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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>17 November 2020</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/104/20/AP</b>
<b>Contact Officer:</b>	<b>Alan Puckrin</b>	<b>Contact No:</b>	<b>01475 712223</b>
<b>Subject:</b>	<b>2021/23 Budget Update</b>		

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to update Committee on the current status of the 2021/23 Revenue Budget and to seek decisions to guide the development of a 2021/23 Budget report to be presented to the 3 December Council meeting.

## 2.0 SUMMARY

- 2.1 The Council has agreed to progress a two year approach to the Budget and as such, officers are working via the MBWG and JBG to develop proposals for a 2021/23 Revenue Budget. This would take the Budget up to the next Local Government elections in 2022.
- 2.2 The Chancellor of the Exchequer has advised that he will only issue a one year Spending Review rather than the initial plan for 3 year figures. The timing of this announcement has been confirmed as late November and the knock-on impact of this is that the Scottish Government have advised that they plan to table the Scottish Budget in early February which is almost 2 months later than normal.
- 2.3 Regular meetings of the Members' Budget Working Group and Joint Budget Group have now recommenced and in recent weeks have considered reports around Reserves, Pressures and Savings and the part each of these could play in delivering the 2021/23 Budget. Appendix 1 lists adjustments/savings coming to £695,000 which if agreed would reduce the 2021/23 funding gap to £10.2million before the use of reserves or any increase in Council Tax as shown in Appendix 2.
- 2.4 The Cabinet Secretary for Finance wrote to all Councils in October setting out details of Financial Flexibilities approved by the UK and Scottish Governments (Appendix 3). These flexibilities are designed to allow Councils to generate one-off sums to meet budget pressures associated with Covid-19.
- 2.5 The Council has seldom used Revenue Reserves in any substantial way to balance the Revenue Budget. The UK economy is experiencing a level of financial uncertainty which has not been seen in Peace Time and this uncertainty will undoubtedly impact upon some of the key information which the Council usually has available when making decisions around how to balance the Budget.
- 2.6 In light of this uncertainty then the Council could consider that Reserves should play a bigger part in balancing the Budget than would usually be the case. In this way the Reserves act as the "shock absorber" with the level of Reserves required moving up and down as the key issues in 6.2 are clarified. There are however 2 significant risks which Members require to consider in adopting this approach and these are detailed in paragraph 6.5.
- 2.7 In order to reduce the impact of the financial challenge for the new Council then Members will need to continue approving some savings and looking at ways to increase income. The CMT are developing proposals which would meet the criteria of closing the funding gap but having limited or no impact on front line service delivery.

2.8 Having considered this matter the MBWG support the greater use of Reserves in balancing the 201/23 Budget and would support a detailed report on how this could be achieved being presented to the 3 December 2020 Council meeting.

### **3.0 RECOMMENDATIONS**

3.1 It is recommended that the Committee notes the contents of the report and the latest position of the 2021/23 Revenue Budget

3.2 It is recommended that the Committee agrees the proposals set out in Appendix 1 and notes the impact on the 2021/23 funding gap

3.3 It is recommended that the Committee agrees that the Chief Financial Officer prepares a report to the 3 December Council meeting setting out how reserves could be used in delivering a balanced 2021/23 Budget.

**Alan Puckrin**  
**Chief Financial Officer**

## **4.0 BACKGROUND**

- 4.1 The Council has agreed to progress a two year approach to the Budget and as such, officers are working via the MBWG and JBG to develop proposals for a 2021/23 Revenue Budget. This would take the Budget up to the next Local Government elections in 2022.
- 4.2 The Policy & Resources Committee agreed to allocate £4.79million from Reserves to meet the estimated one-off net cost of Covid. There is an unallocated contingency of £924,000 in the Covid fund however this will be required to fund Covid cost pressures in 2021/22 and potentially beyond.
- 4.3 The Chancellor of the Exchequer has advised that he will only issue a one year Spending Review rather than the initial plan for 3 year figures. The timing of this announcement has been confirmed as late November and the knock-on impact of this is that the Scottish Government have advised that they plan to table the Scottish Budget in early February which is almost 2 months later than normal.
- 4.4 The June Financial Strategy identified a mid-range funding gap for 2021/23 of £10.7million prior to any increase in Council Tax but after the allocation of the £3million Smoothing Reserve to meet time-limited Covid costs.

## **5.0 CURRENT POSITION**

- 5.1 Regular meetings of the Members' Budget Working Group and Joint Budget Group have now recommenced and in recent weeks have considered reports around Reserves, Pressures and Savings and the part each of these could play in delivering the 2021/23 Budget.
- 5.2 The approach over recent years of adjustments, efficiencies and savings which have no / limited impact on service delivery has continued and Appendix 1 lists proposals coming to £695,000 for the Committee to consider.
- 5.3 On the basis that these proposals are agreed, then Appendix 2 shows that the latest position of the 2021/23 Revenue Budget before the use of Reserves or any increase in Council Tax is a funding gap of £10.2 million.
- 5.4 A report elsewhere on the agenda outlines proposals for an Inverclyde Jobs Recovery Plan which if approved would require £5.7 million over the 2021/23 Budget period. If agreed by the Committee then officers will build the need to fund this into the 2021/23 Budget Strategy.
- 5.5 The Cabinet Secretary for Finance wrote to all Councils in October setting out details of Financial Flexibilities approved by the UK and Scottish Governments (Appendix 3). These flexibilities are designed to allow Councils to generate one-off sums to meet budget pressures associated with Covid-19. The extent to which the Council may decide to use these flexibilities and the options available are set out in the next section.

## **6.0 BUDGET APPROACH OPTIONS**

- 6.1 The Council has seldom used Revenue Reserves in any substantial way to balance the Revenue Budget. This is on the basis that such an approach is time-limited and runs the risk of simply deferring addressing the budget gap which would continue to grow year on year. As a result, the Council has traditionally approved savings and income increases to balance the Budget including the level of Council Tax for the year ahead.
- 6.2 The UK economy is experiencing a level of financial uncertainty which has not been seen in Peace Time and this uncertainty will undoubtedly impact upon some of the key information which the Council usually has available when making decisions around how to balance the Budget eg : Government Grant levels, Pay Inflation , Non-Pay Inflation and Service Demand levels.

- 6.3 In addition with the significant increase in levels of unemployment being experienced within Inverclyde and the evidenced increased need from large parts of the local community for support, then it is understandable that there may be little appetite from Members to approve the level of savings estimated to be required to balance the 2021/23 Budget based on the figures in Appendix 2.
- 6.4 In light of this uncertainty then the Council could decide that Reserves should play a bigger part in balancing the Budget than would usually be the case. In this way the Reserves act as the “shock absorber” with the level of Reserves required moving up and down as the key issues in 6.2 are clarified. This would also create space for the Recovery Plans to have an impact in addressing the worst aspects of the Covid pandemic.
- 6.5 There are 2 significant challenges which arise from this approach if this is what Committee agrees:
- The level of reserves required based on the current funding gap and the Inverclyde Jobs Recovery Plan is significant and as such Members will need to review existing earmarked Reserves and the Capital Programme and identify projects which are dropped or deferred until after the 2021/23 Budget period.
  - Members will need to understand that the use of Reserves at a material level to balance the Budget is a time-limited solution which will mean that the financial challenge facing the new Council post the May 2022 election is likely to be amplified to a level which has not been experienced before.
- 6.6 In order to reduce the impact of the financial challenge for the new Council, Members will need to continue taking some savings and looking at ways to increase income. The CMT are developing proposals which would meet the criteria of closing the funding gap but having limited or no impact on front line service delivery.

## 7.0 CONCLUSION

- 7.1 Based on the direction given by the Committee then the Chief Financial Officer will present a 2021/23 Budget Report to the 3 December 2020 Council. The decision in respect of the level of Council Tax would still be taken in February and the Budget agreed either at the same time, or has been the case in recent years, at a later date but before 31 March, 2021.

## 8.0 IMPLICATIONS

### 8.1 Finance

#### Financial Implications:

##### One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

##### Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
Various	Various	By 2022/23	(£695,000)		Recurring savings Appendix 1 has the details

## 8.2 Legal

There are no specific legal implications arising from this report

## 8.3 Human Resources

The reductions in posts proposed would involve the deletion of longer-term vacant posts or known VER requests.

## 8.4 Equalities

### Equalities

(a) Has an Equality Impact Assessment been carried out?

	YES (see attached appendix)
x	NO – This report does not introduce a new policy, function or strategy or recommend a substantive change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required

(b) Fairer Scotland Duty

If this report affects or proposes any major strategic decision:-

Has there been active consideration of how this report's recommendations reduce inequalities of outcome?

	YES – A written statement showing how this report's recommendations reduce inequalities of outcome caused by socio-economic disadvantage has been completed.
x	NO

(c) Data Protection

Has a Data Protection Impact Assessment been carried out?

	YES – This report involves data processing which may result in a high risk to the rights and freedoms of individuals.
x	NO

## 8.5 Repopulation

A financially sustainable Council Budget will help maintain service delivery levels and confidence in the financial management of the Council and help retain people within and attract people to, Inverclyde.

## 9.0 CONSULTATIONS

9.1 The MBWG support the greater use of reserves outlined in Section 6 as do the Trades Unions via the JBG.

## **10.0 BACKGROUND PAPERS**

10.1 None

**2021/23 Budget**  
**Savings & Adjustments for November Policy & Resources**

**Appendix 1**

<b>ERR</b>	<b>Savings 2021/22 £000</b>	<b>Savings 2022/23 £000</b>	<b>Comments</b>	<b>FTE</b>
1/ Remove PC/Laptop "Night watchman" functionality	11	11	Due to increase in home working the benefits of this package have greatly reduced	0
2/ Delete 0.5 FTE vacant administration post-Finance Services	14	14	Post vacant since January, 2020. Saving is net of 0.5FTE transfer to HR to support the Change Programme	0.5
3/				
<b>ECOD</b>				
1/ Remove Apprenticeship Levy administration allowance	15	15	It was originally envisaged that this would be spent on training but training provided in kind by WCS to the same value.	0
2/ Release Music Instructor following timetabling review	37	49	No impact on service delivery and Employee signed up to VER in previous Budget round.	1
3/				
<b>HSCP</b>				
1/				
2/				
<b>Corporate</b>				
1/ Reduce Non-Pay Inflation Allowance	200	200	Based on 2019/20 out-turn and Period 6 2020/21 monitoring.	0
2/ Increase Turnover Target	200	200	Based on 2019/20 out-turn and Period 6 2020/21 monitoring.	0
3/ Delete posts Council wide which have been vacant for 12 months or more	206	206	There will be no impact on service delivery given the length of time posts have been vacant.	9.5
<b>Total</b>	<b>683</b>	<b>695</b>		<b>11</b>

AP/CM  
3 November, 2020

## Appendix 2

### 2021/23 Budget Gap - Position November P&R Committee

	2021/22	2022/23	2021/23
	£m	£m	£m
1/ Estimated Block Grant Reduction	0.0	0.0	0.0
2/ Continuing cash cut due to Depopulation	1.0	1.0	2.0
3/ Inflation - Pay (2.5%)	3.0	3.0	6.0
- Non-Pay	1.5	1.5	3.0
4/ Pressures			
- General Pressures	0.8	0.4	1.2
5/ Savings Approved to March 2020	(0.5)	(0.2)	(0.7)
- Approved Loans Charges Adjustment	(0.3)	(0.3)	(0.6)
- Proposals November 2020 P&R	(0.7)	0	(0.7)
	4.8	5.4	10.2

- a/ Excludes use of £3.0million Smoothing Reserve over 2021/23.
- b/ Excludes any unfunded Covid pressures on basis that this will come from reserves
- c/ Assumes no new Prudential Borrowing above that already contained in the Loans Charges model.
- d/ Assumes no Council Tax increase. (3% annual increase would raise £0.95 million per year)
- e/ The GRG/NDRI assumption excludes any hypothecated grant increases eg: Early Years as this is ring fenced to deliver new policies rather than fund existing service provision.

AP 5.11.20



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Clr Gail Macgregor  
COSLA Resources Spokesperson

By email

8 October 2020

Dear Gail,

As we discussed on Friday, I have now received a reply from the Chief Secretary to the Treasury to my letter of 9 September on the financial flexibilities for local government.

I am pleased to report that this was a generally positive response and the Chief Secretary did not raise any issues that would impact on the Scottish Budget for three out of the four measures we proposed. However, I have written to Chief Secretary to raise my strong concerns with his proposal in response to our request to utilise £156 million of local authority capital budget directly for Covid resource costs. The intention of our proposal was to allow a more targeted use of capital underspends that currently cannot be utilised due to COVID restrictions and backlogs. The aim of the proposal was to provide additionality to Local Government in resource spending power directly, in recognition of COVID pressures on local authorities and the relative balance of pressures between resource and capital.

However the Chief Secretary's response would not allow for any additionality, instead just reprioritising future Barnett resource consequentials that would have flowed to the Scottish Government anyway. Yet these consequentials will likely be linked directly to a number of COVID related spending proposals that the Scottish Government would wish to consider passing on directly (such as Self-Isolation Payments and further business support). His proposal is therefore very different from what was requested and provides no such additionality to Local Government.

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh [www.lobbying.scot](http://www.lobbying.scot)

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I have stressed that our proposal to directly utilise capital budget, without impacting resource, would result in no detriment to the overall UK Government funding position. It would provide essential support to local authorities that have been at the frontline in responding to COVID. I have therefore asked that this specific request is reconsidered for the benefit of local authorities. Until that matter is resolved to our satisfaction you will appreciate that given the stance the Chief Secretary has taken we cannot implement the proposed capital to revenue budget transfer.

We can, however, now proceed with arrangements to implement the other three remaining measures which taken together will still confer a substantial additional package of spending power which could be worth up to £600 million. This will help address unmet funding pressures for Scottish councils both in the short term for the immediate mobilisation effort and as we move into the recovery phase. Further details will be brought forward in the form of Statutory Guidance, and a change in Statutory Regulations, but local authorities can now plan on the basis that the following substantial package of measures will be available:

Capital Receipts Received - Dispensation for both 2020-21 and 2021-22 through Statutory Guidance to allow Councils to place capital receipts in the Capital Grants and Receipts Unapplied Account and then used to finance Covid expenditure (revenue).

Credit arrangements - At present Councils are required by statutory guidance to charge the debt element of service concession arrangements to their accounts over the contract period. A change to the accounting treatment will allow the debt to be repaid over the life of the asset rather than the contract period, applying proper accounting practices. Councils will have the flexibility to apply this change in either 2020-21 or 2021-22. This approach will apply to all credit arrangements going forward.

Loans Fund Principal Repayment Holiday - The flexibility being offered is a loans fund repayment holiday which will permit a council to defer loans fund repayments due to be repaid in either 2020-21 or 2021-22 (but not both).

Whilst agreeing these flexibilities, the Chief Secretary asked me to reconsider making the flexibilities available in relation to capital receipts and the loans fund holiday. These flexibilities have not been made available to English authorities.

In the absence of further additional funding I am satisfied that these further financial flexibility measures are necessary.

Having said that I wish to be clear that this should not be seen as an opportunity to maintain or grow reserves. Local authorities are expected to take into consideration the contribution their reserves can make to meet their funding pressures. In terms of the financial flexibilities my expectation is that local authorities will first consider the additional resources available from capital receipts and the change in accounting arrangements for service concession arrangements before taking advantage of a loans fund repayment holiday.

I have been clear that in order to respond effectively to the COVID-19 pandemic national and local governments must have the necessary fiscal levers. Working together in partnership we have delivered a game changing package of financial flexibilities, enabling each local authority to make informed decisions about spending at a local level.

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Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh [www.lobbying.scot](http://www.lobbying.scot)

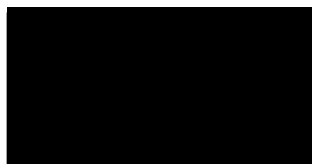
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I can also confirm that that I am happy to agree the list of proposed principles COSLA officials have shared for the Lost Income scheme to help compensate councils for the loss of income they are experiencing caused by COVID. My officials will share some detailed comments but I am broadly content with the COSLA proposals. The COSLA principles will form the basis for the operation of the scheme and we will look to COSLA to gather the data, undertake the necessary validation checks, including Section 95 Officer sign-off, and confirm the indicative allocations to the Scottish Government. I would urge you to prioritise this work and secure Leaders agreement so that the indicative allocations can be confirmed as soon as possible. As you know we still await confirmation of the consequential from the UK Government so the allocations can only be indicative at this stage with final allocations to be paid as a redetermination to the local government finance settlement at the financial year end.

Additional funding for the scheme estimated at £90 million will ensure that councils can manage the immediate loss of income they are facing and also includes support for ALEOs. Together with the recently announced extra £49 million, which can be used to top up support for ALEOs, this will mean an overall package worth up to almost £750 million of extra funding and financial flexibilities.

These are excellent and critically important examples of how the Scottish Government is working in partnership with COSLA and local authorities to ensure that we are doing everything within our power to save jobs, protect our public services and reboot our economy.

I am happy for you to share this letter more widely with Council Leaders and I will be sharing it with the Parliament's Finance Committee and Local Government and Communities Committee.



**KATE FORBES**

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh [www.lobbying.scot](http://www.lobbying.scot)

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