Agenda Item

Report

Report to:	**Executive Committee**
Date of Meeting:	**24 June 2020**
Report by:	**Executive Director (Finance and Corporate Resources)**

Subject:	**2021/2022 Revenue Budget Strategy and Savings Requirement**

1. Purpose of Report

1.1. The purpose of the report is to:

- ♦ Advise on the Budget Strategy and Savings Requirement for 2021/2022.

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

(1) that the Revenue Budget Strategy for 2021/2022, detailed in sections 4 and 5 and summarised in section 6 with a Budget Gap of £52.741 million, be approved;
(2) that the corporate solutions for 2021/2022 (before any increase in Council Tax), totalling £12.948 million, as summarised in section 7.9, be approved;
(3) that the £16.600 million use of Reserves in 2021/2022 detailed in section 8.4, be approved;
(4) that the findings of the Loans Fund Review be implemented (section 8.19) be approved;
(5) that the next steps detailed in section 9, including the identification of £20 million of savings, be agreed; and
(6) that the reinstatement noted in Table 5 (section 10), be noted.

3. Background

3.1. This report will look at the Revenue Budget Strategy for 2021/2022, and will include estimates of Government Grant levels, requirements for additional expenditure budget, corporate solutions for consideration and ultimately, the level of savings required in that year. The report will also look at how the Loans Fund Review can contribute to the position.

3.2. This report will focus on 2021/2022, and will cover the following:

- Government Grant Estimates (section 4),
- Other Budget Movements (section 5),
- Summary of Budget Gap (section 6),
- Corporate Solutions (section 7),
- Use of Reserves / Loans Fund Review (section 8),
- Summary and Next Steps (section 9), and
- Reinstatement (section 10).

4. Government Grant

4.1. Local Government budgets are affected by both changes in the UK Government Budget and the subsequent Scottish Government Budget.

4.2. The Strategy assumes a reduction of £6.047 million in 2020/2021. This reflects a 1% decrease on the 2020/2021 level of grant.

4.3. In addition to planning for reductions to the level of the local government grant covered above, there may also be changes in how grant is distributed to Councils, based on their share of population numbers.

4.4. In previous years, the Council has experienced reductions in grant as a result of how the funding is distributed. It is anticipated that the Council will experience similar reductions in grant in future years, reflecting the changes in the Council's population, compared to the changes experienced in other council areas. The Strategy assumes a reduction of £2.412 million in grant for 2021/2022 relating to population based distribution. This reflects the percentage reduction in the Council's grant share experienced in 2020/2021.

4.5. **Consequence of Council Tax Increases (Properties):** As noted in previous Budget Strategies, increases in Council Tax due to increased property numbers, does not give a permanent benefit to the Council as there will be a reduction in grant in future years – an estimated 80% Grant Reduction for every additional £1 of Council Tax.

4.6. The impact on grant of additional properties is incurred 2 years after the new properties arise. In relation to 2021/2022, the consequent reduction in Government Grant (80% reduction after 2 years) reflects the new properties added in 2019/2020, and totals an estimated reduction in Grant Income of £1.800 million for 2021/2022. The previous estimate of this value noted in earlier budget reports (Council, 26 Feb 2020) was £1.382m.

4.7. **Summary of Grant Assumptions**
Table 1 summarises the reduction in grant including a general reduction in funding, the impact of population changes and the consequences of previous Council Tax property increases.

Table 1 – Grant Assumptions

	2020/21 £m
Assumed Reduction (Section 4.2)	6.047
Distribution – Population changes (Section 4.4)	2.412
Consequence of Council Tax Increase (Properties) (Section 4.6)	1.800
Total Grant Reduction	**10.259**

5. Other Budget Movements for 2021/2022

5.1. There are a number of other budget movements, in addition to Government Grant, that affect the budget for 2021/2022. These include additional expenditure items. Each of these is taken in turn below.

5.2. **Council Tax Properties:** The South Lanarkshire Housing Land Audit (2017) detailed new houses for the 3 years to 2021/2022. Based on Band D properties and net of Council Tax Reduction Scheme (CTRS), the increase in Council Tax Income for 2021/2022 has been assumed at **£1.480 million** (Council Tax of £1.700 million less CTRS of £0.220 million). This estimate was made before the current

Coronavirus pandemic.

5.3. While there is a risk that development will not progress as originally anticipated, at this time any potential impact on the number of properties that will be added to our council tax base cannot be accurately assessed. The position will continue to be monitored and an update provided in the next 2021/2022 Budget report to Committee in Autumn 2020. The impact of new houses assumed in estimates for council tax for 2021/2022 on the Government Grant will be seen in the 2023/2024 Budget Strategy.

5.4. **Additional Expenditure Items:** There are a number of financial pressures that will require additional funding in 2021/2022. This will increase the level of savings required. The main element of additional expenditure is the £32.120 million which reflects temporary solutions that have been in place within the budget such as use of reserves, and temporary savings. The details of these temporary solutions were reported to the Council in the 2020/2021 budget paper (26 February 2020). When reserves, or one off savings are used in the budget, there is a requirement to make a permanent solution going forward, as reserves can only be used once.

5.5. The details of all of the additional expenditure items are included in Appendix 1 to the report, and are summarised across the main headings in Table 2.

Table 2 – Summary of Additional Expenditure Items

	2021/2022 £m
Impact of 2020/2021 Budget Decisions (Appendix 1, para 1.2-1.11) Including the need to add in budget to cover one-off savings from 2020/2021 as well as the temporary use of Reserves which are no longer available (2020/2021 Budget Report to Council, 26 February 2020) This also included the original estimate of the impact on grant funding from increased council tax income from 2019/2020 new properties (£1.382m) as detailed in section 4.6.	32.120
Grant Funding as a Result of Increase in Property Numbers (Report, para 4.6) Removal of original impact on grant funding from increased council tax income from 2019/2020 new properties which is included in £32.120m figure above. Updated position of £1.8m now included in grant movement position in Table 1 and Table 3.	(1.382)
Impact of Stage 1 Budget Bill Funding not Continuing (Appendix 1, para 1.12) Expenditure funded by Stage 1 Budget Bill – Strategy assumes funding not continuing	0.270
Pay Items (Appendix 1, para 1.13-1.16) Including pay award for teachers and non-teachers.	8.243
Price Increases (Appendix 1, para 1.17 - 1.20) Including inflationary increases on non-domestic rates, the secondary schools' modernisation contract and social care.	2.207
Funding for Priorities (Appendix 1, para 1.21 - 1.22) Including the increased cost of waste management.	0.300
Related Parties and Joint Boards (Appendix 1, para 1.23 - 1.25) Including increased costs for the Leisure and Culture Trust.	0.363
Revenue Consequences of Capital (Appendix 1, para 1.26 - 1.28) Including the revenue impact of the new primary schools and the City Deal programme.	0.259
Other Budget Items (Appendix 1, para 1.29 - 1.31) Including additional IT costs.	1.582
Total Expenditure	**43.962**

5.6. Table 2 shows additional expenditure requirements of £43.962 million.

6. Summary of Budget Gap

6.1. Taking into account the assumed reduction in Government Grant (Table 1), the increase in Council Tax property numbers (section 5.2) and the Additional Expenditure Items summarised in Table 2, gives a 2021/2022 Budget Gap of £52.741 million, shown in Table 3.

Table 3 – Budget Gap

	2020/21 £m
Grant Reduction (Table 1)	10.259
Council Tax property numbers (section 5.2)	(1.480)
Additional Expenditure Items (Table 2)	43.962
Total Budget Gap	**52.741**

6.2. The 2020/2021 Strategy (Executive Committee, 26 June 2019), indicated that there could be a budget gap of more than £45 million for 2021/2022. When comparing this to the Budget Gap in section 6.1, there is an increase which mainly reflects additional decisions made as part of the 2020/2021 budget.

6.3. **Social Care:** As reported to the Executive Committee, the Council is experiencing pressures in Social Care which were expected to continue into 2020/2021. The 2019/2020 probable outturn showed an underspend of £2.6 million which was to be transferred to reserves to assist in managing the Social Care pressures in that year in relation to Hamilton Home Care. However, due to COVID19, the expenditure in this area may not be as high as previously anticipated in 2020/2021, therefore this funding could be used to manage expenditure into 2021/2022. No additional monies have therefore been allocated in the 2021/2022 Budget Strategy.

6.4. **Job Evaluation:** An exercise is ongoing in relation to job evaluations for a number of employee groups across the Council. The most significant of these is in relation to Early Years staff within Education Resources. It is anticipated that **£3.1 million** requires to be added to the budget to implement the outcome of these evaluations. However, due to COVID19 an underspend is anticipated in this budget in 2020/2021 which can be transferred to reserves and used to manage these costs in 2021/2022. No additional monies have therefore been allocated in the 2021/2022 Budget Strategy. The need for this is reflected in requirements for future years budget strategies which is covered later in this report (at section 8.22)

6.5. Any further impact from other ongoing Job Evaluations will be updated in future strategies. At present, no monies have been added to the 2021/2022 Budget Strategy.

7. Corporate Solutions

7.1. In order to address the Budget Gap, a number of corporate solutions have been identified for consideration. These are noted below with each taken in turn:

- 2020/2021 Government Grant - Stage 1 Budget (sections 7.2 to 7.4)
- Support Provided to the IJB (section 7.5)
- Government Support for Leased Vehicles (section 7.8)
- Increase in Council Tax Band D Levels (section 7.10)

7.2. **2020/2021 Government Grant- Stage 1 Budget:** Following the budget setting process for 2020/2021, the Scottish Government provided the Council with a late allocation of monies as part of their Stage 1 Budget Bill. The amount of £5.659 million was allocated to the Revenue Budget to replace the reserve support for the budget amendments agreed by Council on 26 February 2020 (£0.270 million), and the remainder (£5.389 million) was to be used as funding for the 2020/2021 Capital Programme.

7.3. As a result of COVID-19, it is unlikely that the Capital Programme will spend to the original levels and therefore the £5.389 million will not be required to fund Capital in that year. It is therefore proposed that these monies be set aside (transferred to Reserves) at the end of 2020/2021, and they can be used to support the 2021/2022 Revenue Budget on a one-off basis. This will require to be reinstated in the following year's Revenue Budget Strategy (2022/2023).

Corporate Solution: £5.389 million
(Temporary for 2021/2022 only)

7.4. In previous years, the Stage 1 Budget Bill allocation has been made permanent in the year following receipt. It is proposed that if this is the case for the additional Stage 1 monies from 2020/2021, that they are made permanent in the 2021/2022 Budget Strategy. This reduces the budget gap by £5.659 million on a permanent basis.

Corporate Solution: £5.659 million

7.5. **Level of Support Provided to the IJB:** The Council's Budget Strategy for 2021/2022 assumes an allocation of monies from the Council to the IJB with funding provided for pay award and contract inflation (£1.670 million). This has been the approach in previous years and in the main, the allocation of funding has been offset by savings proposals in relation to the activities directed by the IJB. In 2016/2017 and beyond, the Scottish Government's Budget has separately identified monies to be allocated to Health and Social Care. This has allowed a reduction in the level of monies allocated by the Council.

7.6. Moving forward, it is proposed that the Budget Strategy assumes that the Council does not allocate any monies to the IJB, and does not request any savings. Any increasing costs experienced by the IJB would require to be funded by Government monies and any savings identified and approved by the IJB. This would allow the £1.670 million already included in the Revenue Budget Strategy for 2021/2022, to be removed on a permanent basis.

Corporate Solution: £1.670 million

7.7. Any monies allocated to the Council for Social Care, as part of the Government Grant award, would continue to be passed directly to the IJB.

7.8. **Government Support for Leased Vehicles:** The Council has received an allocation of £1.3 million across 3 years from the Scottish Government. This equates to £0.430 million per annum and allows the Council to pay for the lease costs for electric vehicles to replace the current non-electric fleet. The Council can therefore save the costs of leasing the current non-electric vehicles, for the 3 year period. The saving is £0.230 million per annum. It is proposed that this is used to reduce the budget gap for the 3 years (2021/2022 to 2023/2024) with reinstatement required in 2024/2025.

Corporate Solution: £0.230 million
(Temporary for 3 years commencing 2021/2022)

7.9. These corporate solutions proposed for 2021/2022 total £12.948 million. This reduces the core savings requirement to **£39.793 million** in that year. A final corporate solution for consideration is the level of Band D Council Tax.

7.10. **Increase in Council Tax Band D Levels:** As part of the Scottish Government's Budget process for 2020/2021, Councils were permitted to increase their Council Tax levels by up to 4.84%. If the same increase is assumed in the Council's Budget Strategy for 2021/2022. This would reduce the Council's budget gap by £6.810 million on a permanent basis. This figure is net of the impact on the Council Tax Reduction Scheme.

Corporate Solution: £6.810 million

7.11. **Taking into account the potential for the suggested Council Tax Band D increase would mean** total corporate solutions for 2021/2022 would total £19.758 million. This would reduce the core savings requirement to **£32.983 million** in that year.

8. Use of Reserves / Loans Fund Review

8.1. As the £32.983 million is still a substantial savings requirement, it is proposed that we look at the Council's Reserves balance and the Loans Fund Review to reduce this to a more manageable level. Each of these is taken in turn below.

8.2. **Reserves Balance:** The last time the Council's Reserves position was reported (2018/2019 year-end report to Executive Committee, 26 June 2019), there was £50 million of Reserves identified for future Budget Strategies, of which £19 million had not been allocated to a specific budget year. During the 2020/2021 Budget Process, Members approved the use of £3.645 million of these Reserves for that year, leaving £15.600 million available for future years' Budget Strategies.

8.3. This has increased to £16.600 million as a result of the final outturn position for 2019/2020, with the inclusion of the surplus of £0.300 million and £0.720 million previously earmarked for Roads spend as reported in the paper earlier to this committee on the 2019/2020 final outturn position. That report recommended that that the additional contribution from Reserves for Roads investment (£0.720m) that had been included in the 2019/2020 budget has not been required due to COVID19 and that it remain in Reserves and not carried forward in the capital programme.

8.4. It is proposed that these Reserves (£16.600 million) are used in 2021/2022 to reduce the savings requirement. This requires to be reinstated in 2022/2023.

Use of Reserves: £16.600 million
(Temporary for 2021/2022 only)

8.5. **Loans Fund Review:** Members were previously advised (Executive Committee, 26 June 2019) that a report showing the potential impact of the debt re-profiling for the Council would be developed and reported to a future meeting of the Executive Committee during 2020. This work is now complete and a summary of the proposal is included in sections 8.6 to 8.20 below. Appendix 2 provides the full detail of the exercise and includes the business case in support of the change in approach.

8.6. In summary, the review relates to how the Council's debt is written off in our accounts. Members will be aware that the Council's capital programmes are partly funded by planned borrowing. This borrowing is taken from the Council's Loans Fund (which is a fund identified to manage the external borrowing for the council, and the subsequent onward "lending" to fund the Council's capital programme). The funding for capital spend is known as Loans Fund Advances. Repayment of these advances is made each year, and these repayments forms part of the Council's revenue expenditure. Borrowing to fund the capital programmes therefore creates a liability to repay those advances from future years' budgets

8.7. The review was carried out with support from the Council's Treasury advisors over the latter part of 2019/2020. The review identified that an alternative approach to how we account for the Loans Fund repayments, could be adopted. Under the current approach the debt is repaid over an average of around 40 years. The review identified that repayments could be made over a period reflecting the expected asset life of 50 years. In addition, rather than using different interest rates for every debt advance, a standard rate of interest of 5% for the calculation of loans fund repayments could be adopted.

8.8. **Higher Yield Option** - The review looked at debt dating back to 2004, which ties into the period where the council commenced borrowing to fund its Primary School modernisation programme. This makes up the majority of the Council's borrowing requirements over recent years. It is possible to change the approach to repaying this debt, and back date this to 2004. By changing the approach, it means that £68 million of debt has been repaid earlier than it would under the revised model. This £68 million can be taken in the short term (in the period to 2024/2025) as a gain to the Council, and we then repay this back over a longer period of time.

8.9. Choices can be made on the level of benefit that can be taken. Taking this approach forward, and making changes to debt repayments from 2025/2026 to 2046/2047, the Council could see a further benefit of £198 million When this is added to the £68 million benefit to 2024/2025, this reprofiling means that the Council could get a benefit of £266 million by 2046/2047.

8.10. However, it should be remembered that regardless of how we choose to repay the debt, the total amount repaid will still be the same. While the Council will repay the same level of debt, it will be over a longer period of time. Repaying over a longer timeframe means incurring additional interest payments totalling £208 million over the years to 2072/2073. The interest calculated is based on rates at a point in time. Interest rates do fluctuate, therefore, the actual cost of interest may vary.

8.11. It is possible to calculate how costs incurred in the future compare to costs today. Due to inflation, costs incurred in the future are worth less than the same cost today. Taking into account this time value of money, the costs of interest of £208 million equates to £94 million at today's values.

8.12. **Proposed Approach:** There is an alternative approach, which we are proposing in this paper, where we do not take the financial benefit of £266 million detailed at section 8.9. The alternative approach could be taken to reduce the value of the additional interest costs payable. This would limit the gain the Council gets to £68 million.

8.13. The approach would be to use the benefits gained beyond 2024/2025 (in excess of £68 million gain) to pay off debt. For example, in 2025/2026 there could be a benefit of £18 million from adopting the approach to extend write off periods to 50 years, and use a standard interest rate. Rather than take this gain, we would use this to pay off debt. Doing this over a period of time reduces the interest costs for the council.

8.14. This is called making a **Voluntary Repayment**. This approach limits the interest costs that would have resulted from taking longer to pay off the debt.

8.15. By making additional voluntary repayments, the estimated interest costs will be reduced to £77 million over the period to 2072/2073. Again, taking into account the time value of money, the present value of these additional interest costs is £36 million at today's values.

8.16. It is possible to review this approach, and make changes in the future to allow this additional gain to be realised. If this approach is proposed going forwards, this will be brought back to committee.

8.17. **Loans Fund Budget** : To meet these extra interest costs, additional Loans Fund Repayment budget would be required. The annual interest costs start at £0.450 million in 2020/2021 before rising to £1.746 million per annum in 2024/2025. There is sufficient loans fund budget in 2021/2022 to manage the extra costs in that year. Future budget strategies would need to include incremental increases to meet these costs. The requirement of £1.746 million would be added incrementally to the Loans Fund budget from 2022/2023. Once the budget of £1.746 million is established in 2024/2025, there are no further budget increases required.

8.18. While the current policy on loans fund repayments states that the Council's strategy for managing debt includes the early repayment of debt, this will be updated to make it clear that additional voluntary repayments will be used as a tool to reduce interest costs and ensure that charges to the revenue account remain prudent and affordable in the long term.

8.19. It is proposed that the repayments for Loan Fund advances are changed to reflect the approach detailed at section 8.7, and that the option to limit the benefits to £68 million, and thereby keep additional interest costs lower (as detailed at section 8.12 to 8.15) be approved.

8.20. This change would be applied in 2020/2021 and for that year, and the years to 2024/2025, the level of in-year underspends across the years (£68 million as noted in section 8.12) can be transferred to Reserves to then be used to support the Council's Budget Strategies. Full detail on the Loans Fund Review is shown in Appendix 2.

8.21. **Utilising the Benefits of the Loans fund Review**: Through adopting the proposed approach, an underspend of £9.000 million is anticipated on the Loans Fund budget in 2020/2021. This is the first part of the £68 million gain detailed in section 8.12, and is detailed in Appendix 2 Table 1. Based on the Council's Long Term Budget Strategy, and a need to keep the savings requirement at a manageable level across each of the coming years, it is suggested that £3.000 million of this be used in 2021/2022, and then a greater amount in future years.

Use of Loans Fund Review Reserves: £3.000 million
(Temporary for 2021/2022 only)

8.22. Using the balance of the funds generated from the Loans Fund Review there is the ability to smooth the requirement for savings over the medium term. Table 4 below shows the expected level of savings based on this report, and the medium term strategy as reported to Executive Committee (15 August 2018). Appendix 3 shows the make up of these figures. Through applying the funds generated from the Loans Fund review (£68 million) over the years to 2026/2027 as temporary solutions, reduces the overall need for savings each year. The total of £68 million is fully utilised by the end of 2026/2027.

Table 4 - Use of Reserves / Loans Fund Review Across Years

	2021/22 £m	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**Total £m**
Savings Requirement (Appendix 3)	**32.983** (*section 7.11)*	**22.599**	**11.440**	**10.160**	**9.780**	**9.720**	**96.682**
Use of Reserves (s8.4)	(16.600)	16.600	-	-	-	-	-
Savings Estimate After Use of Reserves	**16.383**	**39.199**	**11.440**	**10.160**	**9.780**	**9.720**	**96.682**
Loans Fund Review – Use of Benefit (s8.21)	(3.000)	(27.400)	(23.500)	(14.000)	-	-	(67.900)
Reinstate Prior Year Loans Fund Review Benefit	-	3.000	27.400	23.500	14.000	-	67.900
Savings Requirement	**13.383**	**14.799**	**15.340**	**19.660**	**23.780**	**9.720**	**96.682**

8.23. As detailed in Table 4, there is £68 million of Loans Fund Review benefit. It is proposed that the Council take the benefit of the Loans Fund Review exercise, which allows the utilisation of the £68 million across the coming years. By employing the profile of use shown in Table 4, but assuming no decision on the level for Council Tax Band D for 2021/2022, then this would keep the savings requirement at circa £20 million for that year.

9. Summary and Next Steps

9.1. Taking account of the Corporate Solutions and the Use of Reserves/Loans Fund Reserves, and no decision on the level for Council Tax Band D, the Budget Gap for 2021/2022 is circa **£20 million**.

9.2. It is proposed that officers commence work on a package of savings for the coming year to the value of £20 million.

9.3. As some of these corporate solutions are temporary in nature, they will have an impact on the following year. Given the potential for impact on 2022/2023, it is proposed that any temporary solutions used in 2021/2022, be considered again, once the Government Grant level is known later in 2020.

10. Reinstatement

10.1. As well as the use of Reserves and Loans Fund Review Reserves detailed in Table 4, the 2021/2022 budget includes a number of solutions which are temporary in nature and will require to be re-instated in future years. These are also include in the figures in Table 4. Table 5 shows the details over the next 2 years.

Table 5: Temporary Solutions

	Year of Adjustment	
	2022/ 2023 £m	**2023/ 2024 £m**
2021/2022 Corporate Solutions		
2020/2021 Government Grant – Stage 1 Budget: Use Underspend from 2020/2021 Grant *(section 7.3)*	5.389	-
Use of Reserves *(section 8.4)*	16.600	-
Loan Review Reserves *(section 8.21)*	3.000	27.400
Temporary Budget Solutions from Previous Year Budgets		
Capital Receipts (use in 2020/2021 & 2021/2022) *(section 9.1 – Council Report, 26 February 2020)*	5.000	-
Additional Council Tax from extra properties in 2019/2020 and also additional properties in 2020/2021 – expected future reduction in Government Grant *(section 9.1 – Council Report, 26 February 2020)*	0.920	-
Total Temporary Solutions	**30.909**	**27.400**

10.2. It is noted that while Table 5 includes a requirement to reinstate budget of £27.400 million in 2023/2024 following the use of reserves from the Loans Fund review, there would be a balance of reserves still unused from the Loans Fund review that would help smooth the impact on the savings requirement going forwards, as illustrated in Table 4 above.

11. Employee Implications

11.1. There are no direct employee implications from this report.

12. Financial Implications

12.1. The financial implications are summarised within the report.

13. Climate Change, Sustainability and Environmental Implications

13.1. There are no implications for climate change, sustainability or the environment in terms of the information contained in this report.

14. Other Implications

14.1. The financial strategy is a way of managing a number of key risks which directly impact on the money available to deliver Council objectives. As detailed in the report there is no certainty on the level of funding that will be received over the life of this Strategy. This Strategy is based on economic information and advice we have, however it is accepted that these are assumptions.

14.2. Due to the steps that will be taken over the coming months by UK and Scottish Governments (including Budget announcements which will reflect the impact of the Coronavirus) our assumptions may have to change, and a revision to the Strategy will likely be required. This will be considered on receipt of the government grant settlement, expected in late 2020.

14.3. The main risk area, where the council has made assumptions which have a significant impact on the budget estimates going forwards, are on the level of grant which we will receive (as detailed in Appendix 1). In addition, any general pay, demand or prices increases currently unknown, have been estimated as far as possible. Finally, the level of new build properties and therefore Council Tax Income generation is based on best information but could be impacted on by COVID-19. Any movement in these assumptions would be a risk to the Strategy.

14.4. The Budget for 2021/2022 includes contributions made in relation to employees' pensions. Recent court rulings in relation to pensions suggest there may be an impact on the local government pension scheme in the future. However, given the uncertainty surrounding the level of any potential impact, there has been no cost increase factored into the 2021/2022 Budget Strategy. This will be kept under review.

15. Equality Impact Assessment and Consultation Arrangements

15.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and therefore no impact assessment is required.

15.2. There is no requirement to undertake any consultation in terms of the information contained in this report.

15.3. However, as the process to identify savings continues, and with proposals to be presented to members later in the year, stakeholder consultation and equality impact assessments will be carried out. The results will be provided to members to inform the decision making process.

Paul Manning
Executive Director (Finance and Corporate Resources)

8 June 2020

Link(s) to Council Values/Ambitions/Objectives
- Accountable, Effective, Efficient and Transparent

Previous References
- None

List of Background Papers
- Executive Committee, 15 August 2018
- Executive Committee, 26 June 2019
- Council, 26 February 2020

Contact for Further Information
If you would like to inspect the background papers or want further information, please contact:-
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2021/2022 Budget Strategy

This Appendix details the assumptions employed in the 2021/2022 Budget Strategy.

1. Budget Strategy Expenditure Assumptions

1.1. In arriving at the expenditure assumptions, a number of factors are taken into account including the reinstatement of previous year solutions, the impact of decisions taken during the 2020/2021 Budget process, demographics, economic conditions and ongoing commitments of the capital programme. These are each taken in turn.

Re-Instatement of 2020/2021 Temporary Solutions

1.2. A number of budget strategy solutions approved for the 2020/2021 Revenue Budget must be re-instated in 2021/2022. These are detailed below.

1.3. **2019/2020 Approved Savings:** A 2019/2020 **approved saving** for Early Years Realignment of Early Learning and Childcare Income (EDR04) on a one-off basis. This requires to be re-instated and this added **£0.045 million** to the budget strategy in **2021/2022**.

1.4. **2020/2021 Approved Savings:** A 2020/2021 **approved saving** for Residual Waste (CER17) as it was a one-off refund from a contractor that was set aside to assist with the 2020/2021 Strategy. This requires to be re-instated and this added **£0.488 million** to the budget strategy in **2021/2022**.

1.5. **Temporary Budget Solutions from Previous Years:** A number of temporary solutions implemented across a number of previous strategies now require to be re-instated as they are no longer available. These include the debt flexibility funding (£6.100 million) and the 2018/2019 underspend of £4.000 million used in 2019/2020 and 2020/2021 (£2.000 million). In total, these require **£8.100 million** to be added to the budget strategy in **2021/2022**.

1.6. **Reinstatement of 2020/2021 Corporate Solutions**: The budget for a number of Budget Strategy solutions approved as part of the 2020/2021 Revenue Budget must be re-instated in 2020/2021. These are detailed below.

1.7. Underspends: As part of the 2020/2021 Budget, the use of previous year underspends were approved to support the budget on a one-off basis. These include the 2018/2019 underspends for Interest on Revenue Balances and the Community Participation Team (£0.620 million) and the 2019/2020 underspend in relation to Third Sector payments, interest on the secondary school contract and the Strathclyde Passenger Transport requisition (£0.540 million). These require to be re-instated and add **£1.160 million** to the budget strategy in **2021/2022**.

1.8. **Loan Charges:** As part of the 2020/2021 Budget, Loan Charges solutions were approved to support the budget on a one-off basis. These include the use of underpends in the loan charges budget in 2018/2019 (£2.800 million), the 2019/2020 underpend (£6.500 million) and the anticipated underpend in the 2020/2021 budget (£3.000 milion). These require to be re-instated and add **£12.300 million** to the budget strategy in 2021/2022.

1.9. **Use of Reserves:** As part of the 2020/2021 Budget, Reserves were approved to support the budget on a one-off basis. These included the use of reserves earmarked for budget strategies (£5.000 million approved by Executive Committee on 26 June 2019) and the additional £3.645 million of reserves earmarked for budget strategies approved by Council on 26 February 2020. These require to be re-instated and this adds **£8.645 million** to the budget strategy in **2021/2022**.

1.10. **Impact on Grant Funding of Additional Council Tax Properties**: As detailed in section 4.7 of the report, additional properties impact on Government Grant 2 years after the new properties arise. This adds **£1.382 million** to the Strategy in **2021/2022**.

1.11. These temporary solutions require a total of **£32.120 million** to be added to the 2021/2022 budget strategy, as reported in the 2020/2021 Budget report to Council (26 February 2020).

1.12. **Stage 1 Budget Bill**: the 2021/2022 Budget assumes that the Stage 1 Budget bill funding of £5.659 million from 2020/2021 will not continue (section 4.7 of report). Of this funding, £0.270 million was used to balance the budget in 2021/2022. This will require to be re-instated and adds **£0.270 million** to the budget strategy in **2021/2022.**

Pay Items

1.13. **Pay Award (incl Apprenticeship Levy):** The multi-year pay deal for both Teachers and Non Teachers comes to an end on 31 March 2021. There has been no notification of what the pay award will be beyond that. An assumption has been made regarding the potential increase for 2021/2022 which results in an increase of **£8.243 million** into **2021/2022**. This will be updated as more information becomes available.

1.14. **Local Government Pension Scheme:** An actuarial review is due to be carried out on the Strathclyde Pension Fund in 2020. The review will include any impact of the McLeod legal case on pensions and also the impact of current market conditions on investments. The outcome of the review will not be known until late 2020. It is not possible to predict the outcome of the review, and therefore no amount has currently been included in the Strategy. This position will be updated as more information becomes available.

1.15. **Teachers Pension:** The 2016 actuarial review resulted in changes to the assumptions for Teachers' Pensions from 2019/20 onwards. According to the Scottish Public Pension Authority (SPPA) website, the next valuation will be in 2020 and the outcome of this will determine the contribution rate to be applied for 2023/2024 onwards. Therefore no increase requires to be included in the 2021/2022 strategy.

1.16. The total impact of the **Pay Items** on the 2021/2022 Strategy is **£8.243 million.**

Price Increases

1.17. **Secondary Schools' Modernisation Contract:** The Strategy includes the requirement to fund inflationary increases for the Secondary Schools' Modernisation

Contract. The Retail Price Index rates (as per Office of Budget Responsibility at March 2019 – there are no recent projections available) were applied to the 2020/2021 contract payment. The Strategy includes **£1.072 million for 2021/2022.**

1.18. **Non Domestic Rates:** Estimates for the Council's increased NDR costs, as a result of potential increases in rates poundage, have been made based on 2020/2021 information. Trends in increases over the last few years have been applied to arrive at the estimated budget requirements of **£0.435 million** for **2021/2022**.

1.19. **Social Care:** As in previous years, the Strategy assumes increases in prices reflecting the ongoing commitments for Social Care contracts held by the Council. Increases similar to those experienced in previous years, have been assumed for Social Care price increases for Care Home contracts into 2021/2022 (**£0.700 million)**. This excludes additional costs for living wage funded by the Government.

1.20. The total impact of the **Price Increases** on the Strategy is **£2.207 million**.

Funding for Priorities

1.21. **Waste Management:** The Council let a number of new contracts for waste in 2017/2018. An amount of **£0.300 million** has been included in the Strategy for contract inflation for **2021/2022.** This is based on the budget strategy for Waste Services which also utilises funding held in Reserves in its early years.

1.22. The total impact of the **Funding for Priorities** on the Strategy is **£0.300 million for 2021/2022**.

Related Parties and Joint Boards

1.23. Assumptions for cost increases of **£0.363 million** for South Lanarkshire Leisure and Culture Trust are included in the Strategy for **2021/2022**. This reflects the cost of the 2020/2021 pay award. It is expected that savings identified by the Trust will be considered alongside the Council's savings package.

1.24. Strathclyde Passenger Transport did not increase their requisitions in the last 2 years. The Strategy for 2021/2022 assumes the same 'no change' in the requisition payment going forward and will be updated as more information becomes available.

1.25. The total impact on the Strategy of the **Related Parties and Joint Boards** is **£0.363 million for 2021/2022**.

Revenue Consequences of Capital

1.26. The assumptions in this Strategy continue to include provision for the revenue consequences of the opening of new primary schools and other approved capital projects. An amount of **£0.069 million has been included in the Strategy for 2021/2022**. These additional costs are mainly for nursery and primary school expansions. There may be other revenue consequences and these costs will be finalised over the coming months as timescales for the delivery of capital projects are confirmed.

1.27. **City Deal – Interest on Borrowing:** Due to the timing of the grant in respect of City Deal, the Council will require to borrow on a temporary basis to fund the projects. The Scottish Government have changed the accounting regulations to allow the

Council to delay principal repayments until the grant is received. However, the Council will still have to account for the interest payments temporarily on the borrowing on an annual basis. An amount of **£0.190 million** has been included in the Strategy for **2021/2022.**

1.28. The total impact of the **Revenue Consequences of Capital** on the Strategy is **£0.259 million for 2021/2022**.

Other Budget Items

1.29. **Caird Centre:** As part of the anticipated Caird Data Centre exit date of 30 June 2021, the preferred model for Council corporate IT server and storage services is a hybrid model of traditional racked servers and storage, virtualised servers and cloud services. This gives the Council the greatest flexibility to deliver computer services. This will **cost £0.650 million in 2021/2022**.

1.30. **Microsoft Licenses:** The Council's operating systems and applications must be fit for purpose in the face of the increased risk of cyber-attacks. Targets for compliance have been set by both the Scottish and UK Governments. There is a requirement to upgrade the Windows, Exchange and Office applications due to the end of manufacturer support. The Council is required to have in place subscription licensing for Microsoft's email, Windows and Office suite products moving forward. **The increased cost of this is £0.932 million into 2021/2022.**

1.31. The total impact of the **Other Budget Items** on the 2021/2022 Strategy is **£1.582 million.**

Appendix 2

Loans Fund Review

1. Background

1.1. The Council's Long Term Revenue Budget Strategy results in the requirement for significant budget savings. This includes the anticipated reductions in Government Grant, Pay and Prices Pressures and Investment in Council Priorities. The Council's Loan Charges budget is part of the Revenue Budget.

1.2. A change in regulations around how councils account for debt repayments means that councils now have more flexibility around how long debt is repaid over.

1.3. At its meeting on 26 June 2019, the Council approved a change to the Treasury Management Strategy which allows the council to consider options around how debt is repaid, and gives scope to release funds in the short term, which can help with financial pressures. This exercise has been worked on during financial year 2019/2020 with the results shown in the Business Case attached to this Appendix. This covering report will summarise the Review and detail the benefit gained from implementing the revised approach to debt repayment.

2. Loans Fund Review

2.1. A review of the Council's Loans fund repayments has been undertaken in order to identify options to repay the Council's debt over a longer period of time and to reduce costs to the Council's revenue account.

2.2. The review looked at reprofiling debt repayments in line with the life of the assets that the borrowing was taken for. This would mean repaying debt over a longer period of time. This review has now been completed and the results are shown in a Business Case attached as an Appendix to this report. The outcome of the review is summarised from section 2.4.

2.3. The review examined the Council's loans fund, with detailed analysis of the debt repayments made, how long we take to repay this debt and the interest rate used in calculating the debt repayments.

2.4. **Outcome of the Review:** The review identified that an alternative approach to the debt repayments could be adopted. Under the current approach, debt is repaid over an average of around 40 years. Under the alternative approach, repayments could now be made over a period reflecting the expected asset life of 50 years. A standard rate of interest for the calculation would also be applied (5%).

2.5. As the majority of the debt has been taken to support capital expenditure on schools, an asset life of 50 years, as advised by Housing and Technical Resources, is appropriate.

2.6. This approach does not change the useful life of the asset. How long an asset can be operational is determined by considering the maintenance regime in place (to keep the building at an appropriate standard) and also whether it will still be fit for purpose. It is appropriate to assume an average asset life of 50 years as our assets are subject to an asset management regime and are well maintained.

2.7. The programme of General Services' capital projects for the year 2020/2021 approved by the Chief Executive, in consultation with the Group Leaders on 25 March 2020 includes £4.800 million for Planned Asset Management to maintain all of the Council's new build General Services facilities (constructed post 2000) in a good condition and to a compliant standard; and £0.750 million for Lifecycle Replacement – Schools to commence a programme of replacement for major elements of infrastructure within schools.

3. Impact of Changing Loans Fund Repayments

3.1. If we choose to adopt the alternative approach, the guidance allows the Council to change our loans fund repayments that we have made to date, by applying the change retrospectively. This means that if the Council had adopted this different Treasury Management Practice at the point at which borrowing was taken, it would have repaid less debt by the end of March 2019 than it has actually done. Because of this an amount of £68 million, which is no longer required to be paid by the end of March 2019, can be offset against future year debt repayments, creating an underspend in the Council's revenue budget. The underspend in the revenue budget can be held in reserves and used to support the Council's budgets going forwards.

3.2. It should be noted that there is no impact on the overall amount of debt repayments for each loan - the same level of debt will need to be repaid. However, it will take longer to repay the debt. This will mean that the Council's debt will be higher than currently anticipated and as a result, interest costs will be higher than currently estimated.

3.3. In addition to the one-off benefit of £68 million we could also see lower repayments in the years from 2019/2020 to 2046/2047. These total £198 million as shown on Appendix A of the Business Case. There is no impact on the overall level of debt repaid, as the lower repayments made in the earlier years will be offset by greater repayments in the years beyond 2046/2047. In addition, again, further interest costs would be incurred due to not repaying debt as quickly.

3.4. The total additional interest cost due to these reduced debt repayments is estimated at £208 million over the period to 2072/2073. If we take into account that these interest payments will be made over the next 50 years, and that in the future money is worth less because of inflation we can calculate what the equivalent present value is of these interest payments. Taking account of the time value of money, the additional interest payments would be £94 million at today's values.

3.5. The annual interest costs start at £0.4 million in 2019/2020 before rising to £6.8 million in 2046/2047 and then falling to £0.012 million in 2072/2073. Interest costs are shown on Appendix A of the Business Case. This method would mean an incremental increase in the loan charges budget of circa £0.400 million per annum.

3.6. While the additional interest costs shown in Appendix A of the Business Case begin in 2019/2020, due to the fact that budgets have already been set to 2020/2021, the first year in which the loan charge budget can be increased to reflect the additional costs will be 2021/2022 as shown in Section 4.9 of this report in Table 2.

3.7. This overall level of additional interest costs is significant, and therefore options have been looked at to reduce the impact for the council. To mitigate some of the additional interest costs, the benefit that the Council could take from revising debt write off periods can be limited to the one off £68 million identified at section 3.1. This can be done by making additional voluntary debt repayments to match current estimates of loan charge costs. This reduces the additional interest detailed at section 3.4. This proposed approach is set out in the following section.

4. Proposed Way Ahead

4.1. **Revised Debt Repayment Approach:** It is proposed that the Council takes advantage of the guidance which allows us to reconsider our debt repayment approach. This means that we move to apply an average 50 year asset life and 5% interest rate assumptions when calculating debt repayments. This would allow the council to release a financial benefit in the short term.

4.2. The Revenue Budgets for 2019/2020 and Strategy for 2020/2021 already takes account of the use of capital receipts to support the in-year budgets by paying for principle debt repayments. The amount of receipts utilised are £5.500 million and £5.000 million in the two years respectively. This limits the benefit that can be taken in these years.

4.3. **Managing Additional Interest Costs:** In order to limit the impact of additional interest payments, it is proposed that voluntary debt repayments are made.

4.4. The additional voluntary debt repayments proposed are shown on Appendix A of the Business Case. Appendix A takes the £68 million which is no longer required to be paid by the end of March 2019, and which can be offset against future year debt repayments, commencing in 2019/20. As the implications of the Loans Fund Review will not be implemented until 2020/2021, then the offset of debt repayments will actually commence in 2020/2021. This is shown in Table 1 which illustrates how the £68 million benefit will be released to the Council from 2020/2021, taking into account the use of capital receipts to support the in-year budget in that year.

Table 1: Benefit of Reduced Debt Repayments – Delayed 1 Year

Year	Reduction in Debt Repayments £m	Additional Voluntary Debt Repayments £m	Net Benefit Released £m
2020/2021	9.000	0.000	9.000
2021/2022	15.783	0.000	15.783
2022/2023	16.245	0.000	16.245
2023/2024	16.921	0.000	16.921
2024/2025	17.824	-7.833	9.991
2025/2026	18.534	-18.534	0.000
Total to 2025/2026	**94.307**	**-26.367**	**67.940**
2026/2027 to 2073/74	-94.307	26.367	-67.940
Total	**0.000**	**0.000**	**0.000**

4.5. The benefit released would be £67.940 million in the short term (by 2024/2025) which could then be used to reduce savings requirements in future Budget Strategies.

4.6. By doing this, the estimated interest costs can be reduced to £77 million over the period to 2072/2073. The annual interest costs start at £0.450 million in 2020/2021 before rising to £1.746 million in 2024/2025. Once the budget of £1.746 million is established in 2024/2025, there are no further budget increases required and they sit at this level until 2062/2063 when they start to fall, finishing at £0.012 million in 2072/2073. Again, taking into account the time value of money, the present value of these additional interest costs is £36 million at today's values.

4.7. While the current policy on loans fund repayments states that the Council's strategy for managing debt includes the early repayment of debt, this will be updated to make it clear that additional voluntary repayments will be used as a tool to reduce interest costs and ensure that charges to the revenue account remain prudent and affordable in the long term. As no additional voluntary repayments are proposed until 2024/2025, this can be done when the policy is next set in early 2021.

4.8. The £68 million reflects the amount which is no longer required to be paid by the end of March 2019, and which can be offset against future year debt repayments. This benefit of this has been taken across the coming years from 2020/2021. There is the potential opportunity to take the debt no longer required to be paid as at the end of March 2020. This may realise further benefit. This will be pursued, and brought back to Committee as appropriate.

4.9. **Budget Required for Interest Costs:** In order to provide budget for the additional interest costs, an incremental increase to the budget is required. Interest costs are shown in Table 2 for the years to 2061/2062, with the full profile of spend shown on Appendix A of the Business Case. It is proposed that these incremental increases are factored into future budget strategies.

Table 2: Interest Costs Across Years

Year	Annual Cost of Interest £m	Incremental Increase / Budget increase required £m
2019/2020	0.218	-
2020/2021	0.450	-
2021/2022	0.855	0.855
2022/2023	1.273	0.418
2023/2024	1.707	0.434
2024/2025	1.746	0.039
2025/2026 to 2061/2062	1.746	-

5. Summary of Proposals

5.1. It is proposed that the Council makes changes to how the repayment of its debt is calculated and applies an average asset life of 50 years and an interest rate of 5% in the calculation of its loans fund principal repayments.

5.2. By applying this approach retrospectively, the Council can offset £68 million of historic debt repayments against future debt repayments. This can be used to reduce charges to the Council’s revenue account and thereby increase the level of Council reserves which can be used to support the Council’s budgets going forwards.

5.3. This approach will mean that the Council’s debt will be higher in the future than currently estimated and will result in additional interest costs being incurred. In order to contain the additional interest costs to affordable levels, additional voluntary repayments of debt will be made.

5.4. This approach allows the Council to reduce its debt repayments by £68 million to 2025/2026, but as debt will be higher in the future, will result in additional interest costs of £77 million over the period to 2072/2073. The annual increase in interest costs is £1.746 million.

6. Financial Implications Summary

6.1. The financial implications are covered in section 5 of this report. Revising the loans fund repayments releases a benefit in the short term of £68 million which could then be used to reduce savings requirements in future Budget Strategies. This position is based on the exercise to review the Loans Fund during 2019/2020. This is for illustration only any change to the timescales employed would mean a change to the profile of benefit. However, the £68 million total benefit would be maintained.

6.2. There is no impact on the overall amount of debt repayments made, the length of time they are paid over will increase.

6.3. By taking advantage of this opportunity, the Council will not repay its debt as quickly and so additional interest costs will be incurred. The total cost of this additional interest is £77 million over 50 years (section 5.4). Taking into account the time value of money, the present value of the additional interest costs is £36 million. Once an interest budget of £1.746 million is established by 2024/2025, there are no further budget increases required.

6.4. The overall position across years is shown on Appendix A of the Business Case attached.

Outcome of Loans Fund Review Carried out by Link Asset Services

Business Case for the Revision of Loans Fund Repayment Policy

1. Background

1.1. The Council's capital programmes are partly funded by planned borrowing which is advanced from the Council's Loans Fund. Repayment of these advances is made each year and forms part of the Council's revenue expenditure. Borrowing to fund the capital programmes therefore creates a liability to repay those advances from future years' budgets.

1.2. As at 31 March 2019, the balance of loans fund advances outstanding for General Fund Services totals £818.938m.

2. The Local Authority (Capital Finance and Accounting) (Scotland) Regulations

2.1. The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the 2016 Regulations) came into force on 1 April 2016. These Regulations replaced the statutory provisions for local authority borrowing, lending and loans fund as set out in Schedule 3 of the Local Authority (Scotland) Act 1975.

2.2. The Regulations require a Loans Fund to be administered in accordance with the Regulations, proper accounting practice and prudent financial management.

2.3. Regulation 14 requires a local authority to determine for each loans fund advance:

- the period over which the advance is to be repaid to the loans fund;
- the amount of repayment to be made to the loans fund in each financial year in that period

2.4. Regulation 14(2) allows a local authority to subsequently vary either the period or the amount of the repayment (or both) if it considers it prudent to do so.

2.5. Statutory Guidance on Loans Fund Accounting issued by Scottish Ministers states that this provision enables a local authority to make additional voluntary repayments of any loans fund advance.

3. Application of the Regulations

3.1. Audit Scotland's initial interpretation of the 2016 Regulations, was that the prudent approach could not be applied to loans fund advances made prior to 1 April 2016.

3.2. Following discussions between Audit Scotland, the CIPFA Directors of Finance Section, COSLA, and the Scottish Government, in June 2019 Audit Scotland confirmed that they were satisfied that the 2016 Regulations could be applied to advances taken before 1 April 2016. Specifically, this included Regulation 14(2) which permits a local authority to vary the period and amount of the repayment if it considers it prudent to do so.

4. Demonstrating a Prudent Approach

4.1. The 2016 Regulations require Scottish Authorities to make a prudent provision for debt repayment to the revenue account each year. The 2016 Regulations do not define what constitutes a "prudent provision".

4.2. A prudent repayment of a loans fund advance is one which is reasonably commensurate with the period and pattern of benefits provided to the community from the capital expenditure. When considering prudence it may be the case that providing for debt repayment over too short a period is equally as imprudent as providing over too long a period.

5. Loans Fund Review

5.1. Following the introduction of the new regulations and clarification from Audit Scotland, the Council's Treasury Management Advisors, Link Asset Services, were asked to undertake a review of the Council's Loans Fund to identify any possibilities to reprofile the repayment of loans fund advances.

5.2. The objective of the review was to profile loans fund advance repayments in line with the life of the associated assets, to achieve short to medium term benefit to the General Fund and to assist with easing current budgetary pressures while ensuring that the provision provided remains prudent and compliant with the statutory guidance.

6. Loans Fund Repayments

6.1. In their review of the loans fund, Link Asset Services have continued to use the annuity method of repayment, where the annual repayment increases over time. This reflects the existing method used by South Lanarkshire Council, takes into account the time value of money, and links the repayment of the advance to the flow of benefits from an asset.

6.2. Two factors determine the annual repayment of an advance under the annuity method:

- the period set for which each advance is to be repaid to the loans fund, which is linked to the asset life, and
- the annuity or interest rate used in the loan charge calculations.

7. Asset Lives

7.1. A review of the asset lives used in the Council's Loans Fund calculations confirmed that various different repayment periods have been used when setting the period for advance repayments within the General Fund, generally ranging from 20 to 50 years.

7.2. An analysis of all loans fund advances issued between 2004/2005 and 2018/2019 has identified that the majority (75%) of General Fund advances had lives of 50 years.

8. Annuity Rate

8.1. A review of the Loans Fund interest rate used in the existing calculation of loans fund advances has identified that it ranged from 3.87% to 7.44% and that taking into account the level of expenditure in each year, the weighted average rate over the period was 5%.

9. Revised Calculations

9.1. In their review of the loans fund, Link Asset Services have adopted a simplified method that uses an average repayment period for all loans fund advances and an average annuity rate that takes into account the Council's historic interest rate used in the calculation of principal repayments.

9.2. The revised calculation has been applied based on the following:

- 50 years for General Fund advances from 2004/2005,
- 50 years for the balance of General Fund advances outstanding as at 1 April 2004, and
- A 5% interest rate.

9.3. The result of the revised calculation results in an adjustment to the balance of loans fund advances that should be outstanding as at 31 March 2019, and an excess provision that has been charged to the General Fund of £67.940 million.

9.4. The excess provision due to the revised calculation can be taken in future years to reduce loans fund advance repayments in any way that the Council wishes, as long as it deems it prudent and does not result in a negative charge.

9.5. In addition to the excess provision that has been identified, applying the simplified approach retrospectively results in changes to repayments in the future.

9.6. There is no impact on the overall amount of loans fund advances that will be repaid, however the profile of the repayments will be changed. However any reductions in the repayment of loans fund advances in future years, the Council will not repay its debt as quickly and so additional interest costs will be incurred.

10. Impact of Revised Calculations on General Fund

10.1 As noted in 9.3, the impact of the revised calculation for the General Fund loans fund advances shows an excess provision of £67.940m between the original charge of £911.846 million and the revised charge of £979.786 million. This is shown in Appendix A.

10.2. In addition to the £67.940 million excess provision, the recalculation of the loans fund advances also means lower charges to from 2019/2020 to 2046/2047, totalling £198.348 million.

10.3. The excess provision has been applied over the financial years 2019/2020 to 2027/2028 in order to negate the overpayment of advances over as short a time period as possible, while not resulting in a negative charge. This results in a nominal charge of approximately £5k over this period. This allows the Council to take reduced loan charge over this period, and get the benefit of the earlier overpayments.

10.4. The £68 million reflects the amount which is no longer required to be paid by the end of March 2019, and which can be offset against future year debt repayments. This benefit of this has been taken across the coming years. There is the potential opportunity to take the position at the end of March 2020, which may realise further benefit. This will be pursued, then it will be brought back to Committee as appropriate.

10.5. The total reduction in loans fund advance repayments over the period 2019/2020 to 2046/2047 totals £266.288 million as highlighted in Appendix A. As explained in paragraph 9.6., this means that the Council will not repay its debt as quickly and so additional interest costs will be incurred.

10.6. Appendix A shows that the total interest costs that will be incurred due to the reduction in loans fund advance repayments of £266.288 million are estimated at £208.452 million over the period 2019/2020 to 2072/2073. They start at £0.360 million in 2019/2020 before rising to £6.844 million in 2046/2047 and then falling to £0.012 million in 2072/2073. Interest costs are shown in Appendix A. This method would mean an incremental increase in the loan charges budget of at circa £0.400m per annum in the early years.

10.7. In total, taking into account the revised loans fund advance repayments and the additional interest costs, savings in loan charges of £160.371 million can be achieved over the period 2019/2020 to 2040/2041 with annual savings over the period 2019/2020 to 2040/2041 averaging £7.290 million per annum, however this is offset by increases in loan charges of £368.823 million over the period 2041/2042 to 2073/2074. Costs in 2059/2060 are £25.794 million higher than the current forecasted charge.

10.8. **Alternative Approach:** As stated in paragraph 2.5., Statutory Guidance on Loans Fund Accounting issued by Scottish Ministers states that Regulation 14(2) of the 2016 Regulations enables a local authority to make additional voluntary repayments of any loans fund advance. In order to mitigate the high level of interest costs, additional voluntary repayments have been considered.

10.9. By making additional voluntary repayments of loans fund advances the outstanding debt, and additional interest costs, can be reduced. This is shown in Appendix B.

10.10. Appendix B shows the excess provision of £67.940 million between the original charge of £911.846million and the revised charge of £979.786 million remains and the reduction in charges from 2019/2020 to 2046/2047 of £198.348 million, however by making the additional voluntary repayments of loans fund advances as shown in green, the total reduction in loans fund advance repayments over the period 2019/2020 to 2046/2047 can be limited to £67.940 million.

10.11. By limiting the total reduction in loans fund advance repayments to £67.940 million, the total estimated interest costs can be reduced to £76.983 million over the period 2019/2020 to 2072/2073, starting at £0.218 million in 2019/2020 before rising to £1.746 million in 2024/2025 and then falling to £0.012 million in 2072/2073. Interest costs are shown in Appendix B. Once the budget of £1.746 million is established by 2024/2025, there are no further budget increases required.

10.12. Making additional voluntary repayments to reduce interest costs will result in an excess of £198.348 million of loans fund advance repayments (in comparison to the revised calculation) being made over the period 2024/2025 to 2046/2047.

10.13. Guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003 and applicable to local authorities in England allows local authorities to choose to pay more than they consider prudent in any given year and to then offset this overpayment against the current years prudent provision.

10.14. While there is no specific mention of the ability to offset additional voluntary repayments against the current year's prudent provision in the 2016 Regulations, neither is there anything in the Regulations that specifically prevents this.

10.15. Advice from the Council's Treasury Management Advisors is that there is nothing in the guidance that prevents additional voluntary repayments being used to reduce loans fund advance repayments in future years.

10.16. Appendix B shows the excess of £198.348 million of additional voluntary repayments being applied over the period 2047/2048 to 2062/2063 to reduce the repayment of loans fund advances in these years.

10.17. In total, taking into account the revised loans fund advance repayments, the additional voluntary repayments, and the additional interest costs, savings in loan charges of £61.945 million can be achieved over the period 2019/2020 to 2023/2024. Annual savings over the period 2019/2020 to 2022/2023 average £12.389 million per annum, however this is offset by increases in loan charges of £138.928 million over the period 2024/2025 to 2073/2074.

10.18. The increase in annual charges is limited to £1.746 million over the period 2024/2025 to 2061/2062 before increasing to £16.997 million in 2063/2064.

10. Conclusion

11.1. The impact of the simplified method used in the revised calculation of loans fund advances repayments allows significant savings in loan charges to be made in the short to medium term.

11.2. These savings, however will come at a cost as the Council will not reduce its debt as quickly as it would have, and so additional interest will be incurred.

11.3. Appendix A has shown that the additional interest costs are significant and would require investment in the loan charges budget to meet these costs in future years.

11.4. By making additional voluntary repayments of loans fund advances, the additional interest costs can be reduced, and the impact on future years' budgets can be contained.

11.5. The outcome of the loans fund review has shown that loans fund advance repayments can be profiled in line with the life of the associated assets, while achieving short to medium term benefit to the General Fund and assisting with easing current budgetary pressures.

11. Recommendation

12.1. It is recommended that the simplified method of calculating loans fund advance repayments that uses an average repayment period of 50 years for all General Fund loans fund advances and an average annuity of 5% is adopted.

12.2. It is recommended that in order to minimise the additional interest costs that will be incurred as a result of the reprofiling of loans fund advances, additional voluntary repayments of loans fund advances are made.

12.3. By doing so, it is estimated that savings in loan charges of £61.945 million can be achieved over the period 2019/2020 to 2023/2024 with annual savings over the period 2019/2020 to 2023/2024 averaging £12.389 million per annum.

12.4. It is recognised that there will be additional costs incurred as interest will be higher as a result of the reprofiling, however this can be limited to £1.746 million per annum.

Appendix A

General Fund Loan Charges

Recalculation of Advances - All Advances 50 Yrs @ 5% Annuity Rate

Excess Provision	-67.940
Total Interest Cost	208.452

	Original Charge	Revised Charge	Difference	Apply Excess Provision	Actual Charge	Difference	Interest	Total Saving/(Cost)
2019/20	14.005	6.657	7.348	6.652	0.005	14.000	0.360	13.640
2020/21	14.005	7.091	6.914	7.086	0.005	14.000	0.720	13.281
2021/22	15.787	7.706	8.082	7.701	0.005	15.783	1.125	14.657
2022/23	16.249	8.109	8.140	8.105	0.004	16.245	1.543	14.703
2023/24	16.926	8.535	8.390	8.531	0.004	16.921	1.978	14.944
2024/25	17.828	9.005	8.823	9.001	0.004	17.824	2.436	15.388
2025/26	18.538	9.456	9.083	9.451	0.005	18.534	2.912	15.622
2026/27	18.949	9.928	9.021	9.924	0.004	18.945	3.399	15.546
2027/28	19.169	10.425	8.744	1.489	8.936	10.233	3.662	6.571
2028/29	19.783	10.946	8.837	0.000	10.946	8.837	3.889	4.948
2029/30	19.881	11.493	8.388	0.000	11.493	8.388	4.105	4.283
2030/31	20.326	12.068	8.258	0.000	12.068	8.258	4.317	3.941
2031/32	20.638	12.672	7.967	0.000	12.672	7.967	4.522	3.445
2032/33	21.202	13.305	7.897	0.000	13.305	7.897	4.724	3.173
2033/34	21.859	13.970	7.888	0.000	13.970	7.888	4.927	2.961
2034/35	22.689	14.669	8.020	0.000	14.669	8.020	5.133	2.887
2035/36	23.416	15.402	8.014	0.000	15.402	8.014	5.339	2.675
2036/37	24.322	16.172	8.150	0.000	16.172	8.150	5.549	2.601
2037/38	24.803	16.981	7.822	0.000	16.981	7.822	5.750	2.072
2038/39	25.829	17.830	7.999	0.000	17.830	7.999	5.955	2.043
2039/40	25.756	18.722	7.034	0.000	18.722	7.034	6.136	0.898
2040/41	26.050	19.658	6.392	0.000	19.658	6.392	6.300	0.092
2041/42	26.387	20.641	5.746	0.000	20.641	5.746	6.448	-0.702
2042/43	26.786	21.673	5.114	0.000	21.673	5.114	6.579	-1.466
2043/44	27.034	22.756	4.277	0.000	22.756	4.277	6.689	-2.412
2044/45	27.083	23.894	3.189	0.000	23.894	3.189	6.771	-3.582
2045/46	27.234	25.089	2.145	0.000	25.089	2.145	6.826	-4.681
2046/47	27.009	26.343	0.666	0.000	26.343	0.666	6.844	-6.178
2047/48	26.802	27.660	-0.859	0.000	27.660	-0.859	6.822	-7.680
2048/49	26.916	29.043	-2.128	0.000	29.043	-2.128	6.767	-8.895
2049/50	25.840	30.496	-4.656	0.000	30.496	-4.656	6.647	-11.303
2050/51	26.130	32.020	-5.890	0.000	32.020	-5.890	6.496	-12.386
2051/52	26.643	33.621	-6.979	0.000	33.621	-6.979	6.316	-13.295
2052/53	28.294	35.302	-7.009	0.000	35.302	-7.009	6.136	-13.145
2053/54	29.955	37.068	-7.112	0.000	37.068	-7.112	5.954	-13.066
2054/55	26.798	36.547	-9.749	0.000	36.547	-9.749	5.703	-15.452
2055/56	23.557	37.720	-14.163	0.000	37.720	-14.163	5.339	-19.502
2056/57	19.259	36.620	-17.361	0.000	36.620	-17.361	4.893	-22.254
2057/58	14.461	34.767	-20.306	0.000	34.767	-20.306	4.371	-24.677
2058/59	11.840	33.061	-21.221	0.000	33.061	-21.221	3.826	-25.047
2059/60	8.032	30.580	-22.548	0.000	30.580	-22.548	3.246	-25.794
2060/61	5.181	26.076	-20.895	0.000	26.076	-20.895	2.709	-23.604
2061/62	1.321	22.645	-21.324	0.000	22.645	-21.324	2.161	-23.485
2062/63	0.684	19.483	-18.799	0.000	19.483	-18.799	1.678	-20.477
2063/64	0.590	16.313	-15.723	0.000	16.313	-15.723	1.274	-16.997
2064/65	0.000	11.659	-11.659	0.000	11.659	-11.659	0.974	-12.634
2065/66	0.000	9.133	-9.133	0.000	9.133	-9.133	0.739	-9.873
2066/67	0.000	7.095	-7.095	0.000	7.095	-7.095	0.557	-7.653
2067/68	0.000	5.910	-5.910	0.000	5.910	-5.910	0.405	-6.315
2068/69	0.000	5.551	-5.551	0.000	5.551	-5.551	0.263	-5.814
2069/70	0.000	4.578	-4.578	0.000	4.578	-4.578	0.145	-4.723
2070/71	0.000	3.648	-3.648	0.000	3.648	-3.648	0.051	-3.699
2071/72	0.000	0.841	-0.841	0.000	0.841	-0.841	0.030	-0.871
2072/73	0.000	0.677	-0.677	0.000	0.677	-0.677	0.012	-0.689
2073/74	0.000	0.473	-0.473	0.000	0.473	-0.473	0.000	-0.473
Total	**911.846**	**979.786**	**-67.940**	**67.940**	**911.846**	**0.000**	**208.452**	**-208.452**

The interest rate used in the calculation above reflects the PWLB 10 Year New Loan Maturity Rate as of 18 November 2019. Interest rates will fluctuate.

Appendix B

General Fund Loan Charges

Recalculation of Advances - All Advances 50 Yrs @ 5% Annuity Rate (Add Vol Repayment)

Excess Provision	-67.940
Total Interest Cost	76.983

	Original Charge	Revised Charge	Difference	Apply Excess Provision	Additional Voluntary Repayment	Actual Charge	Difference	Interest	Total Saving/(Cost)
2019/20	14.005	6.657	7.348	1.152		5.505	8.500	0.218	8.281
2020/21	14.005	7.091	6.914	2.086		5.005	9.000	0.450	8.550
2021/22	15.787	7.706	8.082	7.701		0.005	15.783	0.855	14.927
2022/23	16.249	8.109	8.140	8.105		0.004	16.245	1.273	14.972
2023/24	16.926	8.535	8.390	8.531	0.000	0.004	16.921	1.708	15.214
2024/25	17.828	9.005	8.823	9.001	16.333	16.337	1.491	1.746	-0.255
2025/26	18.538	9.456	9.083	9.451	18.534	18.538	0.000	1.746	-1.746
2026/27	18.949	9.928	9.021	9.924	18.945	18.949	0.000	1.746	-1.746
2027/28	19.169	10.425	8.744	10.420	19.164	19.169	0.000	1.746	-1.746
2028/29	19.783	10.946	8.837	1.569	10.406	19.783	0.000	1.746	-1.746
2029/30	19.881	11.493	8.388	0.000	8.388	19.881	0.000	1.746	-1.746
2030/31	20.326	12.068	8.258	0.000	8.258	20.326	0.000	1.746	-1.746
2031/32	20.638	12.672	7.967	0.000	7.967	20.638	0.000	1.746	-1.746
2032/33	21.202	13.305	7.897	0.000	7.897	21.202	0.000	1.746	-1.746
2033/34	21.859	13.970	7.888	0.000	7.888	21.859	0.000	1.746	-1.746
2034/35	22.689	14.669	8.020	0.000	8.020	22.689	0.000	1.746	-1.746
2035/36	23.416	15.402	8.014	0.000	8.014	23.416	0.000	1.746	-1.746
2036/37	24.322	16.172	8.150	0.000	8.150	24.322	0.000	1.746	-1.746
2037/38	24.803	16.981	7.822	0.000	7.822	24.803	0.000	1.746	-1.746
2038/39	25.829	17.830	7.999	0.000	7.999	25.829	0.000	1.746	-1.746
2039/40	25.756	18.722	7.034	0.000	7.034	25.756	0.000	1.746	-1.746
2040/41	26.050	19.658	6.392	0.000	6.392	26.050	0.000	1.746	-1.746
2041/42	26.387	20.641	5.746	0.000	5.746	26.387	0.000	1.746	-1.746
2042/43	26.786	21.673	5.114	0.000	5.114	26.786	0.000	1.746	-1.746
2043/44	27.034	22.756	4.277	0.000	4.277	27.034	0.000	1.746	-1.746
2044/45	27.083	23.894	3.189	0.000	3.189	27.083	0.000	1.746	-1.746
2045/46	27.234	25.089	2.145	0.000	2.145	27.234	0.000	1.746	-1.746
2046/47	27.009	26.343	0.666	0.000	0.666	27.009	0.000	1.746	-1.746
2047/48	26.802	27.660	-0.859	0.000	-0.859	26.802	0.000	1.746	-1.746
2048/49	26.916	29.043	-2.128	0.000	-2.128	26.916	0.000	1.746	-1.746
2049/50	25.840	30.496	-4.656	0.000	-4.656	25.840	0.000	1.746	-1.746
2050/51	26.130	32.020	-5.890	0.000	-5.890	26.130	0.000	1.746	-1.746
2051/52	26.643	33.621	-6.979	0.000	-6.979	26.643	0.000	1.746	-1.746
2052/53	28.294	35.302	-7.009	0.000	-7.009	28.294	0.000	1.746	-1.746
2053/54	29.955	37.068	-7.112	0.000	-7.112	29.955	0.000	1.746	-1.746
2054/55	26.798	36.547	-9.749	0.000	-9.749	26.798	0.000	1.746	-1.746
2055/56	23.557	37.720	-14.163	0.000	-14.163	23.557	0.000	1.746	-1.746
2056/57	19.259	36.620	-17.361	0.000	-17.361	19.259	0.000	1.746	-1.746
2057/58	14.461	34.767	-20.306	0.000	-20.306	14.461	0.000	1.746	-1.746
2058/59	11.840	33.061	-21.221	0.000	-21.221	11.840	0.000	1.746	-1.746
2059/60	8.032	30.580	-22.548	0.000	-22.548	8.032	0.000	1.746	-1.746
2060/61	5.181	26.076	-20.895	0.000	-20.895	5.181	0.000	1.746	-1.746
2061/62	1.321	22.645	-21.324	0.000	-21.324	1.321	0.000	1.746	-1.746
2062/63	0.684	19.483	-18.799	0.000	-16.148	3.335	-2.651	1.678	-4.329
2063/64	0.590	16.313	-15.723	0.000		16.313	-15.723	1.274	-16.997
2064/65	0.000	11.659	-11.659	0.000		11.659	-11.659	0.974	-12.634
2065/66	0.000	9.133	-9.133	0.000		9.133	-9.133	0.739	-9.873
2066/67	0.000	7.095	-7.095	0.000		7.095	-7.095	0.557	-7.653
2067/68	0.000	5.910	-5.910	0.000		5.910	-5.910	0.405	-6.315
2068/69	0.000	5.551	-5.551	0.000		5.551	-5.551	0.263	-5.814
2069/70	0.000	4.578	-4.578	0.000		4.578	-4.578	0.145	-4.723
2070/71	0.000	3.648	-3.648	0.000		3.648	-3.648	0.051	-3.699
2071/72	0.000	0.841	-0.841	0.000		0.841	-0.841	0.030	-0.871
2072/73	0.000	0.677	-0.677	0.000		0.677	-0.677	0.012	-0.689
2073/74	0.000	0.473	-0.473	0.000		0.473	-0.473	0.000	-0.473
Total	**911.846**	**979.786**	**-67.940**	**67.940**	**0.000**	**911.846**	**0.000**	**76.983**	**-76.983**

The interest rate used in the calculation above reflects the PWLB 10 Year New Loan Maturity Rate as of 18 November 2019. Interest rates will fluctuate.

Appendix 3

Savings Requirement Across Years from 2022/2023

	2022/2023 £m	2023/2024 £m	2024/2025 £m	2025/2026 £m	2026/2027 £m
Grant Reduction (1%)	5.000	5.000	5.000	5.000	5.000
Council Tax – increase in Property Numbers	(1.100)	(1.100)	(1.100)	(1.100)	(1.100)
Council Tax – Impact on Grant	1.040	0.960	0.910	0.910	0.910
Pay Award / prices / Waste	11.050	11.180	11.320	11.470	11.610
Temporary Solutions	11.309	0.000	0.230	0.000	0.000
Council tax (4.84%)	(6.700)	(6.700)	(6.700)	(6.700)	(6.700)
Job Evaluation	1.500	1.600	0.000	0.000	0.000
Interest on Loan Charges (due to Loans Fund Review)	0.500	0.500	0.500	0.200	0.000
Total	**22.599**	**11.440**	**10.160**	**9.780**	**9.720**