

Report

Report to:	Executive Committee
Date of Meeting:	21 September 2022
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Budget Strategy – 2023/2024 Update and Longer-Term Financial Outlook
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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 and the Longer-Term Financial Outlook

2. Recommendation(s)

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

- (1) that the update to the Budget Strategy reflecting updated grant assumptions following the spending review publication, additional underspend from 2021/2022 and projected pay award impact, resulting in a revised budget gap of £24.726 million (section 5), be approved;
- (2) that the Longer-Term Financial Outlook (section 6), be noted; and
- (3) that that Summary and Next Steps (section 7), be noted.

3. Background

3.1. A report was presented to Council on 15 June 2022 detailing the [2023/2024 Revenue Budget](#). The report noted that a further Budget Strategy report would be brought back to members after the recess and that report would include a longer-term outlook.

3.2. This report will, therefore, provide the following:-

- ♦ a summary of the 2023/2024 Budget Strategy reported in June (section 4)
- ♦ an update on the June assumptions for 2023/2024 following the Spending Review, completion of financial year 2021/2022 and updated information on the 2022/2023 Pay Award (section 5)
- ♦ the longer-term outlook covering the years beyond 2023/2024 (section 6).

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

4.1. The report to Council in June covered the current estimates in relation to the budget gap for 2023/2024. The report showed a budget gap of £32.477 million. This was the result of estimations around grant levels, cost increases (including significant exceptional increases in areas like utilities and contract inflation), offset by some corporate solutions identified. This gap did not include any assumption around increasing Council Tax.

4.2. The June 2022 Council report referenced the Spending Review that had been published in late May. An update on the potential impact on the budget gap is included in section 5.

- 4.3. Council agreed in June that options to meet the budget gap would be developed for members' consideration and brought back to a future meeting. This process is ongoing.

5. Update on the 2023/2024 Revenue Budget Strategy

- 5.1. As noted in section 4.1, the Budget gap reported to Council in June was £32.477 million. Since then the 2021/2022 financial year-end has concluded, and information has been received on the Spending Review and the ability to change the accounting for Service Concessions. Information has also been received in relation to the 2022/2023 Pay Award. The potential impact of each of these is taken in turn.

- 5.2. **Spending Review 2022:** The 2023/2024 Budget Strategy (June 2022) included an assumed 1% (£5.000 million) reduction in Government Grant. The Scottish Government's Spending Review was published on 31 May 2022 and has indicated the following:-

- ◆ The Spending Review maintains the national level of General Revenue Grant, Non-Domestic Rates Income and Specific Resource Grants between 2023/2024 and 2025/2026 (£5.000 million).
- ◆ The national £120 million added during the 2022/2023 Budget Bill process as a one-off injection, has now been baselined (£7.042 million).

- 5.3. The actual impact of the Spending Review will not be verified until we receive the Local Government Finance Settlement expected later in the financial year, however, based on the bullets in section 5.2, the Spending Review could potentially benefit the Council's 2023/2024 Budget Strategy by £12.042 million. This is because we could remove the assumption of the 1% reduction of £5.000 million from the Budget Strategy for this and the next 3 years, and we can also assume the benefit of the Council's share of the national £120 million which is now baselined (£7.042 million).

Benefit to 2023/2024: £12.042 million

- 5.4. In addition, an amount of £100 million is added nationally in 2026/2027. This will impact on the Council's Longer-Term and will potentially benefit the Council in 2026/2027 by an estimated £5.9 million in that year.

- 5.5. **2021/2022 Year End Outturn:** The 2023/2024 Budget Strategy report in June utilised the estimated underspend at the end of 2021/2022 (£4.7 million) on a one-off basis. However, at the end of the year, the underspend realised was actually £6.109 million, an increase of £1.409 million. The June 2022 Committee agreed that this full amount be used to support the 2023/2024 Budget Strategy, benefitting the position on a one-off basis by the additional £1.409 million not previously included. This is temporary funding and the budget will require to be reinstated in 2024/2025.

Benefit to 2023/2024: £1.409 million

- 5.6. **2022/2023 Pay Award:** The latest pay offer from COSLA (August 2022) amounts to a pay award of 5% for financial year 2022/2023. While this relates to 2022/2023, and will have to be managed in that year, there will be an impact of this increase on a recurring basis into financial year 2023/2024.

- 5.7. The impact on the Council's Budget Strategy of the Pay Award offer (of a 5% increase and the underpinning minimum uplifts for lower paid employees), is an increase of £5.7 million in financial year 2023/2024. This is after taking account of the Council's

estimated allocation of:

- ♦ the Scottish Government's national pay funding offer of £140 million (which covers 1.5% of the pay offer)
- ♦ the estimated share of £120 million Government funding allocated per annum to cover the underpin levels (for 2022/2023 and 2023/2024 and then baselined into the Council's General Revenue Grant). (Note that this funding is provided via capital resource from the Scottish Government, and how this is managed to pay for pay award will be subject to a future report)

Cost to 2023/2024: £5.700 million

- 5.8. Taking these potential corporate solutions into account and allowing for the recurring impact of the increased 2022/2023 Pay Award, means that the Budget Gap in 2023/2024 reduces from £32.477 million to £24.726 million. This is shown in Table 1.

Table 1 – Updated 2023/2024 Budget Strategy

	£m
Budget Gap (as at June 2022) (section 4.1)	32.477
<i>Less:</i>	
- Removal of 1%, £5 million Reduction in Grant and 2022/2023 share of £120 million now Baselined (section 5.2)	(12.042)
- Additional 2021/2022 Underspend (section 5.5)	(1.409)
- Additional 2022/2023 Pay Award (section 5.6)	5.700
Revised Budget Gap / Savings Requirement	24.726

- 5.9. **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. Each 1% increase in Band D would generate successive amounts of £1.452 million. It should be noted that in arriving at the budget gap of circa £24.7 million no account has been taken of any potential increase in Council Tax.
- 5.10. **Service Concessions:** The budget gap of £24.7 million also assumes no benefit from the implementation of Service Concessions which was advised as being accessible to councils as part of the Spending Review announcement in late May 2022. 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. The guidance on Service Concessions has now been published and is being considered by officers with the implications being reported back to a future committee.
- 5.11. **Inflation / Other issues:** The Budget Strategy approved by Council in June 2022 included an increase for the core (normal) increase in inflation for two of the Council's significant contract areas: PPP and Waste. The Budget Strategy also included an exceptional increase into 2023/2024 based on inflation predictions available at that time. However, recent information suggests that inflation may increase to even higher levels
- 5.12. 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. Whilst increasing inflation rates have the capacity to increase the budget gap, there remains a period of 5 months before these increases are finalised and, therefore, we will continue to monitor inflation rates, assess the implications, and will report back in future budget reports. This may include a reassessment of the provision made for a pay award offer.

Any further impact has not been included in the Budget Gap of £24.7 million noted in section 5.8.

- 5.13. Any other financial issues that emerge over the coming months will be reported back to a future meeting.

6. Longer-Term Financial Outlook

- 6.1. Budget Strategy papers previously presented to members have included a longer-term outlook on the Council's Revenue Budget.
- 6.2. Appendix 1 shows an estimate of the budget gaps across the coming years (to 2027/2028). This reflects current assumptions on a number of areas including price increases and grant levels and also the impact of the use of Reserves generated by the previously agreed Loans Fund Review. It also includes the potential benefit from the Spending Review (detailed in sections 5.2 to 5.4) where we can now expect a flat cash position across the years, the mainlining of our share of the additional monies received in 2022/2023, and our share of a national increase in grant in 2026/2027. We will continue to review and develop the longer term outlook as issues emerge.
- 6.3. This outlook does not include the utilisation of any benefit from the change to accounting for Service Concessions (section 5.10) and will be updated as information around Service Concessions is confirmed.

7. Summary and Next Steps

- 7.1. Section 5 of this report updates the Budget Strategy presented in June, and based on the assumptions and estimates detailed, it potentially reduces the Budget Gap to £24.7 million (section 5.8). This position includes estimates for the impact of the Spending Review (section 5.2), the impact of the positive 2021/2022 year-end position (section 5.5) and the recurring cost of the increased pay award for 2022/2023 (sections 5.6/5.7).
- 7.2. As noted in sections 5.9 and 5.10, the budget gap of £24.7 million does not include the impact of a Council Tax increase or the potential benefit from the Service Concession implementation.
- 7.3. Sections 5.11/5.12 note the potential implication of a further increase to inflation. It will be a period of months before we know inflation rates affecting our major contracts, therefore, the position will continue to be monitored and an update brought back to members along with any further update to the budget projections.
- 7.4. It is proposed that options to meet the £24.7 million budget gap will be developed for members' consideration and brought back to a future meeting. Officers are looking at a range of options including further work on service reviews, management and operational savings and income opportunities. Proposals will also include further potential corporate solutions including the level of reserves held. The use of Reserves would reduce the budget gap but only on a temporary basis. It is acknowledged that use of reserves is a short-term measure and will not remove the underlying need to make permanent savings. These options will also consider Service Concessions, as mentioned in section 5.10.
- 7.5. 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 review of financial resilience is a way of understanding the key financial risks to the Council. The financial strategy is the way in which the Council can manage a number of these key risks which directly impact on the money available to deliver Council outcomes.
- 11.2. We will continue to monitor and report on these resilience indicators 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 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 their decision-making process.

Paul Manning

Executive Director (Finance and Corporate Resources)

6 September 2022

Link(s) to Council Values/Priorities/Outcomes

- ◆ Accountable, Effective, Efficient and Transparent

Previous References

- ◆ Council, 15 June 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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Longer-Term Outlook – Budget Gap Across Years Beyond 2023/2024

	2024 / 2025 £m	2025 / 2026 £m	2026 / 2027 £m	2027 / 2028 £m
Grant Reduction (1%) – Assumed Flat Cash	-	-	-	-
Council Tax – Impact on Grant	1.360	1.360	1.360	1.360
Council Tax – increased Property Numbers	(1.100)	(1.100)	(1.100)	(1.100)
Pay Award / Prices / Priorities	9.720	9.870	9.810	9.810
Temporary Solutions	0.230	1.885	-	-
Job Evaluation	1.800	-	-	-
Interest on Loan Charges (due to Loans Fund Review)	0.500	0.200	-	-
Use of Reserves	(14.000)	-	-	-
Reinstatement of Prior Year Use of Reserves	23.500	14.000	-	-
Pupil Growth / Teacher Numbers	1.000	1.000	1.000	1.000
Efficiencies Oracle Fusion	(1.176)	-	-	-
Impact of Spending Review – Injection of national £120 million in 2026/2027	-	-	(5.868)	-
Insurance	0.600	-	-	-
Waste (Replacement of use of the SWF)	1.400	-	-	-
Reinstatement of Temporary Solutions from 2023/2224:				
• IJB Job Evaluation Monies	0.650	-	-	-
• 2021/2022 Underspend	6.109	-	-	-
• Timing of Borrowing	1.386	-	-	-
Total (as at September 2022)	31.979	27.215	5.202	11.070

* For information, the Budget Gap excludes the impact of an increase in Council Tax Band D.