.9%	11.7%

4.22 The budget conversation exercise recently carried out by the Council (reported as a separate agenda item) included the question:

Would you be prepared to pay more Council tax in order to reduce the savings required?

The response was:

- Yes – 50.07% (51.11% of those responding)
- No – 47.88% (48.88% of those responding)
- No response - 2.05%

4.23 Prior to the 2023/24 Council Tax freeze being announced some councils were considering Council Tax increases far in excess of the 5% funded by the Scottish Government. In particular Argyll and Bute Council agreed a 10% increase which was subsequently reversed and Inverclyde Council agreed an 8.2% increase. Exhibit 4 illustrates the impact of 5%, 10% and 15% increases on Band D Council Tax rates and the additional revenue it would generate.

Exhibit 4 – Impact of 5%, 10% and 15% CT Increases

CT Increase	2024/25 Band D CT (£)	2025/26 Band D CT (£)	Annual Increase (£)	Weekly Increase (£)	Additional Revenue (£)
5%	1,398.98	1,468.93	69.95	1.35	2,035,000
10%	1,398.98	1,538.88	139.90	2.69	4,070,000
15%	1,398.98	1,608.83	209.85	4.04	6,105,000

4.24 *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 £0.080m 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.

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Appendices: None

Background Papers: Budget Report to Council - 6 March 2024
Finance Update to Council – 19 June 2024

Ward Affected: All Wards