

# North Lanarkshire Council

## Report

### Council

approval  noting

Ref EK/KS/VR

Date 24/02/20

### Revenue Budget and Council Tax 2020/21

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#### Executive Summary

The purpose of this report is to provide financial information that enables the Council to set its Revenue Budget and Council Tax for 2020/21 and provide indicative Revenue Budget figures for financial years 2021/22 and 2022/23.

In December 2018 the Scottish Government committed to providing 3 year local government funding settlements from 2020/21. It was anticipated that this would enable the Council to set a budget for more than one year and would facilitate more integrated planning and budgeting. This would in turn have allowed for a more strategic approach to financial decision making, facilitated by the key principles set out in the Revenue Budget Strategy approved at Policy and Strategy Committee in June 2019.

However, given that the Scottish Government do not at this time have confirmed funding figures from UK Government, a further one year settlement has been provided for Local Government. The Scottish Budget 2020/21 announced on 6 February 2020 highlighted that, *“the Scottish Government is committed to providing local government with long-term financial certainty and will continue to work with COSLA, and press the UK Government to carry out a multi-year spending review to ensure that long-term financial certainty can be provided to local government partners at the earliest possible opportunity”*.

In line with the framework outlined in the Revenue Resources Budget Strategy, the Council’s Medium Term Financial Plan (MTFP), approved by Policy and Strategy Committee in September 2019, identified an envisaged 3 year budget gap of £97.732 million, with an estimated shortfall of £37.130 million in 2020/21, prior to any consideration of Council Tax increases. This forecast has now been updated following the Scottish Budget announcement, confirming the 2020/21 budget gap at £35.318 million.

In line with the development above, assumptions in the Medium Term Financial Plan and the associated potential budget gap for 2021/22 and 2022/23 will be fully updated and reported to Policy and Strategy Committee in September 2020.

#### Recommendations

Members are asked to:

- (a) Note the update on the Local Government Financial Settlement and subsequent impact on the budget gap facing the Council for 2020/21;

- (b) Note the cost pressures identified in section 2 and action already taken in section 5;
- (c) Confirm the level of Council Tax for 2020/21 and continue the commitment to direct 1% of this increase for future investment through the Community Investment Fund;
- (d) Agree the general fund contingency reserve as advised by the Head of Financial Solutions;
- (e) Agree the continuation of the treatment of volume discount as set out at section 9;
- (f) Approve savings to deliver a balanced budget for 2020/21;
- (g) Instruct the Chief Executive to proceed with plans to implement savings identified in relation to 2021/22 and 2022/23.

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## 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

#### Statutory Requirement to set a Balanced Budget

1.1. Councils are required by law to set a balanced budget each year. This requirement is set out in Section 93 of the Local Government Finance Act 1992. Failure to set a balanced budget would result in the following implications:

- The Council's financial flexibility to, for example, enter into contracts or to commit to unfunded obligations, would cease and only costs in respect of those financial obligations already committed could be incurred.
- The Council's current budget shortfall position (which requires to be met through approved savings) would remain.
- Individual Members may incur personal responsibility for failure to comply with their statutory duty.
- Individual Members who unreasonably contribute to the failure or delay in setting a budget could be ultimately censured, suspended, or disqualified from standing for election for a prescribed period of time by the Standards Commission for Scotland.
- Section 102 of the Local Government (Scotland) Act 1973, sets out specific processes for the Controller of Audit to report to the Accounts Commission on the failure to set a budget. The Commission can then recommend that Scottish Ministers direct the Council to rectify this.

### 2. Report

#### Revenue Budget 2020/21

2.1. The starting point for determining the revenue budget for 2020/21 is the 2019/20 base budget of £782.570 million, which reflects the £781.729 million approved in February 2019, adjusted for minor movements in Scottish Government funding during 2019/20 of £0.841 million.

- 2.2. In addition, one off growth approved as part of the 2019/20 budget of £1.026 million for the continuation of Club 365 and the Independent Advice Centre, has been reversed from the base budget.
- 2.3. The revised base budget has been adjusted to reflect the updated financial planning assumptions including all cost implications, which results in a net expenditure budget of £849.926 million for 2020/21. Further details are outlined below and a summary is contained within Appendix 1.

## **2020/21 Expenditure Requirements**

### **2.4. Employee Cost Pressures**

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 with a total of £13.645 million identified primarily for Pay Awards, Auto Enrolment and increases in relation to teachers' pension arrangements.

#### **2.4.1. Pay Awards**

2020/21 is the final year of the three year pay award agreed for all Council employees, including teachers, with an associated Council cost pressure of £12.717 million. Paragraph 2.9.1 advises of the directed funding provided by Scottish Government towards the additional costs associated with teachers' pay and pensions.

#### **2.4.2. Auto-enrolment**

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

#### **2.4.3. Other Employee Costs**

Reflecting the cost pressures identified by Services within the Medium Term Financial Plan, a further £0.178 million has been identified.

### **2.5. Adult Health & Social Care**

The Council's MTFP recognised total cost pressures of £13.280 million for the Adult Health and Social Care (AHSC) provision to the Integration Joint Board (IJB). However, it was also anticipated that the Local Government Finance Settlement would provide £6.500 million of additional funding to local authorities to pass on to the IJB, reducing the expected cost pressure to £6.780 million. As highlighted in paragraph 2.9.3 below, £5.694 million of additional funding was received, thus increasing the net cost pressure by £0.806 million to £7.586 million.

### **2.6. Contract Inflation**

Contract inflation pressures have been identified costing £2.193 million which represents an average 2.8% increase on all major Council contracts including IT, Property Repairs, and Pupil Transport.

### **2.7. Other Cost Pressures**

A total of £4.284m of other cost pressures were identified through the MTFP. £3.654 million is recognised for demographic and legislative costs including increased demand on Council Tax Reduction Scheme, costs arising from the support for children and families, the costs of complying with legislative requirements for Continuing Care and increased teacher numbers due to increasing pupil roll numbers. A further £0.100

million was recognised for increased Energy Costs, £0.290m for increased Non Domestic Rates costs and £0.240 million for a number of other cost burdens.

## 2.8. **Strategic Priorities**

The Council has recognised a number of strategic priorities which result in a commitment of £5.551 million for 2020/21. This includes:

### 2.8.1. City Deal

The Council is a key partner in the Glasgow City Region (GCR) City Deal. 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 required for 2020/21 returning to £0.290 million per annum thereafter.

### 2.8.2. Strategic Waste

The Clyde Valley Contract has now commenced. Previously, the Council's contribution to the costs of the Contract Team has been funded from Reserves. However with the project going live, a permanent budget solution was required. This together with Gate Fees for waste disposal which continue to increase year on year mainly due to inflation and/or market conditions, gives rise to total additional cost pressures of £1.013m.

### 2.8.3. Additional Support Needs

The Council's Medium Term Financial Plan has continued to recognise the increasing trend in the number of children with complex Additional Support Needs (ASN) and it is anticipated that demand for those services will continue to increase resulting in an additional cost pressure of £2.133m in 2020/21.

### 2.8.4. Capital Investment

The Council has previously recognised the commitment to investment through the Schools & Centres 21 programme with an annual funding requirement of £0.500 million until 2021/22 to support this investment.

### 2.8.5. Local Area Partnerships

The Council has previously given each Local Area Partnership resources to support local decisions on how best to invest capital sums for the future. £0.525m is provided to fund further capital investment in 2020/21.

### 2.8.6. Club 365

Provision of £0.800 million is recognised on a recurring basis to support the continuation of Club 365, as approved by the Policy & Strategy Committee on 31 January 2020.

## 2.9. **Directed Expenditure and Ring Fenced Grants Movements**

Additional expenditure will be incurred as a result of net increases in ring fenced and directed resources of £39.853 million contained within the Council's grant allocation as detailed within the Local Government Finance Settlement 2020/21. The net increase is across a number of areas as follows:

### 2.9.1. Teachers' Pay and Pensions

The 3 year pay agreement agreed for teachers consisted of two elements in relation to incremental increases and policy intervention to the pay scale. The Local Government Finance Settlement provided £10.860 million recurring funding for Teachers Pay to fund the 2019/20 and 2020/21 increased costs. In addition £6.548 million of funding

was provided towards the increased costs of Teachers' Pensions arising from the quadrennial public sector pension scheme valuation. The incremental increases element of the pay award, along with the balance of the Teachers' Pension cost increase requires to be funded from Councils' overall core grant; for North Lanarkshire this equates to £6.517 million which is reflected in the overall Employee Cost Pressures above.

2.9.2. Additional Support for Learning

A total of £1.044 million has been allocated for the provision of support staff in schools as part of the Additional Support for Learning implementation.

2.9.3. Integration Joint Board

The Scottish Government provided a further £100 million to be transferred from the Health portfolio to local authorities for investment in health and social care and mental health services that are delegated to Integration Authorities. For North Lanarkshire this equates to £5.694 million to be transferred to the IJB in total including £4.965 million to continue the delivery of Health and Social Care Services including commitment to the real Living Wage; £0.028 million for the uprating of Free Personal Care and a further £0.701 million towards the continued implementation of the Carers Act.

2.9.4. School Counselling

As part of the total £100 million additional funding noted in 2.9.3 above, £4.000 million was allocated to further support School Counselling Services. For North Lanarkshire this equates to £0.302 million and will be directed to Education and Families to assist with providing this service.

2.9.5. Scottish Welfare Fund

Additional provision of £0.238m has been allocated towards Scottish Welfare Fund based on assumed expenditure and future demographics.

2.9.6. Rapid Rehousing & Barclay Review One Off

In addition to the recurring directed spend noted above, additional funding is directed on a one off basis for 2020/21. This includes provision for Rapid Rehousing totalling £0.484 million to support the implementation of Council plans and a further £0.297 million to be passed on to the Lanarkshire Joint Valuation Board as part of the Barclay Review. As these are both expected to be one off expenditure items, these will be reversed from the base budget in 2021/22.

2.9.7. Ring Fenced Grants

Additional ring fenced grant funding of £13.426 million has been provided for the delivery of Early Learning and Childcare provision taking the overall grant provided within the settlement to £32.552 million.

2.9.8. Other movements in ring fenced grants totalling £0.299 million include a reduction of £0.005 million for Gaelic to £0.260 million, a £0.037m reduction for Criminal Justice to £5.452 million and a £0.341m increase for Pupil Equity Funding to £9.105 million. These figures are however provisional and the final figures will be confirmed to the Council by the Scottish Government in due course.

2.9.9. Other Directed Spend

There are a number of other small adjustments to directed funding totalling £0.661 million which primarily is for movement in funding for Discretionary Housing Payments.

## 2.10. **Action Already Taken**

Members will recall that in setting the Revenue Budget for 2019/20, one-off resources of £4.729 million were applied. This one-off use of balances now needs to be reversed as part of the 2020/21 budget setting process and will be met from the permanent solution identified as part of the savings approved for 2019/20.

## 3. **Available Resources**

3.1. Resources available to the Council in setting its 2020/21 budget total £814.608 million, as set out below and detailed in Appendix 1.

### 3.1.1. Government Grant

The draft Local Government Finance Settlement 2020/21 was published on 6 February 2020 detailing the level of grant available to the Council for 2020/21.

3.1.2. The Scottish Government has indicated the grant offer for 2020/21 contains a number of shared priorities including:

- Maintaining local authorities' flexibility to increase the Council Tax increase up to a maximum of 3% in real-terms (4.84% cash terms)
- Requiring local authorities to support both maintaining the pupil teacher ratio at a national level and ensuring that places are provided for all probationers who require one under the Teacher Induction Scheme
- Requiring local authorities to allocate Integration authorities additional funding to their 2019/20 recurring budgets for social care services that are delegated. Meaning that local authority social care budgets for allocation to Integration Authorities and funding for school counselling services must be £100 million greater than 2019/20 recurring budgets; £5.996 million (£5.694 million for IJB and £0.302 million to Education & Families for School Counselling) for North Lanarkshire Council as discussed in 2.5 and at 2.9.4.

3.1.3. It is anticipated that the level of government grant (Aggregate External Finance) for 2020/21 will be £670.334 million. This includes assumptions on undistributed funding of £3.290 million. Recognising the additional ring fenced and directed funding of £39.853 million (outlined in 2.9 above) there is a reduction of £5.065 million or 0.8% on core funding, before consideration of inflation and additional cost pressures.

### 3.1.4. Council Tax

The forecast level of income from Council Tax currently amounts to £142.295 million. In addition it is anticipated that an additional £1.979 million will be raised through natural growth in housing stock (£1.0m) and growth as a result of the ambition estimated at £0.979 million, which will be ring fenced for the Community Investment Fund as outlined in the report approved by Policy & Strategy Committee in June 2019.

## 4. **Budget Gap**

4.1. Available resources compared with the required expenditure budget for 2020/21 results in a shortfall of £35.318 million, as highlighted in Appendix 1. This gap has been reduced by the following:

### 4.2. Use of Reserves 2020/21

It is proposed that £3.000 million of the Council's unallocated reserves balance can be utilised during 2020/21 on a one-off basis. This reflects the uncertainty created by the currently unconfirmed Scottish Government's Budget and the forthcoming UK Government Budget currently scheduled to take place on 11 March 2020. In the event that either of the above result in additional funding being made available, it will be used

in the first instance to restore this reserves balance. It is important that the reserve balances are maximised in the short to medium term in order to support any one off costs that may arise from the implementation of agreed savings.

4.3. Base Budget Adjustments 2020/21

Action already identified in relation to a range of operational improvements, efficiencies and Council Committee decisions, equate to £9.449 million of savings that can be delivered in 2020/21. Further details are provided in Appendix 2.

**5. Further Savings Required to Balance the Budget**

5.1. Appendix 1 highlights that as a result of all of the above, a gap of £22.869 million remains to be addressed in order to provide a balanced budget position for 2020/21. This will require to be met through a combination of savings and the consideration of an increase in Council Tax.

5.2. Future Years' Savings

In line with the principles approved in the Revenue Resources Budget Strategy, indicative budgets and savings proposals for 2021/22 and 2022/23 should also be considered.

5.3. It is recognised that savings proposals that are subsequently approved will contribute towards future years' budget gaps, currently estimated in the MTFP at £27.030 million and £24.313 million, for 2021/22 and 2022/23 respectively. Therefore approval is sought for the Chief Executive to proceed with plans for the implementation of savings identified for 2021/22 and 2022/23.

5.4. Following a review of accounting practice, the Council has undertaken an exercise to revise the useful lives of its main asset categories. To date, this has identified an opportunity to deliver future recurring loan charge savings of £4.000m in 2020/21. Members should note that a further review will be carried out during 2020/21 in conjunction with Treasury specialists to investigate the potential impact of any further opportunities. A full report will be provided to Committee once this review is complete. Any benefit realised will be identified to members, with a proposal to use this to assist in supporting future budgets.

**6. General Fund Reserves**

6.1. The Policy and Strategy Committee recently approved a Reserves Policy which sets out the types of reserves held by the Council and establishes procedures for their governance. The policy also outlines the approach to be taken in determining the appropriate reserve levels held by the Council.

6.2. The policy sets the guidelines which ensure reserves are established and managed in a way that safeguards long term financial sustainability and supports good financial management, allowing the Council to balance current obligations whilst preparing for future commitments and financial risks.

6.3. Within the General Fund Reserve, a Contingency Fund is maintained. This is an uncommitted amount held for unexpected events or emergencies. Based upon previous assessments of risk facing the Council, the level of contingency has been set at £8.000 million over recent years. This represents some 1% of the planned expenditure budget. Given the Council's track record of effective financial management, the sum of £8.000 million remains appropriate for 2020/21.

- 6.4. The Council also maintains a Change Management Fund to hold reserves to support the delivery of medium term financial plans. This is generally used to support the one off costs associated with approved budget savings.
- 6.5. Based on the latest financial projections and accounting for the one off use of reserves as indicated in 4.2 above, it is anticipated that the opening balance at 1 April 2020 will be £15.450 million, as detailed in Appendix 3. However it must be noted that change management costs arising from approved savings will significantly reduce this balance during 2020/21.
- 6.6. Given the Council is looking over the medium term timeframe both in terms of its anticipated future budget positions and the Council's future organisational ambitions, it is essential that the Council takes a prudent approach at this time to retain these balance for the period ahead.

## **7. Housing Revenue Account**

- 7.1. The Council agreed last year to include the value of the volume discount in the General Fund budget at £1.9 million in relation to the Council's partnership with Mears Scotland LLP. Members are asked to confirm continuation of this treatment for 2020/21.

## **8. Areas of Risk and Uncertainty**

- 8.1. In preparing the Revenue Budget, estimates have been made that contain an element of risk and uncertainty.
- 8.2. The Scottish Government has indicated that following the UK budget announcement, expected in March, the Scottish Budget (including the Local Government Finance Settlement) may require to be re-visited.

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## **9. Equality and Diversity**

### **9.1. Fairer Scotland Duty**

There is no specific impacts to note.

### **9.2. Equality Impact Assessment**

Services are currently undertaking these assessments and further information is available as required.

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## **10. Implications**

### **10.1. Financial Impact**

The Council is required to set a level of Council Tax and provide as a minimum a balanced budget for 2020/21. Members should reflect upon the future medium term impact of budget decisions.

### **10.2. HR/Policy/Legislative Impact**

The Council and Elected Members, have legal duties in terms of setting budgets. Councils are required by law to set a balanced budget each year. This requirements was established by s108 of the Local Government (Scotland) Act 1973. Section 108 was repealed by the Abolition of Domestic Rates etc. (Scotland) Act 1987, which was subsequently repealed by the Local Government Finance Act 1992. Section 193 of the Local Government Finance Act 1992 provides the modern day equivalent provision.

10.3. **Environmental Impact**

There is no environmental impact to note.

10.4. **Risk Impact**

The risk to the Council and Elected Members of not setting a balanced budget for 2020/21 is significant.

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11. **Measures of success**

11.1. Ensuring that the Council sets a balanced budget for 2020/21

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12. **Supporting documents**

12.1. Appendix 1 North Lanarkshire Council Revenue Budget 2020/21  
Appendix 2 Base Budget Adjustments 2020/21  
Appendix 3 North Lanarkshire Council Change Management Fund



**Elaine Kemp**  
**Head of Financial Solutions**

## Appendix 1

## North Lanarkshire Council Revenue Budget 2020/21

	£m	£m
<b>Adjusted 2019/20 Budget</b>		
2019/20 Base Budget	781.729	
In year adjustments to reflect changes in SG Funding	<u>0.841</u>	782.570
<b>Reversal of 2019/20 One Off Growth</b>		(1.026)
<b>2020/21 Expenditure Requirements</b>		
Employee Cost Pressures	13.645	
Adult Health & Social Care Cost Pressures	7.586	
Contract Inflation	2.193	
Other Cost Pressures	4.284	
Strategic Priorities	<u>5.551</u>	33.258
<b>Directed Expenditure &amp; Ring Fenced Grant Movements</b>		
Teachers Pay & Pensions	17.408	
Additional Support for Learning	1.044	
Integration Joint Board	5.694	
School Counselling	0.302	
Scottish Welfare Fund	0.238	
Rapid Rehousing (one-off)	0.484	
Barclay Review (one-off)	0.297	
Early Learning & Childcare Ring Fenced Grant	13.426	
Other Ring Fenced Grants	0.299	
Other Directed Spend	<u>0.661</u>	39.853
<b>Action Already Taken</b>		
Savings Approved in February 2019		(4.729)
<b>Expenditure Budget 2020/21</b>		<b>849.926</b>
<b>Funding Available:</b>		
<b>Anticipated 2020/21 Aggregate External Finance</b>	670.334	
Council Tax Base Budget	142.295	
Council Tax Base Growth	1.979	
<b>2020/21 Available Resources</b>		<b>814.608</b>
<b>Budget Gap</b>		
Use of Reserves	(3.000)	
Base Budget Adjustments 2020/21 - 2022/23	<u>(9.449)</u>	<u>(12.449)</u>
<b>Further Savings to be Identified (prior to application of Council Tax) *</b>		<b>22.869</b>
<b>Estimated Savings Gap Per Medium Term Financial Plan</b>		
2021/22		27.030
2022/23		24.313

\* If the maximum Council Tax increase of 4.84% is applied this figure is reduced to £15.894m

Appendix 2

Base Budget Adjustments 2020/21

	2020/21 £m	2021/22 £m	2022/23 £m
External Education Provision (Kilbowie)	0.477	0.271	0
Car parking charging for town centres	(0.200)	0.607	0
Insurance fund provisions	0.750	0	0
Treasury Management Efficiencies	4.000	0	0
Review of Legal & Democratic Working Practices	0.116	0	0
Reduction in Business Solutions Maintenance Costs	0.042	0	0
Review of Audit & Inspection Supplies & Services Budgets	0.005	0	0
Realignment of Early Years Grant Cash Flow to Match Expenditure	3.000	0	1.000
Increase Secondary School responsibility for Teacher Cover	0.045	0.025	0
Residential/ Family Placements/Throughcare	0.200	0.400	0.600
Restructure of Built Environment	0.015	0	0
Capitalisation of Fleet & Introduction of digital tachographs	0.260	0	0
Centralisation of Waste Service	0.136	0	0
Introduce Charges for Duty of Care within Waste Solutions	0.040	0	0
Asset Management Rationalisation/Office Dis-investment	0.295	0	0.800
Reduction in IT Support Costs within Housing Solutions	0.103	0	0
Staffing restructure within the Enterprise team	0.050	0	0
Reduction in Planning & Place Direct Admin Budgets	0.050	0	0
Reduction in Planning & Place Property Costs Budget	0.015	0	0
Review of staffing within Business Intelligence & Strategic Resourcing Team	0.050	0.050	0
<b>Total Base Budget Adjustments</b>	<b>9.449</b>	<b>1.353</b>	<b>2.400</b>

## North Lanarkshire Council Change Management Fund

	£m	£m
Balance from 2018/19	13.364	
Contingency	<u>(8.000)</u>	5.364
Add:		
Drawdown from Insurance Fund	3.674	
Drawdown from Capital Fund	4.506	
Review of Balances	1.245	
2019/20 Period 10 Reported Underspend	3.093	
Transfer from Town Centre Activities Limited	0.600	
Non Domestic Rates Refund	1.300	
Payment received on written off debt	<u>0.080</u>	14.498
Less:		
Legal Dispute	(0.440)	
Environmental Task Force	(0.245)	
One-off costs of implementing savings	(1.205)	
Business Solutions Additional Posts	<u>(0.058)</u>	<u>(1.948)</u>
<b>Total Unallocated Change Management Fund 2019/20</b>		<b>17.914</b>
Planned 2020/21 Drawdown from Capital Fund		0.536
Planned Use of Reserves		(3.000)
<b>Anticipated Change Management Fund as at 1 April 2020</b>		<b>15.450</b>