

Report

Report to:	Executive Committee
Date of Meeting:	2 November 2022
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Update on the Budget Strategy for 2023/2024
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ provide members with an update on the Budget position for 2023/2024.

2. Recommendation(s)

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

- (1) that the update to the Budget Strategy and further corporate solutions, resulting in a potential residual budget gap of £10.5 million (section 5.11 / Table 2), be noted;
- (2) that the benefit resulting from the implementation of Service Concessions including the £61 million retrospective benefit (section 6.1), and the potential utilisation in sections 5.9 and 6.2/6.3, be noted;
- (3) that the other budget areas for consideration, detailed in section 6 and summarised in Table 4, be noted; and
- (4) that that Summary and Next Steps (section 7), be noted.

3. Background

3.1. A report on the [Budget Strategy - 2023/2024 Update and Longer Term Financial Outlook](#) was presented to the Executive Committee in September 2022. This paper gave an update on the previous report to Council in June 2022 and detailed a revised Budget Gap of £24.726 million. The report noted that options to meet the Budget Gap will be developed for members' consideration and brought back to a future meeting.

3.2. This report will therefore provide the following:-

- ♦ a summary of the updated 2023/2024 Budget Strategy reported in September (section 4),
- ♦ an update on the September assumptions for 2023/2024 and options to reduce the funding gap, including further corporate funding solutions and details of the potential benefit from Service Concessions (section 5),
- ♦ further areas for consideration in terms of cost and inflation pressures (section 6) and
- ♦ a summary and next steps (section 7).

4. Financial Position for 2023/2024 (as at September 2022)

4.1. The report to Executive Committee in September 2022 covered the current estimates in relation to the budget gap for 2023/2024. The report showed a budget gap of £24.726 million. This reflected amended assumptions in relation to grant levels following the Spending Review and also took account of the further underspend at the

end of financial year 2021/2022. The permanent impact of the 2022/2023 pay award was also included. This budget gap did not include any assumption on an increase in Council Tax.

- 4.2. As noted in section 3.1, the Committee agreed that options to meet the budget gap would be developed for members' consideration and brought back to a future meeting. An update on this is included in section 5.
- 4.3. The September 2022 report referenced the new Service Concession Guidance as well as other cost pressures that are being monitored. An update on these is included in section 6. Finally, section 7 includes a summary and Next Steps.

5. Options to meet the 2023/2024 Budget Gap

- 5.1. As noted in section 4.1, the budget gap reported to Executive Committee (September 2022) was £24.726 million. Since then, officers have been working on potential solutions for members' consideration. These include the output from a finance exercise to review a number of corporate budget lines and balance sheet items, as well as the anticipated position on Council Tax and Loan Charges in the current year. It also includes the most recent output from reviews. The potential impact of each is taken in turn.
- 5.2. **Finance Exercise:** A review of corporate budget lines and balance sheet items has identified a number of solutions. These are detailed in Appendix 1 and summarised in Table 1, and total **£6.1 million** for 2023/2024.

Benefit to 2023/2024: £6.100 million

Table 1: Finance Exercise – Corporate Solutions

	2023/2024 Corporate Solution £m	Reinstate in 2024/2025 £m
Balance Sheet / Accounting Balances		
No Longer Required – Non Recurring (Appendix 1, section 1.2)	(0.9)	0.9
Council Tax Reduction Scheme		
Balance of Budget Not Required – Recurring (Appendix 1, section 1.3)	(1.3)	-
National Insurance / Council Tax Reduction Scheme		
Underspend in Budget in 2022/2023 – Non Recurring (Appendix 1, section 1.4)	(1.9)	1.9
Deposit Interest from Investments		
– Non Recurring (Appendix 1, section 1.5)	(1.0)	1.0
Council Tax		
Over-Recovery anticipated in 2022/2023 – Non Recurring (Appendix 1, section 1.6)	(1.0)	1.0
Total Corporate Solutions from Finance Exercise	(6.1)	4.8

- 5.3. It is noted that some of these are temporary solutions for 2023/2024 only. These temporary solutions will have to be reinstated in 2024/2025 and will, therefore, increase the budget gap in that year. Table 1 shows that this reinstatement totals £4.8 million.
- 5.4. **Output from Reviews:** There are a number of service reviews currently underway that look to identify efficiencies. Many of these reviews have already contributed towards budget gaps (in 2022/2023 and 2023/2024) where we have included projected savings up to 2023/2024 to help manage the budget. There are further efficiencies that can be taken into account in the budget for 2023/2024 and these total **£0.600**

million. An update on proposals requiring member approval will be provided to the Executive Committee at the end of November 2022.

Benefit to 2023/2024: £0.600 million

- 5.5. **Service Concession – Annual Cost Reduction:** As noted in the previous Budget report (September 2022), as advised as part of the Spending Review announcement in late May 2022, the Council is able to implement the change in accounting for Service Concessions (PPP Contracts).
- 5.6. The potential benefit from the Service Concessions agreement is achieved by better matching the costs of PPP schools to the expected useful lives of the schools and, therefore, repaying the cost of debt across a longer period of time.
- 5.7. The guidance on Service Concessions has been published and the impact of this implementation is being finalised by officers. If the implementation is agreed, then it is expected to mean a reduced annual debt charge of £4 million per annum in relation to the Council's Schools' PPP, and also a retrospective benefit of at least £61 million as at the end of 2022/2023 (refer section 6.1).
- 5.8. Officers are currently working through the accounting transactions in full. This will enable formal confirmation of the one-off and recurring benefits to be provided to members. Full information on the implementation of Service Concessions will be provided to members for approval prior to completion of the budget setting process. For the reasons of timing, this may require the convening of a special Council meeting.
- 5.9. As noted in section 5.7, the reduction in the annual debt charge for the Council's Schools' PPP will be **£4 million**. Subject to Council approval of the implementation of Service Concessions, this £4 million can be taken into account in the 2023/2024 Budget Strategy. Further information on Service Concessions is noted in section 6.1.

Benefit to 2023/2024: £4.000 million

- 5.10. **National Insurance:** The 2022/2023 Budget includes £3.5 million for the UK Government's increase of 1.25% in National Insurance. This was implemented in April 2022 however, in the recent announcement by the Chancellor of the Exchequer, the 1.25% increase in National Insurance has been removed as of November 2022. For the full year, this would be a recurring benefit to the Council of £3.500 million and could be used to reduce the budget gap for 2023/2024.

Benefit to 2023/2024: £3.500 million

- 5.11. The potential corporate solutions detailed in sections 5.2 to 5.10 mean that the budget gap in 2023/2024 reduces from £24.726 million to £10.526 million. This is shown in Table 2.

Table 2 – Updated 2023/2024 Budget Strategy

	£m
Budget Gap (as at September 2022) (section 4.1)	24.726
Less:	
- Finance Exercise (section 5.2, Table 1)	(6.100)
- Outcome from Reviews (section 5.4)	(0.600)
- Service Concession – Annual Cost Reduction (section 5.9)	(4.000)
- National Insurance Cost Reduction (section 5.10)	(3.500)
Revised Budget Gap / Savings Requirement	10.526

- 5.12. **Council Tax:** Members will be aware that a lever available to the Council in managing its overall budget position and any Budget Gap is the ability to increase Council Tax. In arriving at the revised budget gap detailed in Table 2, no account has been taken of any increase in Council Tax.
- 5.13. Each 1% increase in Band D would generate successive amounts of £1.452 million. If Council Tax were to be increased by 3.5%, then this would generate circa £5.1 million.
- 5.14. If this Council Tax increase was approved, this could be used to reduce the 2023/2024 budget gap to approximately £5.4 million.

6. Further Areas for Consideration

- 6.1. **Service Concessions – Retrospective Benefit:** As detailed in section 5.7, subject to approval by Council, the implementation of Service Concessions will mean a retrospective benefit as well as an in-year benefit. At the end of 2022/2023, the retrospective benefit will be £61 million. There will also be a recurring benefit of £4m per annum from 2023/24.
- 6.2. Section 4.1 of this report highlights that the 2023/2024 Budget Strategy includes the 2023/2024 impact of the 2022/2023 pay award (£5.7 million). There is also a shortfall of the increased pay award in financial year 2022/2023 itself (£5.7 million). It is proposed that consideration be given to covering the £11.4 million cost of the 2022/2023 Pay Award across 2022/2023 and 2023/2024 (2 years at £5.7 million per year) from the retrospective Service Concession benefit.
- 6.3. It is also proposed that consideration be given to using £42.6 million of the retrospective benefit to support the Council's medium term Budget Strategies (across 2024/2025 and 2025/2026). Appendix 2 shows how this could work, subject to member approval of the implementation of Service Concessions which, as noted in section 5.7, will be brought to members for approval (prior to the budget being set).
- 6.4. Within the updated 2023/2024 budget gap of £10.5 million, the recurring benefit from implementing Service Concessions (£4m) has been included. However, the use of the retrospective benefit (£61m), has not been included at this point as it has been assumed that the use across years of the budget strategy will be a decision taken by elected members. Members have options in how the retrospective benefit is used. The use as shown in the following section (6.5) represents a prudent approach which would be advocated by officers. Other approaches to the use of this money could be adopted, but it will be noted that these would have consequences across the years of the Budget Strategy.
- 6.5. The Committee should be aware that members still need to take a decision re the implementation of Service Concessions. However, if this is approved, then the table in Appendix 2 (summarised in Table 3) shows how the benefits could be used to reduce the Budget Gap in the Council's Medium Term Budget Strategy.

Table 3 – Future Year Budget Gap

	2024/ 2025 £m	2025/ 2026 £m	2026/ 2027 £m	2027/ 2028 £m
Budget Gap (Before Use of Retrospective Service Concessions)	36.8	27.2	5.2	11.1
Use of Retrospective Service Concessions (Reserves) to Support Future Year Budget Strategies	(27.5)	(15.1)	-	-
Reinstatement of Previous Year Use of Service Concessions (Reserves)	5.7	27.5	15.1	-
Revised Budget Gap	15.0	39.6	20.3	11.1

* The Budget Gap excludes the impact of any increase in Council Tax Band D.

- 6.6. Table 3 illustrates that, before the use of Service Concessions, the budget gap for these 4 years would be £80.3m, with a gap of £36.8m in 2024/2025. The use of Service Concessions allows the budget gap to be managed over a longer period of time.
- 6.7. Taking account of the proposals in sections 6.2 and 6.3 (£11.4 million and £42.6 million respectively) would leave £7 million of the £61 million retrospective benefit unallocated.
- 6.8. **Rates:** There is a general Scotland wide non-domestic revaluation taking place in advance of 2023/2024. It is likely that, due to a change in the valuation basis, we will see an impact on the rates valuation. The result of this is an expectation of an increased rateable value for all Council properties, such as schools and offices. Estimates suggest that this could mean an additional £2.7 million on the Council's rates' bill. The exercise is not complete and there is also no information available as yet on the Rate Poundage to be set by the Scottish Government. As such, no account has been taken of any potential impact to date. Updates will be provided to members as more information becomes available.
- 6.9. **Inflation / Cost Pressures:** The September Executive Committee paper noted that the initial Budget Strategy for 2023/2024 (June 2022) included an increase for the core (normal) increase in inflation for two of the Council's significant contract areas (PPP and Waste) and also an exceptional increase based on inflation predictions available at that time. However, more recent information suggests that inflation may increase to even higher levels.
- 6.10. The inflationary uplift on these contracts is set at February 2023. If inflation were to increase it would have a further impact on the Budget Strategy. Any further impact has not yet been included in the Budget Gap of £10.5 million noted in section 5.11 (Table 2), however, these continue to be considered. The areas that could affect the 2023/2024 Budget assumptions include:
- Higher Inflation / Costs
 - Waste Contract (inflation – every 1% costs £0.160m)
 - PPP Contract (every 1% costs £0.400m)
 - Pay Award (every 1% costs the Council £4.400m (exc. SLLCT and IJB))
 - Utilities and Water
 - School Transport
 - Rates Revaluation into 2023/2024 (refer section 6.8)
- 6.11. These will continue to be reviewed with an update provided as we move further into the budget setting process, including the receipt of the Local Government Settlement at the end of the calendar year.

7. Summary and Next Steps

- 7.1. Section 5 of this report updates the Budget Strategy presented in September and Table 2 presents a revised budget gap of £10.5 million based on solutions proposed. If the outcome of the rates revaluation exercise is as indicated in section 6.8, this gap would rise to £13.2 million.
- 7.2. As noted in section 5.12, the budget gap of £10.5 million does not include the impact of a Council Tax increase, however, it does include the in-year debt saving from implementing the change to the accounting process for Service Concessions (section 5.9). If a Council Tax increase of 3.5% was included, the budget gap would reduce to £5.4 million (excluding any impact of the Rates revaluation exercise).
- 7.3. Section 6 provides items for members' consideration in terms of potential solutions including a reduced cost of National Insurance as well as the use of the potential retrospective benefit from the changes to Service Concession accounting. The change to accounting for Service Concessions will be presented to a future Council meeting for approval so their use is subject to receiving Council approval.
- 7.4. Table 4 notes the Budget Gap of £10.5 million and how this could be impacted by the other areas of potential budget pressure, as well as potential solutions available.

Table 4 – Budget Gap and Potential Pressures / Solutions

	£m	£m
Revised Budget Gap (section 5.11)		10.5
Potential Pressures which will Increase the Gap:		
Potential Rates Increase (section 6.8)	2.7	
Other Inflationary Factors / Costs Increases (section 6.9/6.10)	tbc	
Potential Solutions which will Reduce the Gap:		
Use of Service Concession Retrospective Benefit (to fund (5.7) impact of 2022/2023 Pay Award in 2023/2024) (section 6.2)		
Increase in Council Tax Band D (section 5.13)	(5.1)	

- 7.5. We will continue to monitor the position on the items covered in the table above.
- 7.6. As noted in section 5.4, an update on the Output from Review proposals requiring member approval will be provided to the Executive Committee at the end of November 2022.
- 7.7. The Scottish Budget is due to be released on 15 December 2022, and a report will be brought forward for members following the receipt of the Council's Local Government Settlement to provide an update on the budget position.
- 7.8. It is noted that some of the corporate solutions included in the Budget Strategy are temporary in nature. As such, they will have an impact on the following year's Budget. Given the potential for impact on 2024/2025, it is proposed that any temporary solutions used in 2023/2024 be considered again once the Government Grant level is known later in financial year 2022/2023.

8. Employee Implications

- 8.1. There are no direct employee implications from this report.

9. Financial Implications

- 9.1. The financial implications are summarised within the report.

10. Climate Change, Sustainability and Environmental Implications

- 10.1. There are no implications for climate change, sustainability or the environment in terms of the information contained in this report.
- 10.2. Climate Change targets will have an impact on the Council's future financial strategies. This will be included in future Budget Strategy papers.

11. Other Implications

- 11.1. The financial strategy is a way of managing a number of key risks which directly impact on the funding available to deliver Council outcomes. As detailed in the report, the Strategy is based on a number of assumptions, some of which, including Government Grant allocations, will crystallise over the coming months.
- 11.2. There is still uncertainty around a number of cost areas as well as other potential budget solutions, as noted in section 6. These include the impact of inflation as well as other cost pressures, and also the potential benefit from accounting for Service Concessions. The potential increase in costs will continue to be monitored and that and the level of Government Grant award will be reported to members as appropriate.

12. Equality Impact Assessment and Consultation Arrangements

- 12.1. 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.
- 12.2. There is no requirement to undertake any consultation in terms of the information contained in this report.
- 12.3. However, as the process to close the budget gap continues, stakeholder consultation and equality impact assessments will be carried out as appropriate. The results will be provided to members to inform their decision-making process.

Paul Manning

Executive Director (Finance and Corporate Resources)

7 October 2022

Link(s) to Council Values/Priorities/Outcomes

- ◆ Accountable, Effective, Efficient and Transparent

Previous References

- ◆ Executive Committee, 21 September 2022

List of Background Papers

- ◆ None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:

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2023/2024 Budget Strategy:

Finance Exercise

This Appendix details the results of the Finance Exercise to identify corporate solutions to assist in closing the 2023/2024 budget gap.

1. Finance Exercise – Background

- 1.1. An exercise to look at corporate budgets and reserves / balances has identified a number of solutions. Some of these are non recurring and therefore will have to be reinstated into the budget in 2024/2025.
- 1.2. **Balance Sheet / Accounting Balances No Longer Required:** A number of balances have been identified which are no longer required, either in the balance sheet or in the 2022/2023 budget itself. These total **£0.900 million** and will be carried forward to use in 2023/2024. These are non-recurring and will have to be reinstated into the 2024/2025 budget.
- 1.3. **Council Tax Reduction Scheme (CTRS):** The projection of spend in relation to CTRS is lower than the budget by approximately **£1.300 million** in 2023/2024. This is available to support the Budget Strategy on a recurring basis.
- 1.4. **National Insurance / CTRS – one-off underspend in 2022/2023:** As noted in 1.3 the CTRS budget is not required moving forward. However, there is also a reduced requirement in 2022/2023 for the CTRS budget (£1.400 million), as well as there being an underspend to the midpoint in the year on the National Insurance Budget (£0.500 million). The total anticipated underspend of **£1.900 million** in the current year will be carried forward in reserves to use in 2023/2024 on a non-recurring basis and will require to be reinstated into 2024/2025.
- 1.5. **Deposit from Investments:** Due to higher interest rates and the level of Council deposits, the interest generated is higher than anticipated. The resultant underspend of **£1.000 million** in 2022/2023 can be transferred to Reserves and used to support the budget in 2023/2024 on a non-recurring basis. This will require to be reinstated in 2024/2025.
- 1.6. **Council Tax:** An over-recovery of income in relation to Council Tax is anticipated in 2022/2023. This is estimated at **£1.000 million** reflecting an increase in house numbers into the current year and will be a transfer to Reserves during 2022/2023 to use to fund the 2023/2024 Budget. As additional property numbers have already been built into the Budget Strategy for 2023/2024, this over-recovery in 2022/2023 is assumed on a non-recurring basis and will require to be reinstated into 2024/2025.

Appendix 2

	2022/ 2023		2023/ 2024	2024/ 2025	2025/ 2026	2026/ 2027	2027/ 2028	Total 2023/24 to 2027/28 only £m	Total Use of Service Concession £m
	£m		£m	£m	£m	£m	£m	£m	
Budget Gap (for 2024/2025 to 2027/2028, the Budget Gap is as per the September Executive Committee)	5.7		24.7	32.0	27.2	5.2	11.1	100.2	
Finance Exercise - includes reinstatement of 2023/2024 solutions into 2024/2025 (section 5.2, Table 1)	-		(6.1)	4.8	-	-	-	(1.3)	
Outcome from reviews (section 5.4)	-		(0.6)	-	-	-	-	(0.6)	
Service Concessions – Annual Cost Reduction (section 5.8)	-		(4.0)	-	-	-	-	(4.0)	
Reduction in National Insurance Budget (section 5.10)	-		(3.5)	-	-	-	-	(3.5)	
Budget Gap (Before Use of Retrospective Service Concessions)	5.7		10.5	36.8	27.2	5.2	11.1	90.8	
Use of Retrospective Service Concessions (Reserves) to meet the impact of the 2022/2023 Pay Award and Support Future Year Budget Strategies	(5.7)		(5.7)	(27.5)	(15.1)	-	-	(48.3)	(54.0)
Reinstatement of Previous Year Use of Reserves	-		-	5.7	27.5	15.1	-	48.3	
Revised Budget Gap			4.8	15.0	39.6	20.3	11.1	90.8	