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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>9 August 2022</b>
<b>Report By:</b>	<b>Interim Director Finance &amp; Corporate Governance</b>	<b>Report No:</b>	<b>FIN/42/22/AP</b>
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<b>Subject:</b>	<b>Budget Strategy 2023/26</b>		

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## 1.0 PURPOSE AND SUMMARY

1.1  For Decision  For Information/Noting

1.2 The purpose of this report is to seek Committee agreement for the approach to the next Budget period in the context of the forecast unprecedented financial challenges and to seek approval for an initial batch of proposed adjustments/efficiencies.

1.3 The Financial Strategy approved by the 30 June Council included mid-range estimated funding gaps of £15.2 million (23/25) and £19.2 million (23/26). Capital resources are also expected to fall approximately £3.0 million / year short of the minimum amount needed to maintain current assets at an acceptable level. The CMT has commenced the development of potential savings and the next steps and proposed approach are set out in the report and Appendix 2. The first adjustments/efficiencies are included in Appendix 1 and total £435,000.

1.4 Members will also be aware of the considerable challenges which lie ahead for the Capital Programme especially once Policy aspirations around the Net Zero, Town Centre Regeneration and investment in new assets are included. Members will therefore need to ensure best value in the use of its limited capital resources and that capital decisions are joined up with the revenue budget/use of reserves.

## 2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee agree that the forthcoming Budget covers the period 2023/26 for both Revenue and Capital with the intention that proposals will be approved no later than March, 2023 which will financially balance the Revenue Budget for the period 2023/25.

2.2 It is recommended that the Committee notes that this report is written on the basis that the Council Budget process will exclude budget decisions relating to the IJB on which a formal decision by the Council and IJB is due in September.

2.3 It is recommended that the Committee note the current estimated 2023/26 Revenue Budget funding gap and the actions taken to date to develop savings options for Members to consider over coming months.

2.4 It is recommended that the Committee approve the adjustments/efficiencies set out in Appendix 1 and approves the high level Budget Timetable set out in Appendix 2.

- 2.5 It is recommended that the Committee confirm the intention to agree the first £4.0million of savings for the 2023/25 Budget prior to the Christmas break in order to address the use of one off Reserves approved as part of the 2022/23 Budget.
- 2.6 It is recommended that the Committee note that there will be updates on the forthcoming Budget presented to each meeting of the Committee until the Budget is formally approved and that proposals for Budget Consultation will be presented to the next meeting of the Committee.

**Alan Puckrin**  
**Interim Director, Finance & Corporate Governance**

### 3.0 BACKGROUND AND CONTEXT

- 3.1 The Council approved the 2022/23 Revenue Budget and 2022/25 Capital Programme on 24 February, 2022. The Revenue Budget was approved after the one off use of £4million from the General Fund Reserves. The Capital Budget was based on a £2.87million (4.8%) over provision of projects compared to estimated resources, this being within the agreed 5.0% limit.
- 3.2 The Scottish Government announced the intention to provide Councils with 3 year funding figures for the period 2023/26 in the latter part of 2022. Building on this, on the 31 May the Scottish Government issued the 5 year Resource Spending Review (RSR) which set out the high level portfolio funding figures for the period 2022/27.
- 3.3 The RSR confirmed that in Revenue terms, Local Government would receive flat cash settlements for its core funding over the 4 year period 2022/26 and then receive a £100million (0.98%) increase in 2026/27. It was confirmed at the same time that the previously announced 2021/26 flat cash Capital Grant settlements remained unchanged.
- 3.4 On the 30 June, the full Council approved the 2022/32 Finance Strategy which took into account the latest financial information including the estimated impact of the RSR, inflationary pressures and demand / policy pressures identified by services. The Finance Strategy estimated mid-range estimated funding gaps were £15.2million (2023/25) and £19.2million (2023/26).

The following table summarises the make up of the 2023/25 estimated funding gap:

	<u>£m</u>
Use of Reserves in 2022/23	4.0
Original Inflation Allowance	7.0
Scottish Government Grant	0.2
General Pressures	1.2
Previously approved savings	(0.2)
Cost of Living Inflation Increase	3.0
	<u>15.2</u>

- 3.5 Using the estimates the Interim Director, Finance & Corporate Governance included in the Financial Strategy, the Council faces two/three year funding gaps in excess of anything that Inverclyde Council has previously experienced. An element due to the one off use of Reserves in 2022/23 whilst a further factor is the significant increase in the level of inflation and the impact this is expected to have on pay inflation and other inflation such as materials/utilities/fuel.
- 3.6 At the June Policy & Resources Committee members approved a refreshed Delivering Differently Programme. The Programme included a number of pressures and cost avoidance exercises as well as a number which, subject to Member approval, could deliver savings.
- 3.7 Reports to date are based on the assumption that the Council will not be taking decisions around the levels of service delivery within services delegated to the Integrated Joint Board and as such all figures reported to date exclude pressures, pay awards, service development costs in respect of the IJB. A decision on this matter is scheduled to be taken at the IJB and Policy & Resources Committee in September.

- 3.8 For a number of years Councils have asked the Scottish Government to make multi-year funding announcements to aid medium term financial planning / decision making. Due to the RSR and the 3 year Council level figures now expected in December, 2022, the Council will have greater certainty regarding levels of grant funding. As such it makes sense, especially in light of the very significant financial challenges ahead that the Council proceeds on the basis of developing a multi-year budget.
- 3.9 Officers acknowledge that there is a balance to be struck between using the increased certainty of funding levels provided by the Scottish Government whilst being aware of the volatility and uncertainty in some of the key figures which underpin the future expenditure estimates used in the Finance Strategy. In light of this Members need to assess the practicalities of developing, considering, consulting upon and approving sufficient savings to close the estimated £19.2million 2023/26 funding gap by February/March, 2023.
- 3.10 Having considered this the CMT would recommend that the Council target a 2023/25 "firm" Revenue Budget supported by robust detailed proposals to close the funding gap and thereafter an indicative 2025/26 Budget highlighting areas where officers will continue to develop proposals to be delivered in 2025/26 but which are developed during 2023/24.
- 3.11 Even on this basis it will be a major piece of work for Members and Officers to develop and deliver proposals to close a £15.2million 2023/25 funding gap. Recognising this, the CMT has commenced a potential savings identification exercise with the two Directorates; Education, Communities & Organisational Development and Environment, Regeneration & Resources, each tasked with developing options totalling £5.0million to be delivered no later than 2024/25. It is planned to share the CMT options with the MBWG and Joint Budget Group later this month and report thereon to the next Policy & Resources Committee.
- 3.12 Committee will note that this action will only identify £10million of options and that the estimated funding gap over 2023/25 is currently £15.2million. As is always the case officers will propose budget adjustments and corporate saving over and above the Directorate savings options. However, it is clear given the unprecedented funding gap that decisions around Council Tax will play a larger part in how the budget is balanced compared to previous years with Members having to weigh up the potential need for a significant increase in Council Tax to protect services with the impact this could have on some households already under pressure from the Cost of Living Crisis.
- 3.13 Between the savings options being developed, adjustments, potential increased funding from the Scottish Government and increased Council Tax, the intention is to give Members an element of choice regarding options, albeit this could be limited
- 3.14 A key contributor to the estimated funding gap over 2023/25 is addressing the use of £4.0million Reserves agreed as part of the 2022/23 Budget. The approach agreed as part of the March, 2022 Budget was that by 2024/25 the Council would balance the Budget without any use of Reserves. This therefore is something that the Council knows it needs to address and it would be recommended that in order to break decisions on savings into a more manageable exercise, decisions on addressing the first £4.0million of the estimated £15.2million funding gap are taken prior to the Christmas break.
- 3.15 Understandably, given the estimated funding gap, focus is on the Revenue Budget however, Members will be aware of the considerable challenges will lie ahead for the Capital Programme with estimated Grant funding falling well short of the basic investment requirements. This situation has been made worse by the above inflation increases in certain material costs (roads materials, steel, wood, concrete, computer chips etc) all of which are integral to the Council maintaining its assets.

- 3.16 To the above are added the Policy aspirations around the Net Zero, Town Centre Regeneration and investment in new assets then a similar exercise regarding reviewing priorities and funding will be required to ensure that the Council achieves best value in the use of its limited capital resources and that capital decisions are joined up with the revenue budget.
- 3.17 Finally, the position regarding Reserves will be integral to addressing both the Revenue funding gap and the pressure on the Capital Programme. Due to the unforeseen inflation pressures not known about when the 2022/23 Budget was approved and the need to potentially allocate greater funding to the VER earmarked reserve, it is likely that Free Reserves will drop below the recommended £4.0million level in 2022/23 and this will also require to be addressed as part of the budget.

#### 4.0 PROPOSALS

- 4.1 Appendix 1 presents to first adjustments/efficiencies for approval. These will have no impact on service delivery or employee numbers and their approval is recommended by the CMT.
- 4.2 An outline timeline is attached as Appendix 2 and this will be fleshed out as discussions develop with both the MBWG and JBG and after the confirmation of key dates from the Scottish Government. What the current timeline does highlight is that there is little room for slippage and that in order to achieve the delivery of a large number of savings in the early part of 2023/24, some decisions will be required from Members before the Budget is formally approved in order to give appropriate notice to employees, partners and / or service users.
- 4.3 A key part of the Budget and the savings exercise in particular will be consultation on proposals and carrying out the appropriate Impact Assessments. Officers will start work on the latter almost immediately whilst proposals for Budget Consultation will be presented to the next meeting of the Committee.
- 4.4 A significant number and value of savings require to be approved prior to the Christmas break to address the unprecedented funding gap into a more manageable process.
- 4.5 Finally, the Reserves will be reviewed in detail to ensure that they are targeted to the appropriate priorities and being used to best effect to support the Revenue and Capital Budgets whilst maintaining Reserves at the recommended level in the medium term.

#### 5.0 IMPLICATIONS

- 5.1 The table below shows whether risks and implications apply if the recommendations are agreed:

SUBJECT	YES	NO	N/A
Financial	x		
Legal/Risk		x	
Human Resources		x	
Strategic (LOIP/Corporate Plan)			x
Equalities & Fairer Scotland Duty			x
Children & Young People's Rights & Wellbeing			x
Environmental & Sustainability			x
Data Protection			x

## 5.2 Finance

Appendix 1 contains a small number of adjustments/efficiencies which represent the first proposals to begin to reduce the 2023/25 Funding Gap.

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		From 2023/24	(£435k)		See Appendix 1

## 5.3 Legal/Risk

The Council requires to set a legally balanced budget and approve the level of Band D Council Tax for 2023/24 no later than March, 2023. The proposals in this report move the Council towards that requirement.

## 5.4 Human Resources

As the Budget process progresses there is the potential for significant implications for employees. These will require Trades Union consultation and direct communication to employees.

## 6.0 CONSULTATION

6.1 The report has been considered by the Members Budget Working Group and Joint Budget Group.

## 7.0 BACKGROUND PAPERS

7.1 None

**2023/26 Budget  
Adjustments/Efficiencies- August Policy & Resources Committee**

	Savings 2023/24 £000	Savings 2024/25 £000	Comments	FTE
<b>ERR</b>				
1/ Reduction in Mobile Phone Contract charges	9	9	Saving will be allocated as follows: ECOD £4k, ERR £5k. The IJB may opt to reduce the Social Care budget as part of their Budget process.	0
2/				
3/				
<b>ECOD</b>				
1/ P4/5 Free School Meals - Funding not required	100	100	The Council took some initial savings from the Scottish Government P4/5 funding as part of the 2022/23 Budget. Based on latest information officers advise that a further reduction can be made without any impact service delivery.	0
2/				
3/				
<b>HSCP</b>				
1/ Reduction in contribution to IJB in 2022/23 following confirmation of actual passported grants	17	17	Confirmed passported grant lower than estimated when approving the Council contribution	0
<b>Corporate</b>				
1/ Increased Council Tax Base partly offset by reduction in Prior Years Collection Budget	200	200	The Council Tax base (Band D equivalents) has been reviewed and is approximately 250 higher than used when setting the 22/23 Budget. (£300k extra income) This is partly offset by a £100k proposed reduction in the Prior Years Council tax Budget due to the economic impacts of Covid and the cost of living pressures.	0
2/ Government Grants- Efficiencies arising from use of existing resources	109	109	DHP Admin (£25k) , Adult Disability Assessment (£45k), Music Charges (£22k), Curriculum Charges (£17k)	0
3/				
4/				
5/				
<b>Total</b>	435	435		0

24/6/22

## Appendix 2

Date		Committee
9 August	Budget Strategy approved.	P&R
By 31 August	Initial savings areas/proposals reviewed.	MBWG/JBG
13 September	Approach to Budget Consultation approved.	P&R
13 September	Budget Update Report. (Including detailed consultation proposals).	P&R Committee
October/December	VER Trawls progressed.	
15 November	Budget Update Report	P&R
1 December	Revised Financial Strategy (Inc. review of Funding Models).	Inverclyde Council
X December	3 year Council funding settlement announced.  Council approves savings to address the initial £4.0million of savings required over 2023/25	Scottish Government  Inverclyde Council
16 February	Council Tax for 2023/24 approved.	Inverclyde Council
Feb/March	2023/25 Budget approved.	Inverclyde Council