
Report To:	Policy & Resources Committee	Date:	15 November 2022
Report By:	Interim Director, Finance & Corporate Governance	Report No:	FIN/69/22/AP
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	2023/25 Budget Update - ADDENDUM		

1.0 PURPOSE AND SUMMARY

- 1.1 For Decision For Information/Noting
- 1.2 The purpose of this Addendum report is to provide an update to Agenda item 10; 2023/25 Budget Update, taking into account two material pieces of information received by the Council since the report was issued.
- 1.3 Councils were provided with updated information by Procurement Scotland who manage the electricity and gas contracts utilised by the Council. Within the update the Council was advised of an estimated 17% increase in gas costs in 2023/24 and a further 58% increase in electricity costs.
- 1.4 As part of the negotiations around the funding for the 2022/23 pay award the Deputy First Minister undertook to consider the scope for policy flexibilities to assist with the estimated unbudgeted funding gap of £140million. A detailed list of potential areas was prepared by Directors of Finance and sent by Cosla to the Scottish Government and the response being attached at Appendix 3. The letter is short on specifics and Cosla /Councils are considering the opportunities this may afford Councils to reduce spend in previously mandated/ring fenced policy areas. Consideration of this within this Council will initially take place via the Members Budget Working Group (MBWG).

2.0 RECOMMENDATIONS

- 2.1 It is recommended that Committee note the requirement to increase the 2023/24 non-pay inflation allowance by a further £1.1million to £2.4million as shown in Appendix 1 of this Addendum.
- 2.2 It is recommended that the Committee note the overall revised estimated remaining 2023/25 funding gap of £16.3million shown in Appendix 2 on the basis that the proposals in this Addendum are approved.
- 2.3 It is recommended that the Committee notes the contents of the letter dated 1 November 2022 from the Deputy First Minister and that the MBWG will consider what opportunities to reduce expenditure in previously ring fenced/directed spend areas this presents to the Council.

Alan Puckrin
Interim Director, Finance & Corporate Governance

3.0 BACKGROUND AND CONTEXT

3.1 Item 10 on the agenda provides an update in respect of the 2023/25 Budget. Since the report was issued two material pieces of information received by the Council. One relates to the intimation of a further significant increase in the estimated utility costs for the Council in 2023/24 and the other relates to a letter received from the Deputy First Minister in relation to potential “Financial Flexibilities” which Councils could consider as part of the 2023/24 Budget.

4.0 PROPOSALS

4.1 These recently advised utility figures significantly exceed the increases previously advised and are estimated to add a further £1.1million to the 2023/24 Funding Gap. Appendices 1 & 2 reflect updates on Appendices 2 &4 in the previously issued report.

4.2 It is proposed that consideration of the Deputy First Minister’s letter initially takes place via the Members Budget Working Group (MBWG) with any proposals being considered by the Council as part of future Budget reports.

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 2 provides a running summary of the 2023/25 funding gap and from this it can be seen that after taking into account the proposals in this addendum agreed then the remaining 2023/25 funding gap is now £16.3million with an estimated £9.6million remaining Funding Gap in 2023/24.

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

Miscellaneous	Non-Pay Inflation	2023/24	£1.1million		Shortfall in 2023/24 Non-Pay Inflation allowance
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5.3 Legal/Risk

The current utilities pricing market is extremely volatile and there is a real risk that prices could increase further. Officers are considering recommending a significant smoothing reserve for utilities and will report to Members in due course.

5.4 Human Resources

None at this time.

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:

	YES – Assessed as relevant and an EqIA is required.
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. Provide any other relevant reasons why an EqIA is not necessary/screening statement.

(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 for the following reasons: Provide reasons why the report has been assessed as not relevant.

6.0 CONSULTATION

6.1 The addendum and its implications have been discussed with the CMT & MBWG.

7.0 BACKGROUND PAPERS

7.1 None.

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)
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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)
= Increased Utilities Costs 2023/24	(1.10)
= 2024/25 Non-Pay Inflation Allowance	1.00
= Estimated requirement 2024/25	(1.00)
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Shortfall over 2022/25	(3.40)

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

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2023/25 Funding Gap Remaining

	2023/24	2024/25	Total
	<u>£m</u>	<u>£m</u>	<u>£m</u>
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)
<u>Position as at June 2022 Financial Strategy</u>	<u>8.6</u>	<u>6.6</u>	<u>15.2</u>
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	0.9	0	0.9
Increased Non-Pay Inflation Shortfall (see Appendix 1)	2.4	0	2.4
Proposed Savings - November P&R	(0.6)	0	(0.6)
Revised estimated Funding Gap - November P&R	<u>9.6</u>	<u>6.7</u>	<u>16.3</u>

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An Leas-phrìomh Mhinistear agus Ath-shlànachadh
Cobhid
Deputy First Minister and Cabinet Secretary for Covid
Recovery
John Swinney MSP



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Councillor Hagmann
Resources Spokesperson
COSLA

By email: megan@cosla.gov.uk
Copy to: Sally Loudon (sally@cosla.gov.uk) and
Sarah Watters (sarah@cosla.gov.uk)

1 November 2022

Dear Katie

I am writing further to my commitment to consider the scope for policy flexibilities which can support the challenging resource position facing councils as a result of the 2022-23 pay deal.

We all recognise the challenging financial context and significant inflationary pressures caused by the UK Government's fiscal approach and wider external factors that will continue to affect us all in the year to come. With the recently agreed local government pay deal, the Scottish Government recognises that councils will be required to make difficult decisions locally in order to balance their budgets, continue to deliver statutory services, and provide the support that our communities require.

It is for individual councils, as democratically elected bodies, to consider the needs of their communities with a focus on the most vulnerable, their legal obligations and the totality of resource funding available to them, and to then take the decisions necessary, openly and transparently, to operate as effectively as possible within this context. In doing so, I would request that councils remain mindful of our shared priorities in the National Performance Framework. Where funding is provided as specific revenue grant (and therefore legally ring-fenced), councils should engage with the relevant Scottish Government directorate.

I would also note that the decision by the UK Government to scrap the National Insurance rise will result in a reduced financial burden on employers, including in the public sector. At the time of the passage of the 2022-23 Budget Bill, councils highlighted a circa £70 million pressure created by employer National Insurance Contributions (eNICs), the Scottish Government added a further £120 million during Stage 2 of the Bill in recognition of this and other pressures facing councils.

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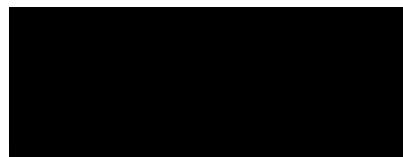
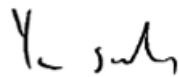
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Therefore, this change in policy by the UK Government will create a benefit to councils, we estimate that for the remainder of 2022-23 this could provide headroom in the region of £20 million. I am sure that many councils will already be considering how they can redeploy this headroom, ahead of considering other savings which may impact on services.

As we progress our discussions on a New Deal for Local Government, I am keen that we explore opportunities for public service reform, revenue raising options and efficient use of all available public resources to support delivery of the services on which our communities rely. It will also be important to reach early agreement on an outcomes-based approach that enables all of us to continue to be accountable to citizens, businesses and communities for the funding decisions we make at national and local level.

I look forward to shortly commencing the pre-budget engagement with you which I will be undertaking this year on behalf of the Cabinet Secretary for Finance and the Economy.



JOHN SWINNEY

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