

North Lanarkshire Council Report

Policy and Strategy Committee

approval noting

Ref EK/KS

Date 26/09/19

5 Year Medium Term Financial Plan 2020/21 to 2024/25

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Executive Summary

The purpose of this five year plan is to set out the challenges facing the Council in maintaining medium term financial stability whilst achieving the strategic priorities and objectives of The Plan for North Lanarkshire.

Taking 2020/21 as the new baseline, this plan updates financial planning assumptions in relation to future revenue grant and other funding, along with increasing cost pressures arising from employee costs, inflation and policy decisions. A range of risk based outcomes are set out in Appendices 1 to 3 highlighting optimistic, envisaged and pessimistic scenarios. Whilst the envisaged scenario remains the most appropriate for planning purposes, the other scenarios illustrate the volatility which may be experienced and the extent of the fluctuation in the potential budget gap faced by the Council over the period of this plan.

Table 1 below summarises the Council's projected financial outlook position. The envisaged scenario indicates a budget gap of £113.513 million over the 5 year planning period. For the 3 year budget period 2020/21 to 2022/23 a £84.224 million budget gap is anticipated (see appendix1 – Total inc. Integrated Joint Board (IJB)), which assumes a 3% increase in Council Tax. In line with the principles of the Revenue Resources Budget Strategy, approved at Policy & Strategy Committee in June 2019, the Council will work towards closing this gap in order to meet its statutory obligations in setting a balanced budget.

Table 1

Financial Year	General Fund			General Fund and IJB		
	Budget Gap Optimistic (£000)	Budget Gap Envisaged (£000)	Budget Gap Pessimistic (£000)	Budget Gap Optimistic (£000)	Budget Gap Envisaged (£000)	Budget Gap Pessimistic (£000)
2020/21	18,859	26,029	44,879	25,639	32,809	51,659
2021/22	3,510	24,606	46,641	5,962	27,058	49,093
2022/23	4,283	21,703	39,263	6,937	24,357	41,917
2023/24	2,590	11,940	38,790	5,090	14,440	41,290
2024/25	2,300	12,350	31,760	4,800	14,850	34,260
TOTAL	31,542	96,627	201,333	48,427	113,513	218,219

Recommendations

It is recommended that the Policy and Strategy Committee:

- (1) Approve the Medium Term Financial Plan 2020/21 to 2024/25
- (2) Note this plan will be subject to ongoing review with changes made through future Financial Outlook reports, which will be developed through the budget process.

The Plan for North Lanarkshire

Priority Improve North Lanarkshire's resource base

Ambition statement (25) Ensure intelligent use of data and information to support fully evidence based decision making and future planning

1. Background

- 1.1. Longer term planning has been part of financial planning within the Council for more than a decade and is integral to the Council's strategic approach to budgeting, providing a solid foundation for strategic planning over an extended period. Robust decision making relies on strong financial planning and the Medium Term Financial Plan (MTFP) assists in ensuring resources are aligned to the key priorities outlined in The Plan for North Lanarkshire and ensures the programme of works are robust, affordable and sustainable. Elected Members require robust information to assist them in making the necessary decisions to address current financial challenges and ensure the medium term financial sustainability of the Council. The MTFP reflects the risks which may impact on the Council's ability to continue to provide high quality services focussing on the strategic priorities.
- 1.2. The MTFP 2019/20 to 2023/24 was approved by the former Policy and Resource Committee in December 2018. The MTFP considers a range of scenarios and highlights the associated savings value to be delivered to allow the setting of a balanced budget. Taking 2020/21 as the new baseline, this plan updates financial planning assumptions in relation to future revenue grant and other funding, plus increasing cost pressures arising from employee costs, inflation and other commitments. A range of risk based outcomes are modelled highlighting optimistic, envisaged and pessimistic scenarios.
- 1.3. As the challenging financial climate continues for Local Government, the Council continues to face competing demands for the limited resources available to it. Public Sector reforms and new burdens which develop as a result have to be managed alongside increasing demand for existing core services. Therefore the cost modelling and assumptions used for the December 2018 Plan have been reviewed and updated to ensure that they remain reliable and robust, reflect known information surrounding legislative, political, social, economic and demographic factors, and recognise the impact these may have on the demand for services, resources, other cost pressures and financial settlements. It should be noted the MTFP now reflects the cost pressures in relation to Adult Health & Social Care (AHSC). This will ensure a strategic and planned approach to all Council General Fund Services. However robust financial planning by the IJB to provide a joint solution to managing these pressures, is required. Given the current political climate and the associated economic uncertainty, it is important to note the assumptions within this plan may potentially be subject to significant variation.
- 1.4. In May 2019, the Scottish Fiscal Commission published *Scotland's Economic and Fiscal Forecasts*. At the same time, the Scottish Government published its five year

financial strategy, "Scotland's Fiscal Outlook". These documents set out the key financial challenges and opportunities that lie ahead and provide context for the Scottish Government's Budget in December 2019. The Scottish Government has committed to provide a 3 year budget settlement for financial years 2020/21 to 2022/23, which would give the Council more certainty in financial planning and service delivery, as long as the settlement figures are as firm as possible, and not qualified or provisional. It is anticipated that the Scottish Government will set its budget mid-December 2019. However, the UK Government in its recent Spending round confirmed a multi-year spending review will not now be conducted until 2020, which may impact Scottish Government's commitment to provide a 3 year funding settlements in December 2019.

- 1.5 Given the current level of uncertainty over government funding, the political environment and the and the potential economic impact of Brexit, it is considered that a five year medium term plan remains reasonable and appropriate for planning purposes. Financial Planning for more than 5 years is presently considered to be of little value to the Council as it becomes increasingly difficult to project costs and revenues beyond this period.

2. Report

A Strategic Approach to Budgeting

- 2.1 All Local Authorities in Scotland face a highly challenging financial environment. However, North Lanarkshire Council is in a good position relative to other local authorities thanks to prudent control over our finances to date. Future plans will develop and build on these previous successes but it is becoming increasingly challenging due to the sustained funding pressures over a number of years.
- 2.2 In response to reducing government funding for core services and rising cost pressures the Council has been required to reduce spending by £112m since 2013/14 and generate increased or additional income, redesign services, implement a variety of efficiency and cost reducing measures.
- 2.3 Whilst acknowledging the likelihood of continued reductions in funding settlements and increasing cost pressures, the Council will continue to strive to achieve its key financial objectives including delivering a robust, sustainable and balanced budget.
- 2.4 However, single year financial settlements in recent years have limited the Council's ability to plan ahead, which has resulted in an approach to developing savings options focussed on closing the annual budget gap. Recognising the inherent weakness in the short term approach to budgeting and the increasing difficulty in setting a one year budget based around short term savings options, a Revenue Resources Budget Strategy was approved by Policy and Strategy Committee in June 2019. This strategy sets out the key principles and the framework to ensure a more robust and strategic approach to financial planning, which will facilitate the preparation of a three year revenue budget for the period 2020/21 to 2022/23. The key principles include:
 - Development of a 3 year rolling budget
 - Integration of Strategic Planning and Financial Planning
 - Continuous review of opportunities for savings reported through Committees on an ongoing basis including service redesign and alternative delivery models arising from the Programme of Works
 - Robust integration of Capital Financial Planning, and the associated revenue consequences, with Revenue Financial Planning

- Future charging models for services will be informed by benchmarking and the principles of full cost recovery
- Establishment of a Use of Reserves Policy
- Active elected member involvement

2.5 The MTFP is integral to the strategic approach to budgeting and the overarching Financial Strategy. Sections 3 and 4 below summarise the assumptions for the planning period 2020/21 to 2024/25 and outlines the anticipated budget gap over the period. In addition, Appendices 1 to 3, highlights the budget gap for the 3 year budget period 2020/21 to 2022/23.

3. Projection of Resources

Scottish Government Budget and the Local Government Finance Settlement

3.1 The biggest element of the Scottish Budget is the Scottish Block Grant provided by the UK Government through the Barnett formula. In addition, the Scottish Budget also includes revenues raised through the control of Income Tax receipts and, as such, is dependent on the performance of the Scottish economy. This self-financing element introduces additional risk and further uncertainty to future Local Government General Revenue Grant. With a larger proportion of the Scottish Government budget dependent on tax receipts, Scotland's economic performance compared with the rest of the UK, will have a greater impact on the level of Scottish Budget than previous budget rounds. In addition Scottish Government commitment to support priority areas such as Health, impacts on the level of funding available for Local Government, and the grant received by the Council which equates to approximately 80%.

3.2 The UK Spending Review is the process by which the UK government sets out its plans for public spending. This provides vital information for the Scottish Government's planning assumptions and budget. In the recent UK Government spending review announcement on the 4 September 2019, which covered one year only, the Chancellor announced an additional £1.1 billion of revenue resources for Scotland, a 2.1% real terms increase. However as the announcement does not include tax decisions and fiscal forecasts, which are due later in the Autumn, the Scottish Government has stated that "without the tax announcements and economic forecasts of a full UK Budget the Scottish Government will not have clarity on funding for 2020/21." Therefore it is very difficult to determine the possible impact on Local Authorities in Scotland.

Aggregate External Finance (AEF)

3.3 The Council's revenue funding consists largely of government funding, known as Aggregate External Finance, which is made up General Revenue Grant, Specific Grant and Non Domestic Rates Income, based on the Scottish Government's assessment of overall spending needs.

3.4 The previous MTFP assumed a reduction of 1% in 2020/21 and flat cash for the 3 years thereafter. Based on up to date information and analysis by Fraser of Allander Institute, Scottish Parliament Information Centre (SPICe) and Fiscal Affairs Scotland it is envisaged that there will be a 1.5% reduction in AEF for 2020/21, a 2.0% reduction in 2021/22, a 1.5% reduction in 2022/23 and flat cash for the remaining two years of the plan. In addition, subsequent to the publication of the Scottish Government Medium Term Financial Strategy, the Scottish Fiscal Commission forecasts on both the yield from the Scottish Economy and the product of the Scottish Income Tax, indicate that despite a potential increase to the Scottish Budget, the majority of which is likely to be allocated to the protected NHS Budget, non-protected budgets are expected to face reduced settlements in the medium term. It is forecast

that 2021/22 may be particularly difficult, due to the exceptional size of the negative income tax adjustment in Income Tax reconciliation expected to be applied in that year. However the Scottish Government have the option to reduce the impact on non-protected budgets through higher borrowing, increased taxes and use of reserves.

- 3.5 The optimistic scenario assumes a 1.0% reduction in 2020/21 then flat cash for the remainder of the plan. The pessimistic scenario assumes deeper cuts with a 3% reduction in 2020/21, 3.50% reduction for 2021/22, 2.5% reduction in 2022/23 and 2023/24 and a 1.1% reduction in year 5 2024/25. This translates to the cash movements detailed in table 2.

Table 2

AEF	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Optimistic	(6,100)	0	0	0	0
Envisaged	(9,100)	(11,900)	(8,800)	0	0
Pessimistic	(18,100)	(20,500)	(14,100)	(13,800)	(5,900)

Council Tax

- 3.6 Income from Council Tax accounts for around 19% of the Council's revenue resources with the estimated income based on a combination of Band D equivalent value, householder base and the expected rate of collection.
- 3.7 The Council's Band D equivalent value was static at £1,098 for 10 years between 2007/08 and 2017/18, as a result of the Scottish Government's commitment to maintain a Council Tax freeze, which ended in 2017/18. In addition Council Tax reform measures which increased rates in Bands E to H generated additional funding to be retained by councils. In order to meet the Council's strategic priorities and growth proposals in setting the 2019/20 budget, the Council decided to increase the rate of Council Tax by 3%, lower than the maximum allowable increase of 4.79% set by the Scottish Government. This brought the Band D level to £1,164.87 continuing the trend of a Council Tax rate below the Scottish average, the 4th lowest in Scotland.
- 3.8 Going forward, the envisaged scenario is based on the assumption the Council will apply a 3% increase to Council Tax rates. The pessimistic assumption (from an income generation perspective) is based on a 0% increase, whilst the optimistic scenario allows for a lifting of the current grant settlement conditions, enabling a 5% increase to assist in paying for local services.
- 3.9 The envisaged natural growth in Council Tax base is assumed to generate £1 million additional income per annum. A more optimistic view is that this could rise to £1.2 million per annum between 2020/21 and 2023/24 or reduce in a depressed economy to a more modest £0.400 million per annum over the same period.
- 3.10 Historically the Council's collection rate in respect of Council Tax income has consistently achieved the budgeted levels. In recent years in year cash collections have remained buoyant and it is envisaged that the current collection rate can be consistently applied going forward. On an optimistic note, we may be able to increase this collection rate by a further 0.25% whilst the impact of welfare reform, on a more pessimistic note, may result in a reduction in this rate of 0.25%
- 3.11 In addition Members will recall the We ASPIRE – a Shared Ambition for North Lanarkshire report outlined proposals for the establishment of a new Community

Investment Fund (CIF) over 10 years for direct capital investment, which is based on ring fencing future growth in Council Tax income from regeneration activities and the Council's ambition, along with 1% of future increases on Council Tax. The MTFP now reflects the revised modelling assumptions reported to Policy & Strategy Committee on 6 June 2019, regarding increased Council Tax income which will fund potential total investment requirements of £705m over a 10 year period. These assumption will continue to be monitored and reported, with any impact on investment levels adjusted in future financial plan updates.

- 3.12 In summary the range of anticipated movements in Council Tax income are as follows:

Table 3

Council Tax	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Optimistic	9,600	10,400	11,000	11,600	12,200
Envisaged	6,300	6,800	7,000	7,300	7,500
Pessimistic	1,020	1,340	1,350	1,360	1,380

Use of Reserves

- 3.13 The Revenue Resources Budget Strategy report outlined that use of balances must be prudent and controlled, and will be used to fund one-off costs of savings plans or to allow for the implementation of longer term savings proposals. It also requires that the level of balances is protected to ensure Council can support one-off costs as a result of savings plans. The Council has, in recent years, utilised one-off resources to support multi-year budgeting as well as allowing time to develop transformational reform which will deliver savings over time or to resource one-off service enhancements. Reflecting the 2019/20 use of reserves of £1.026m for service enhancements on a one off basis this increases the overall resources available from 2020/21.

Summary of Anticipated Movements in Resources

- 3.14 In summary, the range of anticipated movements in resources are as follows:

Table 4

Total Resources	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Optimistic	4,526	10,400	11,000	11,600	12,200
Envisaged	(1,774)	(5,100)	(1,800)	7,300	7,500
Pessimistic	(16,054)	(19,160)	(12,750)	(12,440)	(4,520)

4. Projection of Expenditure Requirements

Current Service Provision (CSP)

- 4.1 The MTFP always reflects known material cost pressures. However this plan recognised the requirement for a more strategic and planned approach to ensure a review of Service specific cost pressures, to quantify existing or anticipated new burdens. Cost pressures for the next 3 years totalling £21.575 million were identified, including £11.886 million (net of c. £6.5m assumed additional directed funding from Scottish Government) in relation to AHSC. In addition this plan assumes cost pressures of a further £2.5 million per annum for the remaining 2 years in relation to AHSC.

- 4.2 Following consideration by the Corporate Management Team these pressures have been incorporated into the plan for all three planning scenarios. The pressures are primarily in relation to inflation, demographic burdens and costs arising from priorities including Strategic Waste and Additional Support Needs. To reflect the full cost of AHSC pressures, pay inflation and pension costs pressures have also been included, to demonstrate the total budget gap for all Council responsibilities.
- 4.3 However for the purposes of understanding the budget gap before and after inclusion of AHSC, the AHSC cost pressures have been identified separately in Appendices 1 to 3, and are therefore excluded from the expenditure categories discussed below. Table 5 below shows the total anticipated cost pressure for AHSC for the next five years. As mentioned in 1.3 above it is expected that the IJB will develop a strategy to jointly manage these cost pressures through the delivery of savings. All AHSC savings proposals will be considered as part of the budget strategy to manage the gap for all Council responsibilities.

Table 5

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Current Service Provision (AHSC)	6,780	2,452	2,654	2,500	2,500

Employee Costs

- 4.4 Employee costs remain the largest single element of the General Fund budget, accounting for around 52% of general fund expenditure in 2019/20. The cost pressures arising from the workforce are material and are outlined below;

Pay Awards

- 4.5 In 2019, three year pay offers for employees including teachers, were agreed. It is assumed for the envisaged scenario that a 3% uplift will apply for the period of this plan.
- 4.6 The optimistic scenario recognises previous Scottish Fiscal Commission medium term forecasts of 2% for the period of this plan. Whilst the pessimistic scenario assumes pay awards of 4% in line previous Scottish Fiscal medium term forecasts for public sector workers, to be fully funded by the Council.

Auto-enrolment

- 4.7 The full year effect of the cost of auto-enrolment is estimated at £3.000 million. Due to a revised implementation date of 1st July 2019, a provision of £2.250m was provided in 2019/20 budget with further provision required in 2020/21 of £0.750m.

Pension Costs

- 4.8 The contributions paid by the employer are set by the fund actuary at each triennial valuation, or at any other time as instructed to do so by the administering authority.
- 4.9 The most recent triennial valuation of the Strathclyde Pension Fund was completed as at March 2017. Employer contributions have been maintained at 19.3% for 2018/2019 to 2021-2022 with the following three years set following completion of the triennial valuation as at March 2020. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating Local Authorities.

- 4.10 The envisaged scenario provides for no additional employer contributions within the timeframe of the plan. The optimistic view reflects reductions in contributions by 2% in 2021/22, a saving of £1.336m. The pessimistic view reflects a 2% increase in contributions at a cost of £1.336m in 2021/22. This reflects the variable nature of pension plans' performance in future years.
- 4.11 The most recent quadrennial valuation for other public service pensions including Teachers was undertaken, resulting in a 30% increase on employers contributions for Teachers effective from 1 September 2019. With additional funding provided by the Scottish Government as a result of Barnett consequential from the UK Government towards these additional costs of approximately 80%, resulting in additional cost pressure for the Council of c. £1.8m per annum. Cognisance of this cost pressure was taken in the 19/20 budget process, and will be managed from existing resources for 2020/21 however this significant cost pressure may have further impact in future years that may require to be considered in future updates to the plan.
- 4.12 In summary, the anticipated range of cost pressures associated with employee costs is as follows:

Table 6

Employee Costs	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Optimistic	13,028	6,964	8,500	8,600	8,800
Envisaged	13,028	12,400	12,800	13,200	13,600
Pessimistic	13,028	17,836	17,200	17,900	18,600

Contract Inflation

- 4.13 Cost pressures arise from contractual obligations which are uplifted for inflation. Inflationary uplifts on major council contracts are uncertain, and these may be higher or lower than previously expected as a result of uncertainties including those arising from Brexit.
- 4.14 Key Council contracts are estimated to be uplifted in line with the Office for Budget Responsibility inflation forecast across the planning period. In relation to the optimistic scenario inflationary pressures will be 1% less and 1% higher in the pessimistic scenario.
- 4.15 In summary, cost pressures associated with contract inflation are as follows:

Table 7

Contract Inflation	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Optimistic	1,693	1,693	1,200	1,200	1,200
Envisaged	2,193	2,193	1,800	1,900	2,000
Pessimistic	2,693	2,693	2,300	2,700	2,800

Energy Contracts

- 4.16 The Council has in recent years targeted reductions in energy consumption through a number of different means. However, forecasts of energy costs are very difficult to ascertain due to price volatility over the longer term. It should be noted the forecasts within this plan are based on the existing property base.
- 4.17 The National Framework Agreement was renegotiated for 1 April 2019. This agreement limits the Council's involvement in the negotiation of energy price

contracts, however it leverages the size of the Scottish Public Sector to obtain economies of scale and value for money.

4.18 Given the uncertainty associated with forecasting energy market pricing, energy cost inflation in this financial plan reflects National Grid forecasts of Wholesale Gas, based on a low, medium and high forecast, available in the publication of Future Energy Scenarios July 2019. Forecasts for wholesale electricity are no longer available therefore the underlying forecast remains unchanged from the previous MTFP assumptions, updated to account for cost pressures in this area identified by Services.

4.19 In summary, cost pressures associated with energy costs can be summarised as follows:

Table 8

Energy Contracts	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Optimistic	20	80	130	120	130
Envisaged	100	170	260	370	380
Pessimistic	300	390	440	440	400

Non Domestic Rates (NDR)

4.20 The envisaged scenario assumes that cost of NDR payable by the Council will increase in line with the consumer price index (CPI) forecast, costing circa £0.300 million per year. The optimistic scenario assumes no increases to business in Scotland. The pessimistic view is that NDR payable by the Council will increase beyond CPI, more in line with retail price index (RPI).

Table 9

NDR	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Optimistic	0	0	0	0	0
Envisaged	290	290	300	310	310
Pessimistic	430	440	450	470	480

Demographic, Legislative & other Cost Pressures

4.21 On occasion, changes to policy or other Council decisions may result in additional cost pressures for the Council. Following an exercise to integrate The Plan for North Lanarkshire and associated Programme of Works, the MTFP assumes any costs arising from The Plan will be managed within existing resources or savings as a result of the programme of works.

4.22 The majority of other cost pressures highlighted in Appendices 1 to 3 relate to Service CSP submissions including:

- Costs arising from the support for children and families social work.
- Increased requirement for Council Tax Reduction Scheme support as a result of anticipated increases in Council Tax.
- Costs of complying with legislative requirements for Continuing Care.
- Increased teacher numbers due to increasing pupil roll numbers.

Table 10

Demographic/ Legislative & Other Cost Pressures	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Optimistic	3,894	1,301	1,292	180	180
Envisaged	3,894	1,381	1,382	270	270
Pessimistic	3,894	1,461	1,472	360	380

Summary of Anticipated Cost Pressures

- 4.23 In summary the range of anticipated Cost Pressures including CSPs submitted in relation to General Fund Services are as follows:

Table 11

Total Cost Pressures	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Optimistic	18,635	10,038	11,122	10,100	10,310
Envisaged	19,505	16,434	16,542	16,050	16,560
Pessimistic	20,345	22,819	21,862	21,870	22,660

Other Commitments

City Deal

- 4.24 The Council is a key partner in the Glasgow City Region (GCR) City Deal which is an agreement between the UK and Scottish Governments and the eight Glasgow and Clyde Valley Region Local Authorities, for £1.13 billion of capital infrastructure investment, funded by £500 million each from both UK and Scottish Governments and £130 million of contributions from the GCR Local Authorities. The Infrastructure Programme within North Lanarkshire will result in additional capital investment of around £200 million. Taking the required prudential borrowing costs and the shorter term cash flow costs together, it was envisaged the Council's contribution can be met by setting aside £0.290 million per annum over a 10 year period. As a result of a previous budget decision to defer the 2019/20 provision, £0.580 million is provided for 2020/21 returning to £0.290 million per annum thereafter. The pessimistic scenario assumes that government funding is withdrawn as a result of the Region's inability to meet the requirements of the gateway reviews, resulting in the Council meeting the full borrowing cost of the investment of £1.910 million in 2020/21 due to the deferral in 2019/20 and £0.955m per annum thereafter.

Strategic Waste

- 4.25 The Clyde Valley Contract is scheduled to commence in December 2019. Until now, the Council's contribution to the costs of the Contract Team have been funded from Reserves. However with the project going live, a permanent budget solution is required which is estimated to cost £0.072 million per annum. In addition, Gate Fees for Waste disposal continue to increase year on year predominantly due to inflation and/or market conditions. It is envisaged these fees will rise by £0.941 million in 2020/21 and a further £0.382 million and £0.395 million the following two years.

Additional Support Needs (ASN)

- 4.26 Education and Families have identified an anticipated cost pressure over the 5 year period of £1.008 million covering all aspects of the ASN service including increased demand for school transport, additional teachers to meet the increasing pupil numbers resulting from an expected increase in the demand for this service in future years.

Capital Investment

- 4.27 The Council has previously recognised the commitment to investment through the Schools & Centres 21 programme with annual funding requirements of £0.500 million until 2021/22 to support increased funding in this area. A decision to defer the 2019/20 payment results in a contribution of £0.500m required for 2020/21 to 2022/23.
- 4.28 The Council also previously recognised the importance of giving each local Area Partnership resources for local decisions in how best to invest capital sums for the future. Therefore a further sum of £0.525m is provided which will fund a further £6 million of investment in 2020/21. However a review of the Council's strategy in complying with the Community Empowerment Act will determine any future funding requirements.

Community Investment Fund (CIF)

- 4.29 The Council's approved budget for 2019/20 recognised the establishment of the CIF by confirming the commitment to set aside 1% of council tax increases from 2020/21. The three scenarios for the CIF are directly linked to the level of Council Tax rate increases and base increases within the funding assumptions, resulting in a level of funding required to be ring fenced for CIF.

Summary of Anticipated Impact of Other Commitments

- 4.30 In summary the range of the anticipated impact of Other Commitments is as follows:

Table 12

Other Commitments	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Optimistic	4,751	3,872	4,160	4,090	4,190
Envisaged	4,751	3,072	3,360	3,190	3,290
Pessimistic	8,481	4,662	4,650	4,480	4,580

- 4.31 A summary of the total cost pressures is summarised in Table 13 below;

Table 13

Total Cost Pressures	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Optimistic	23,385	13,910	15,282	14,190	14,500
Envisaged	24,255	19,506	19,902	19,240	19,850
Pessimistic	28,825	27,481	26,512	26,350	27,240

5. Summary – Medium Term Financial Forecasts

- 5.1 Based on the assumptions outlined above, table 14 below summarises the Council's projected financial planning position for the next 5 years. The envisaged scenario indicates a budget gap over the 5 year planning period of £113.513 million and as outlined in Appendix 1 the envisaged budget gap for the 3 year budget for 2020/21 to 2022/23 is £84.224m, which assumes increased income from Council Tax. In line with the principles of the Revenue Resources Budget Strategy the Council will work towards closing this gap to meet its legal obligations in setting a balanced budget.

Table 14

Financial Year	General Fund			General Fund and IJB		
	Budget Gap Optimistic (£000)	Budget Gap Envisaged (£000)	Budget Gap Pessimistic (£000)	Budget Gap Optimistic (£000)	Budget Gap Envisaged (£000)	Budget Gap Pessimistic (£000)
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TOTAL	31,542	96,627	201,333	48,427	113,513	218,219

6. Risks and Uncertainties

6.1 Whilst the assumptions applied to income and expenditure projections in this financial plan are based on the best information available at the time of writing, they are inherently uncertain. The key factors which are likely to impact upon the Council's assumptions and future financial plans, as follows:

Economic Factors

Government Support

6.2 The envisaged position assumes reductions in funding for the first three years of the plan, followed by flat cash settlements to 2023/24. In the current financial and political climate there is increasing uncertainty making it extremely difficult to predict settlement funding.

Inflation and Interest Rate Assumptions

6.3 The envisaged position assumes future years' inflation indices will be broadly in line with Office of Budget Responsibility forecasts of 2% to 3% per annum, for CPI and RPI respectively. However, should interest rates rise higher than anticipated, cost pressures may be more in line with the pessimistic scenario and would result in an increased budget gap facing in future years. Similarly, if interest rates rise, the costs of borrowing to fund planned capital investment will rise, ultimately impacting on the availability of funding for the delivery of investment programmes.

Implications of UK's decision to exit the European Union

6.4 The result of the UK's referendum on EU membership and the subsequent triggering of Article 50, and the UK's intention to exit the EU on 31st October 2019, significantly increases uncertainty in respect of the forecast and planning assumptions throughout this financial plan.

6.5 It is important to note that assumptions within this financial plan do not account for the various views on the UK's exit from the European Union. As and when further information becomes available on the UK's exit from the EU that will have a material impact on the Council's long-term planning assumptions, those assumptions will be updated.

Political Factors

6.6 Various factors, including the potential for a future Independence Referendum and developing UK and Scottish Government strategy, create the possibility of new UK and Scottish Government priorities and policy initiatives emerging over the duration of this financial plan.

6.7 Over the last few years, councils have seen a number of functions transferred out of their control. Police and Fire Services have been transferred to national bodies; Integration Authorities have been created to oversee adult social care provision; and

some funding for educational improvement is now passed directly to Head Teachers. If this trend continues, further changes for councils may be forthcoming.

- 6.8 Further uncertainties exist in relation to Pupil Equity Fund (PEF) and Scottish Attainment Challenge (SAC) funding which together provide for a maximum spend of around £16m per annum for the Council. The Scottish Government has begun informal discussions surrounding this funding for the longer term, however it is not guaranteed to continue at this level beyond 2020/21.

Community Empowerment (Scotland) Act 2015

- 6.9 This Act requires councils to embed community participation in the design and delivery of public services, and to build community capacity to give people the skills and confidence required to be involved, while recognising the particular needs of communities facing multiple social and economic challenges. As outlined in 4.28 above, the Council has provided for capital funding to contribute to delivering on the aims of the Act, with the Council's strategy regarding this requiring further consideration.

Environmental Factors

Climate Change Bill

- 6.10 The introduction of a new Climate Change Bill will see the Scottish Government increase the 2050 target from an 80% reduction on baseline levels to a 90% reduction of baseline levels. This is likely to have implications on the Council's Zero Waste Scotland requirements, Carbon Reduction Commitment requirements and general costs associated with energy and waste. However, given the long-term nature of the Climate Change Bill, the targets and the impact of Climate Change, the cost implications are difficult to predict.

6. Equality and Diversity

- 6.1 Fairer Scotland Duty
The contents of this report have been assessed under the terms of the Fairer Scotland Duty and were determined not to be of material impact.
- 6.2 Equality Impact Assessment
There are no impacts from this report, however, future proposals to reduce the gap will be subject to assessment as part of the budget exercise.

7. Implications

- 7.1 Financial Impact
The budget gaps identified in this plan will need to be addressed through the development and subsequent delivery of robust savings in order to achieve a balanced budget across the period of this plan. Strong financial governance and control arrangements remain vital to ensure savings are actually achieved.
- 7.2 HR/Policy/Legislative Impact
There are no HR/Policy/Legislative impact as a result of this report.
- 7.3 Environmental Impact
There is no Environmental Impact as a result of this report.
- 7.4 Risk Impact
The assumptions underpinning the Council's financial plan have been made in a period of great uncertainty due to the changing political climate. These assumptions

are subject to continued review to ensure the most up to date information is used to inform them. However it is recognised there is a risk that these assumptions could over/understate the overall level of savings required to address future budget gaps. To mitigate this, in year Financial Outlook reports will reflect the most up to date position possible and savings proposals in excess of the identified requirements are developed.

8. Measures of success

8.1 Measures of success will include:

- Development of savings and investment options aligned to the Council's strategic objectives, as outlined in the Council Plan
- The setting of a balance budget for 2020/21 and subsequent years
- Successful and timeous implementation of approved savings plans

9. Supporting documents

9.1 Appendix 1 Envisaged Scenario
Appendix 2 Pessimistic Scenario
Appendix 3 Optimistic Scenario



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North Lanarkshire Council
Financial Strategy Model – Envisaged Position

	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s
<u>Anticipated Cost Pressures</u>	19,505	16,434	16,542	16,050	16,560
Pay Award	12,100	12,400	12,800	13,200	13,600
Auto-enrolment	750	0	0	0	0
Pension Costs	0	0	0	0	0
Other Employee Costs	178	0	0	0	0
Contract Inflation	2,193	2,193	1,800	1,900	2,000
Energy Costs	100	170	260	370	380
NDR	290	290	300	310	310
Other Cost Pressures	240	250	260	270	270
Demographics	2,577	635	629	0	0
Legislative	1,077	496	493	0	0
<u>Other Commitments</u>	4,751	3,072	3,360	3,190	3,290
City Deal Commitments	580	290	290	290	290
Strategic Waste Project	1,013	382	395	0	0
Additional Support Needs	2,133	(500)	(625)	0	0
Capital Investment	1,025	500	500	0	0
Community Investment Fund	0	2,400	2,800	2,900	3,000
<u>B/F Total Cost Pressures</u>	24,255	19,506	19,902	19,240	19,850
Less:					
<u>Anticipated Funding/Savings</u>	(1,774)	(5,100)	(1,800)	7,300	7,500
AEF adjustments	(9,100)	(11,900)	(8,800)	0	0
Council Tax Income	6,300	6,800	7,000	7,300	7,500
Use of Reserves (Growth)	1,026	0	0	0	0
Total Budget Gap (General Fund)	26,029	24,606	21,703	11,940	12,350
3 year total (20/21 to 22/23)			72,337		
<u>IJB</u>	6,780	2,452	2,654	2,500	2,500
CSP's	6,780	2,452	2,654	2,500	2,500
3 year total (20/21 to 22/23)			11,886		
Revised Budget Gap (Total inc IJB)	32,809	27,058	24,357	14,440	14,850
3 year total (20/21 to 22/23)			84,223		

North Lanarkshire Council
Financial Strategy Model – Pessimistic Outlook

	2020/21	2021/22	2022/23	2023/24	2024/25
	£000s	£000s	£000s	£000s	£000s
<u>Anticipated Cost Pressures</u>	20,345	22,819	21,862	21,870	22,660
Pay Award	12,100	16,500	17,200	17,900	18,600
Auto-enrolment	750	0	0	0	0
Pension Costs	0	1,336	0	0	0
Other Employee Costs	178	0	0	0	0
Contract Inflation	2,693	2,693	2,300	2,700	2,800
Energy Costs	300	390	440	440	400
NDR	430	440	450	470	480
Other Cost Pressures	240	330	350	360	380
Demographics	2,577	635	629	0	0
Legislative	1,077	496	493	0	0
<u>Other Commitments</u>	8,481	4,662	4,650	4,480	4,580
City Deal Commitments	1,910	955	955	955	955
Strategic Waste Project	1,013	382	395	0	0
Additional Support Needs	2,133	(500)	(625)	0	0
Capital Investment	1,025	1,025	1,025	525	525
Community Investment Fund	2,400	2,800	2,900	3,000	3,100
<u>B/F Total Cost Pressures</u>	28,825	27,481	26,512	26,350	27,240
Less:					
<u>Anticipated Funding/Savings</u>	(16,054)	(19,160)	(12,750)	(12,440)	(4,520)
AEF adjustments	(18,100)	(20,500)	(14,100)	(13,800)	(5,900)
Council Tax Income	1,020	1,340	1,350	1,360	1,380
Use of Reserves (Growth)	1,026	0	0	0	0
Total Budget Gap (General Fund)	44,879	46,641	39,263	38,790	31,760
3 year total (20/21 to 22/23)			130,783		
<u>IJB</u>	6,780	2,452	2,654	2,500	2,500
CSP's	6,780	2,452	2,654	2,500	2,500
3 year total (20/21 to 22/23)			11,886		
Revised Budget Gap (Total inc IJB)	51,659	49,093	41,917	41,290	34,260
3 year total (20/21 to 22/23)			142,669		

North Lanarkshire Council
Financial Strategy Model – Optimistic Outlook

	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s	2023/24 £000s
<u>Anticipated Cost Pressures</u>	18,635	10,038	11,122	10,100	10,310
Pay Award	12,100	8,300	8,500	8,600	8,800
Auto-enrolment	750	0	0	0	0
Pension Costs	0	(1,336)	0	0	0
Other Employee Costs	178	0	0	0	0
Contract Inflation	1,693	1,693	1,200	1,200	1,200
Energy Costs	20	80	130	120	130
NDR	0	0	0	0	0
Other Cost Pressures	240	170	170	180	180
Demographics	2,577	635	629	0	0
Legislative	1,077	496	493	0	0
<u>Other Commitments</u>	4,751	3,872	4,160	4,090	4,190
City Deal Commitments	580	290	290	290	290
Strategic Waste Project	1,013	382	395	0	0
Additional Support Needs	2,133	(500)	(625)	0	0
Capital Investment	1,025	500	500	0	0
Community Investment Fund	0	3,200	3,600	3,800	3,900
<u>B/F Total Cost Pressures</u>	23,385	13,910	15,282	14,190	14,500
Less:					
<u>Anticipated Funding/Savings</u>	4,526	10,400	11,000	11,600	12,200
AEF adjustments	(6,100)	0	0	0	0
Council Tax Income	9,600	10,400	11,000	11,600	12,200
Use of Reserves (Growth)	1,026	0	0	0	0
Total Budget Gap (General Fund)	18,859	3,510	4,283	2,590	2,300
3 year total (20/21 to 22/23)			26,652		
<u>IJB</u>	6,780	2,452	2,654	2,500	2,500
CSP's	6,780	2,452	2,654	2,500	2,500
3 year total (20/21 to 22/23)			11,886		
Revised Budget Gap (Total inc IJB)	25,639	5,962	6,937	5,090	4,800
3 year total (20/21 to 22/23)			38,537		