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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>15 November 2022</b>
<b>Report By:</b>	<b>Interim Director, Finance &amp; Corporate Governance</b>	<b>Report No:</b>	<b>FIN/62/22/AP</b>
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<b>Subject:</b>	<b>2023/25 Budget Update</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 provide a further update to Committee of the position of the 2023/25 Revenue Budget, to seek agreement of the identified Budget Pressures including inflation and seeks Committee approval for a further group of savings. The report also provides an update in relation to the estimated funding gap and an anticipated timeline for the announcement of the Draft Local Government Budget Settlement.

1.3 Work has continued on developing savings options for Elected Members to consider over coming months and a hard copy file was issued to all Elected Members on 12 October, 2022. The Members Budget Working Group (MBWG) and Joint Budget Group (JBG) have commenced a review of these options with a particular focus on those savings due to be considered prior to Christmas.

1.4 Appendix 1 summarises the Budget Pressures it is proposed to factor into the 2023/25 Budget. Over the 2 year period the pressures exceed the available allowance by £0.86 million largely due to the reported cost pressures within Inverclyde Leisure. Appendix 2 illustrates the need to also allocate a further £1.3million towards non-pay inflation over this year and 2023/24. This figure has the potential to increase further. Appendix 3 lists five savings totalling £0.635million which are recommended by the MBWG for approval. These savings will further reduce the £4.0million pre-Christmas savings target.

1.5 The Scottish Government have advised that the intended date to announce the Draft Scottish Budget for 2023/24 is Thursday 15 December. This is also the proposed date for a special Council Meeting to confirm the £4.0million pre-Christmas savings.

## **2.0 RECOMMENDATIONS**

2.1 It is recommended that the Committee approve the Budget Pressures totalling £2.06million and summarised in Appendix 2 and note that Inverclyde Leisure are finalising savings options to significantly reduce the IL pressure.

- 2.2 It is recommended that Committee note the requirement to increase the non-pay inflation allowance by £1.3million largely due to the impact of utility, waste disposal and PPP contract cost increases.
- 2.3 It is recommended that the Committee approve the savings listed in Appendix 3 totalling £635,000 and note these will count towards the £4.0million pre-Christmas savings target.
- 2.4 It is recommended that the Committee note the overall estimated remaining 2023/25 funding gap of £15.2million shown in Appendix 4 on the basis that all the proposals in this report are approved.
- 2.5 It is recommended that the Committee notes the proposed date of 15 December for both the Scottish Draft Budget and a special Council Meeting to consider savings and other proposals relating to the 2023/25 Budget and that officers will liaise with the Provost to finalise arrangements.

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

### **3.0 BACKGROUND AND CONTEXT**

- 3.1 Regular reports on the development of the 2023/25 Budget have been presented to the Policy & Resources Committee. Since the last update:
- Officers have finalised and issued the savings options to all Elected Members
  - The Budget Consultation has taken place with officers currently analysing the returns
  - The Voluntary Severance Trawl has closed with figures now being sought from the Pension Fund
  - Work has taken place to identify Budget Pressures and forms part of this report
  - Inflation allowances have been reviewed in detail with proposals included in this report
  - Work has commenced on the 2023/26 Capital Programme
  - The Scottish Government have announced its planned Draft Budget date.
  - The MBWG met with the local MSPs and MP to outline the severe financial pressures on the Council and the potential impacts unless significantly more funding is forthcoming.
- 3.2 In relation to the savings, Equality Impact Assessments (EqIAs) are undergoing final peer review and are due to be issued to Members later this month. Thereafter they will be able to be accessed via the Council website.
- 3.3 In early October the Deputy First Minister announced that the Scottish Government intends to table the Draft 2023/24 Budget on 15 December. This would result in the Local Government draft Budget figures being available from 19 December.

### **4.0 PROPOSALS**

- 4.1 Appendix 1 summarises the 2023/25 Budget Pressures which if all approved exceed the £1.2million 2 year allowance by £0.86million with the resultant impact on the Funding Gap. This assumes no new pressures arise over the 2023/25 period.
- 4.2 As part of identifying Budget Pressures, officers received updated estimates for 2023/25 from Inverclyde Leisure (IL). This position was reported in more detail to the 1 November Education & Communities Committee but it can be seen from Appendix 1 that due to a combination of significant cost pressures and income shortfalls, a £1.46million funding pressure exists. IL management have drafted options to reduce this pressure. These proposals are currently being refined with the intention of being shared with Elected Members prior to Christmas and subject to public consultation in January.
- 4.3 The pay and non-pay inflation allowances have also been reviewed. Members have previously been advised that the approved SJC pay award exceeded available funding in 2022/23 by £1.3million. Officers have allowed for a 5% increase in pay over 2023/25. This could be viewed as optimistic and if pay awards exceed this then further savings will require to be considered. In addition, the Teachers pay award for 2022/23 is not agreed with ballots for strike action being undertaken. Were the Council required to find further funding in 2022/23 it would increase the projected 2022/23 overspend and increase the 2023/25 funding gap.
- 4.4 Non-pay inflation is under significant pressure due to the very high levels of utility inflation and the impact on inflation linked contracts such as the schools PPP. These allied to the on going potential impact of the waste contract plus other cost pressures result in a projected £1.3million shortfall in the previously reported 2022/25 allowance for non-pay inflation.
- 4.5 Whilst the above issues have increased the projected funding gap the reversal of the April 2022 1.25% increase in National Insurance plus the savings proposals in Appendix 3, if agreed, would reduce the 2023/25 funding gap by £1.2million.

- 4.6 It should be noted that due to the uncertainty of the UK Government medium term economic plans plus the pressures within the Scottish Government then there is an increasing likelihood that any Council funding announcement will be for one year only. The impact of this on the Council's own Budget Strategy will need to be considered once the Scottish Government Draft Budget is announced.
- 4.7 The Committee has already agreed the need to approve £4.0million in savings prior to Christmas. It had been hoped to provide an update on the Draft Scottish Budget at the same meeting but due to the delay in the Scottish Budget announcement it is now proposed to hold a special Council Meeting on the same day ie 15 December, 2022. Officers do not believe that this will have any impact on the need for the £4.0million savings to be agreed and as such, it is recommended that a special Council meeting can still be arranged for that date.

## 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 4 provides a running summary of the 2023/25 funding gap and from this it can be seen that after taking into account all the proposals in this report agreed then the remaining 2023/25 funding gap is back to £15.2million due to Pressures and Non-Pay Inflation both being considerably higher than estimated in June, 2022.

The Interim Director, Finance & Corporate Governance would highlight that a number of "downside risks" are highlighted in this report which could further add to the estimated funding gap. All this highlights the unavoidable requirement for a significant level of Budget Savings to be agreed in coming months.

#### 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

Pressures Allowance	Various	2023/24	£0.86million		Shortfall in 2023/25 Pressures allowance
Miscellaneous	Non-Pay Inflation	2023/24	£1.3million		Shortfall in 2023/24 Non-Pay Inflation allowance
Various	Various	2023/24	(£0.610million)		Savings in Appendix 3 increases to £0.635 million in 2024/25
Employee Costs	National Insurance	2023/24	(£0.6million)		FYE of reversal of 1.25% NI increase. Part year effect in 2022/23 of £250k.

### 5.3 Legal/Risk

As highlighted in 5.2 above, there are risks that in the uncertain and deteriorating financial situation that the estimated funding gap may increase.

The Council will require to set a legally balanced budget no later than March and determine the Band D Council Tax for 2023/24 by the third week in February.

### 5.4 Human Resources

It can be seen that based on the level of savings required there are likely to be significant reductions in the number of Council posts in addition to reductions in posts in key local partners. Regular meetings with the Trades Unions via the JBG are on-going.

### 5.5 Strategic

It is clear that the shape and size of Council services will be significantly altered should the Council ultimately require to deliver savings of the scale outlined in this report. This will require to be reflected in the new strategic plans .

### 5.6 Equalities and Fairer Scotland Duty

#### (a) Equalities

This report has been considered under the Corporate Equalities Impact Assessment (EqIA) process with the following outcome:

EIAs for the various savings proposals are under going final review before issue to Members.

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, assessed as not relevant and no EqIA is required.
	YES – Assessed as relevant and an EqIA 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?

An overall FSD impact will be carried out on the final Budget proposals

	YES – A written statement showing how this report's recommendations reduce inequalities of outcome caused by socio-economic disadvantage will be completed.
X	NO – Assessed as not relevant under the Fairer Scotland Duty.

**6.0 CONSULTATION**

6.1 The report and its implications have been discussed with the CMT, MBWG and JBG.

**7.0 BACKGROUND PAPERS**

7.1 None

**Appendix 1**

2023/25 Budget - Pressure Summary

Budget	Reason for Pressure	Request 23/24 £000	Request 24/25 £000
Cremations Income	Income under recovered by £126k in 2021/22. 2022/23 is currently projecting an income shortfall of £147k.	80	0
Burial Grounds Income	Income under recovered by £46k in 2021/22. 2022/23 is currently projecting an income shortfall of £68k.	45	0
Planning Income	Planning income under recovered by £320k for 2021/22 partly funded by Covid grants. 2022/23 is currently projecting an income shortfall of £210k net of Covid funding.	125	0
ASN Transport	Currently projecting £163k overspend on ASN transport based on last year's outturn. Earmarked reserve has been exhausted. Still awaiting return of various contracts and inflationary pressures expected too in both ASN and regular school transport.	125	0
Libraries Income	Projecting £55k under recovery this financial year. Income very low since Covid and maintains a longer term trend.	25	0
IL Management Fee	Estimates by IL are showing a £1.4million recurring funding shortfall from 2023/24 arising from reduced income, increased utility costs and pay pressures. IL Management are developing significant savings options to be considered by the Council in order to reduce the increased funding requirement..	1460	0
2022/25 Capital Programme	Prudential borrowing approved as part of the Financial Strategy to fund £3.0million of Capital investments	100	100
Totals		<u>1960</u>	<u>100</u>

Available allowance in 2023/24 = £600,000, 2024/25 = £600,000

Inflationary Pressures 2022/25

<u>Pay</u>	<u>£m</u>
2022/23 Budget Pay Allowance	2.37
Estimated share of SG Grants (less £1.1m HSCP)	2.94
2022/23 Current Pay Offer (Estimate)	(6.54)
	<hr/>
Current Funding Shortfall in 2022/23	(1.23)
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Add= 23/24 Pay Inflation Allowance	3.00
= 3% Pay Award cost	(3.38)
= 2024/25 Pay Inflation Allowance	2.00
= 2% Pay Award cost	(2.25)
Shortfall over 2022/25	(1.86)

Currently £2.0m built into £15.2m estimated Funding Gap.

<u>Non-Pay</u>	<u>£m</u>
2022/23 Balance as at 30/9/22	2.18
2022/23 Inflation to be allocated/projected	(3.58)
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Current Funding Shortfall 2022/23	(1.40)
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Add= 2023/24 Non-Pay Inflation Allowance	1.00
= Estimated requirement 2023/24	(1.90)
= 2024/25 Non-Pay Inflation Allowance	1.00
= Estimated requirement 2024/25	(1.00)
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Shortfall over 2022/25	(2.30)

Currently £1.0m built into £15.2m estimated Funding Gap.

AP/LA  
17/10/22



**2023/26 Budget**  
**Savings- November Policy & Resources Committee**

ERR	Savings 2023/24 £000	Savings 2024/25 £000	Comments	FTE
1/ Close Ingleston administrative block as part of New Ways of Working	0	25	Existing employees to be relocated to Pottery Street Depot and accommodation to be used on a temporary basis as part of the New Ways of Working project	0
2/ Delete Workforce Development Budget	57	57	Budget has not been used to any great extent for several years with support to business met through other recurring budgets or earmarked reserves	0
3/ 50% reduction in the SME Revenue Grant budget	21	21	Given the high level of existing earmarked reserves linked to support for businesses and the underlying financial position faced by the Council it is proposed to reduce the amount available to SME businesses by £21,000.	0
4/ 50% reduction in the Council's Tourism support budgets	32	32	Given the high level of existing earmarked reserves linked to tourism/marketing and support for businesses and the underlying financial position faced by the Council it is proposed to reduce the amount available by £32,000.	0
5/				
<b>ECOD</b>				
1/				
2/				
<b>HSCP</b>				
1/				0
<b>Corporate</b>				
1/ Reduce Social Care share of the extra funding provided by the Scottish Government for the 2022/23 payaward by £500,000	500	500	In recognition of the differing financial settlements received by the Council and IJB largely related to ring fenced funding in 2022/23, it is proposed that of the Council reduces the IJB share of the extra funding provided by the Scottish Government for the 2022/23 payaward by £500,000	0
2/				
3/				
<b>Total</b>	<b>610</b>	<b>635</b>		<b>0</b>

17/10/22

**2023/25 Funding Gap Remaining**

	2023/24	2024/25	Total
	£m	£m	£m
Block Grant	(0.8)	1.0	0.2
Inflation - Pay	3.0	2.0	5.0
- Non Pay	1.0	1.0	2.0
Pressures	0.6	0.6	1.2
2022/23 Inflation Shortfall	3.0	0	3.0
Reduced Use of Reserves	2.0	2.0	4.0
Savings to March 2022	(0.2)	0	(0.2)
<b><u>Position as at June 2022 Financial Strategy</u></b>	<b>8.6</b>	<b>6.6</b>	<b>15.2</b>
Adjustments - August P&R	(0.4)	0	(0.4)
Savings - September P&R	(0.6)	0	(0.6)
NI Adjustment	(0.6)	0	(0.6)
Rephase 2022/23 Pay Inflation increase	(0.6)	0.6	0
Rephase Pressures	0.5	(0.5)	0
Pressures Shortfall (See Appendix 1)	0.9	0	0.9
Increased Non-Pay Inflation Shortfall (see Appendix 2)	1.3	0	1.3
Proposed Savings - November P&R (See Appendix 3)	(0.6)	0	(0.6)
<b>Estimated remaining Funding Gap - November P&amp;R</b>	<b>8.5</b>	<b>6.7</b>	<b>15.2</b>

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