

North Lanarkshire Council Report

Policy and Strategy Committee

approval noting

Ref EK/KS/VR/RM

Date 01/10/20

PoW 11; 5 Year Medium Term Financial Plan 2021/22 to 2025/26

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Executive Summary

The purpose of this report is to provide an update on the five year financial forecast and outline the challenges facing the Council in maintaining medium term financial stability, whilst achieving the strategic priorities of the Council and reflecting the potential impact of operating in a COVID-19 environment.

Taking 2021/22 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 scenarios 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 over the period of this plan.

Table 1 below summarises the Council's projected financial forecast position. The envisaged scenario indicates a budget gap of £87.069 million over the 5 year planning period. For the 3 year budget period 2021/22 to 2023/24 a £46.700 million budget gap is anticipated. In line with the principles of the Revenue Resources Budget Strategy, approved at Policy & Strategy Committee in June 2019 and subsequent update in June 2020, the Council will work towards closing this gap to meet its statutory obligations in setting a balanced budget.

Table 1

Financial Year	General Fund and IJB		
	Budget Gap Optimistic (£000)	Budget Gap Envisaged (£000)	Budget Gap Pessimistic (£000)
2021/22	(4,814)	22,576	46,861
2022/23	(11,068)	6,032	22,707
2023/24	9,782	18,092	43,727
2024/25	6,850	21,920	37,235
2025/26	(3,086)	18,450	33,484
TOTAL	(2,336)	87,069	184,014

Recommendations

It is recommended that the Policy and Strategy Committee:

- (1) Approve the Medium Term Financial Plan 2021/22 to 2025/26
- (2) Note this plan will be subject to ongoing review with changes reported through future Financial Outlook reports.

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 is integral to the Council's Financial Strategy and the Council's strategic approach to budgeting. Effective 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 is 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 planning assumptions have been reviewed and updated to ensure they remain appropriate and reflect known information surrounding legislative, political, social, economic and demographic factors, recognising the impact these may have on the demand for services, resources, other cost pressures and financial settlements. However, it should be noted the COVID-19 pandemic adds an additional layer of complexity and risk in financial forecasting and managing the challenges it presents.
- 1.3. The plan considers a range of scenarios and highlights the associated savings requirement to allow the setting of a balanced budget. Taking 2021/22 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.
- 1.4. The Council's response to COVID-19 and the recovery actions required as lockdown has eased in accordance with the Scottish Government's roadmap continues to present significant financial challenges that are changing and emerging every day. A 2020/21 Financial Forecast report was presented to full Council on 13 August 2020 highlighting the financial implications arising from the Council's response to COVID-19. Members should be aware that this plan assumes the 2020/21 forecast financial deficit is fully managed within 2020/21 financial year, with no provision to manage this over a longer planning period. This may have to be reviewed following decisions taken by the Council on further mitigating measures to manage the current year deficit. However, an allowance has been made within this plan for potential recurring costs of recovery in future financial years.
- 1.5. It should be noted the cost pressures in relation to Adult Health & Social Care (AHSC) are now fully integrated within the various financial forecasts. However, robust financial planning by the AHSC to provide a joint solution to managing these pressures, is required. In addition, Policy and Strategy Committee agreed the insourcing of Culture and Leisure North Lanarkshire (CLNL) in January 2020, and it was subsequently agreed that this will take effect from 1 April 2021. This plan, therefore, also includes an estimate of the financial impact of this decision. However CLNL is currently undertaking a review of the current business model which will better inform the ultimate financial impact on the Council. Once this review is complete, current assumptions may be subject to further review.

- 1.6. It is anticipated that the UK Government will provide a three year revenue resource budget including allocations to devolved administrations as part of the Autumn Spending Review due to be announced in October. If delivered, this will go some way to help inform the anticipated settlement for Local Government in Scotland.
- 1.7 Due to the current level of uncertainty over government funding, the political environment and potential economic impact both COVID-19 and Brexit, it is considered that a five year medium term plan remains reasonable and appropriate for financial planning purposes. Planning assumptions beyond this five year period would be of little value to the Council as it becomes increasingly difficult to project costs and revenues over the longer time frame. It is important to note that the assumptions within this plan may potentially be subject to significant variation

2. Report

A Strategic Approach to Budgeting

- 2.1 The Revenue Resources Budget Strategy was approved by Policy and Strategy Committee in June 2019, setting out the key principles and the framework to facilitate a more robust and strategic approach to financial planning. The Strategy was implemented successfully in setting of the 2020/21 Revenue Budget and associated three years' savings agenda. An update on the Strategy was reported to Policy and Strategy Committee in June 2020, whereby the key principles were reiterated, including:

- 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 informed by benchmarking and the principles of full cost recovery
- Establishment of a Use of Reserves Policy
- Continued active elected member involvement

- 2.2 Sections 3 and 4 below summarise the financial planning assumptions for the period 2021/22 to 2025/26 and outline the anticipated budget gap over the period. In addition, Appendices 1 to 3, provide an overall summary for each of the planning scenarios and highlights the budget gap for the 3 year budget period 2021/22 to 2023/24.

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 an element of revenues raised through 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 the Scottish Budget process and hence to future projections of 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, has a greater impact on the level of Scottish Budget. In addition, Scottish Government's ongoing 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% of the Council's total funding.

- 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. The 2020 Comprehensive Spending Review (CSR) is expected to be published in the autumn and will set the UK Government departments' resource budgets for the years 2021/22 to 2023/24 in addition to capital budgets for the years 2021/22 until 2024/25. It is expected that this will also extend to the devolved administrations' block grants.

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 impact of COVID-19 on both the UK budget and subsequent Scottish budget remains uncertain and at present, there is no reliable information to support a change to the previous year's MTFP assumptions. Therefore, the envisaged scenario continues to assume a 2% reduction in funding for 2021/22, a 1.5% reduction in 2022/23 and flat cash for the remaining periods to 2025/26. However, an additional £5 million of funding to be passed on to AHSC each year, remains within the forecast. This results in an overall forecast reduction of 1.19% in 2021/22, a 0.7% reduction in 2022/23 and a slight increase of 0.82% for the remaining three years of the plan. In addition, it was previously forecast that 2021/22 would see a reduction in availability of funding due to the exceptional size of the negative income tax adjustment in Income Tax reconciliation expected to be applied in that year. As was previously reported, The Scottish Government did however have the option to reduce the impact of this through higher borrowing, increased taxes and potential use of reserves. Monitoring of the likely impact on the Local Government Finance Settlement will continue with assumptions updated in future Financial Outlook reports.
- 3.5 Excluding the additional £5 million assumed annually for AHSC, the optimistic scenario assumes flat cash for years to 2024/25 with a funding increase forecast in 2025/26 i.e. an overall increase of 0.79% for the first 4 years of the plan and an increase of 2% in the final year. The pessimistic scenario assumes deeper cuts with an overall 2.69% reduction for 2021/22, 1.68% reduction in 2022/23 and 2023/24, a 0.24% reduction in 2024/25 and 0.42% reduction in the final year of the plan. This translates to the cash movements detailed in table 2.

Table 2

AEF	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	TOTAL
Optimistic	5,000	5,000	5,000	5,000	12,926	32,926
Envisaged	(7,500)	(4,300)	5,000	5,000	5,000	3,200
Pessimistic	(16,900)	(10,200)	(9,800)	(1,400)	(2,419)	(40,719)

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 In setting the 2020/21 budget, the Council increased Council Tax charges by 4.85%, the maximum allowable increase set by the Scottish Government. This resulted in the Band D level being set at £1,221.25, continuing the trend of a Council Tax rate below the Scottish average.
- 3.8 The envisaged scenario is based on the assumption that the Council will apply a 3% increase to Council Tax rates per annum. 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 per annum 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 between 2021/22 and 2025/26 or reduce in a depressed economy to a more modest £0.400 million per annum over the same period, per the pessimistic scenario.
- 3.10 Historically, the Council's collection rate in respect of Council Tax income has consistently achieved the budgeted levels. In prior years in-year cash collections have been buoyant. The envisaged scenario assumes a continuation of the previous plan's collection rates, with the optimistic scenarios reflecting an increase of 0.25%, and the more pessimistic scenario assumes a reduction in collection rates of 0.25%. It should be noted that the COVID-19 pandemic does cast doubt over both Council Tax Growth and collection rates. However there is currently insufficient reliable forecast to enable these assumptions to be updated.
- 3.11 The Community Investment Fund (CIF) 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. In line with the Council's Programme of Work, a Community Investment Fund (CIF) Annual Update was presented to Policy & Strategy Committee on 19 March 2020. The update report highlighted the potential for £694m of CIF resources to be available over the 10 year planning period based on underlying assumptions at that date, which this plan reflects. However, the report to Policy & Strategy Committee pre-dated the COVID-19 lockdown and the resultant economic downturn. There is a requirement to update potential funding levels which may be available through the CIF to reflect on the impact of COVID-19, and update the MTFP to reflect this. However, there is currently no clear evidence on the long-term COVID-19 impacts on the UK and Scottish economies and the consequential impact on house building to allow Financial Solutions to determine the potential impact on the future availability of funding to resource this programme. As the position becomes clearer this, will be reflected in future Financial Outlook reports.
- 3.12 In summary, the range of anticipated movements in Council Tax income are as follows:

Table 3

Council Tax	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	TOTAL
Optimistic	10,200	10,800	11,400	12,000	12,700	57,100
Envisaged	6,800	7,000	7,300	7,500	7,800	36,400
Pessimistic	1,300	1,300	1,300	1,400	1,400	6,700

Use of Reserves / Resources

- 3.13 The Revenue Resources Budget Strategy report outlined that use of balances must be prudent and controlled, and that the Change Management Fund will be used to fund the one-off costs of savings plans and to support the implementation of longer term savings proposals. 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. Approval was given in setting the 2020/21 budget to use resources, on a one-off basis, of £3.045 million for COVID Contingency Fund. Therefore the overall cost base reduces by the sum in 2021/22 reflecting the one-off nature of this approval.
- 3.14 In addition, the Scottish Government has announced funding to Local Authorities for additional teachers and support staff in response to COVID. The Council's share for 2021/22 is anticipated to be £2.919 million.

Summary of Anticipated Movements in Resources

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

Table 4

Total Resources	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	TOTAL
Optimistic	21,164	15,800	16,400	17,000	25,626	95,990
Envisaged	5,264	2,700	12,300	12,500	12,800	45,564
Pessimistic	(9,636)	(8,900)	(8,500)	0	(1,019)	(28,055)

4. Projection of Expenditure Requirements

Employee Costs

- 4.1 Employee costs remain the largest single element of the General Fund budget, accounting for around 55% of general fund expenditure in 2020/21. The cost pressures arising from the workforce are material and given the additional financial uncertainty caused by the COVID-19 pandemic, it is extremely difficult to predict future pay increases. Forecast employee cost pressures are outlined below;

Pay Awards

- 4.2 In 2019, a three year pay offer for employees including teachers was agreed and 2020/21 is the final year of this agreement. It is envisaged that a 2% uplift will apply in 2021/22 (£9.900 million) and 2022/23 (£10.200m) in line with the recent UK announcements on pay increases, and 3% increase assumed for the remainder of this plan in line with Scottish Government Fiscal Forecast 2020/21.

Pension Costs

- 4.3 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. The Scheme is a multi-employer defined benefit plan and employers' contributions are determined so that employee and employer rates are standard across all participating Local Authorities.
- 4.4 The most recent triennial valuation of the Strathclyde Pension Fund was completed as at March 2020 and will be applied from 1 April 2021. Employer contributions were maintained at 19.3% for the period between 2018/2019 to 2020/2021 with the following three years to be set following publication of the triennial valuation as at March 2020.

- 4.5 The envisaged scenario provides for no additional employer contributions within the first three years of the plan. However an anticipated 2% increase (£4.000m) is forecast in year four to reflect the outcome of a legal case (McCloud case), which is anticipated to result in increased employer contributions. This requirement is expected to be reflected in the next triennial review. The optimistic view reflects reductions in contributions by 1% in 2021/22, but reverting to a 1% increase in the employer rate for year four. The pessimistic view reflects a 1% increase in contributions at a cost of £2.000 million in 2021/22 and a 3% increase in year four costing an additional £6.000 million. This reflects the variable nature of pension plans' performance in future years.
- 4.6 In summary, the anticipated range of cost pressures associated with employee costs is as follows:

Table 5

Employee Costs	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	TOTAL
Optimistic	3,000	5,000	10,200	12,400	10,600	41,200
Envisaged	9,900	10,200	15,500	20,000	16,400	72,000
Pessimistic	16,900	15,400	21,100	27,900	22,700	104,000

Contract Inflation

- 4.7 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 COVID-19 and Brexit.
- 4.8 Therefore key Council contracts are estimated to be uplifted in line with the Office for Budget Responsibility inflation forecast across the planning period. For both CPI and RPI, these are forecast to be significantly lower in 2021/22 at circa 1.2% due to the forecast significant economic downturn from the COVID-19 pandemic, before returning to previous forecast average levels in later years of CPI at 2% and RPI at 3%. In relation to the optimistic scenario inflationary pressures will be 1% less and 1% higher in the pessimistic scenario.
- 4.9 In summary, cost pressures associated with contract inflation are as follows:

Table 6

Contract Inflation	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	TOTAL
Optimistic	5,500	6,770	7,332	2,900	2,900	25,402
Envisaged	5,600	6,770	7,232	7,070	7,070	33,741
Pessimistic	6,200	7,170	7,032	2,800	2,900	26,102

Energy Contracts

- 4.10 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 and do not take account of the Councils Asset Rationalisation plan.
- 4.11 There is great uncertainty associated with forecasting energy market pricing. Energy inflation forecasts for the purpose of this plan are in line with the National Grid Future

Energy Scenario and UK Government Business, Energy and Industrial Strength reports with flexibility added within the optimistic and pessimistic scenarios of +/-1%. In summary, cost pressures associated with energy costs can be summarised as follows:

Table 7

Energy Contracts	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	TOTAL
Optimistic	210	20	10	160	360	760
Envisaged	320	130	130	260	480	1,320
Pessimistic	420	240	240	380	610	1,890

Non Domestic Rates (NDR)

- 4.12 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 £0.360 million per year. The optimistic scenario assumes no increases to business in Scotland and the pessimistic view is that increases will be greater than CPI, more in line with retail price index (RPI). The first year of the plan takes account of the insourcing of Culture Leisure North Lanarkshire (CLNL) from 1 April 2021 with additional NDR costs of £4.4 million. The envisaged and pessimistic scenarios both assuming that the rates will apply however optimistic scenario assumes no increase on the basis that agreement can be reached with Scottish Government over rates relief continuing when brought in house.

Table 8

NDR	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	TOTAL
Optimistic	0	0	0	0	0	0
Envisaged	4,650	360	390	390	400	6,190
Pessimistic	4,610	570	640	620	620	7,060

COVID Recovery

- 4.13 The Council continues to work on identifying and estimating the potential recurring costs of COVID recovery including digital costs and digital learning for children and young people. It is currently too early to fully quantify the future costs therefore for a one-off contingency amount has been included in 2021/22 to increase the overall provision for recovery. The current assumption is that by 2022/23 there may be a vaccine or other medical solution to manage the virus and therefore it is forecast some costs will return to pre-COVID levels. As outlined in paragraph 1.4 above members should note this plan assumes the 2020/21 forecast financial deficit reported to Council on 13th August is fully managed within 2020/21 financial year, with no provision to manage this over a longer planning period. This will have to be reviewed following decisions taken by the Council on further mitigating measures to manage the deficit.

Business Transformation Costs

- 4.14 The Council continues to review how services are delivered and this plan reflects any known transformational change. As indicated in paragraph 1.5 above, the Council decided to insource CLNL and are awaiting the result of a review of the current business model which will give greater clarity to the recurring costs pressures arising from in-house delivery of these services. In the absence of this clarity, a provision of £2 million per annum for the next 3 years is currently estimated. This will be kept under review and future Financial Outlook reports will be updated to reflect changes.

Demographic, Legislative & other Cost Pressures

- 4.15 On occasion, changes to policy or other Council decisions may result in additional cost pressures for the Council. The MTFP continues to assume any costs arising from The Plan will be managed within existing resources or savings as a result of the programme of works.
- 4.16 Demographic and legislative costs recognise additional support required for Continuing Care requirements and additional anticipated demand for Adult Social Care. In addition, the majority of other cost pressures highlighted in Appendices 1 to 3 relate to Service CSP submissions including: recurring revenue costs associated with the DigitalNL Programme; and increased requirement for Council Tax Reduction Scheme support as a result of anticipated increases in Council Tax.
- 4.17 Table 9 below provides a summary total and includes the anticipated Business Transformation costs.

Table 9

Demographic/ Legislative & Other Cost Pressures	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	TOTAL
Optimistic	12,555	7,952	4,650	4,200	4,290	33,647
Envisaged	12,185	7,082	3,950	3,410	3,510	30,137
Pessimistic	13,245	7,072	3,960	3,280	3,280	30,837

Summary of Anticipated Cost Pressures

- 4.18 In summary the range of anticipated Cost Pressures including all corporate assumptions and CSPs submitted by Services are as follows:

Table 10

Total Cost Pressures	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	TOTAL
Optimistic	25,555	16,742	22,192	19,660	18,150	102,299
Envisaged	36,945	21,542	27,202	31,130	27,860	144,678
Pessimistic	45,665	27,452	32,972	34,980	30,110	171,179

Other Commitments City Deal

- 4.19 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. 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 £0.955m per annum thereafter.

Additional Support Needs (ASN)

- 4.20 Previous MTFPs provided additional funding for ASN with the expectation that with management action and implementation of revised policy and practice, this funding could be released at a later date. This plan now recognises the release of £0.500 million for 2021/22 and £0.625 million for 2022/23.

Capital Investment

- 4.21 The Council has previously recognised the commitment to investment through the Schools & Centres 21 programme with annual funding requirements of £0.500 million in 2021/22 and £2022/23.

Community Investment Fund (CIF)

- 4.22 Paragraph 3.11 above provides an update on the difficulty in forecasting CIF funding. This has a consequential impact on forecasting the anticipated loan charge expenditure requirement to support the borrowing required for the CIF investment programme. Due to the uncertainty of the impact of COVID-19 on current planning assumptions this plan continues to forecast charges in line with previous expectations. As position becomes clearer the forecasts will be updated in future Financial Outlook reports.

Summary of Anticipated Impact of Other Commitments

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

Table 11

Other Commitments	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	TOTAL
Optimistic	2,590	3,765	3,990	4,190	4,390	18,925
Envisaged	2,690	2,965	3,190	3,290	3,390	15,525
Pessimistic	3,355	2,130	2,255	2,255	2,355	12,350

5 Approved Savings

- 5.1 In line with our Revenue Resources Budget Strategy and commitment to agree a 3 year rolling revenue budget, a three-year savings programme of £58.784m was approved at special meeting of the Council on the 24 February 2020. This included savings of £11.795 million for 2021/22 and £15.775 million for 2022/23. Whilst the level of savings approved did not close the anticipated budget gap at that time for 2021/22 & 2022/23, they have materially reduced the revised gap now forecast for these years.

6 Summary – Medium Term Financial Forecasts

- 6.1 Based on the assumptions outlined above, table 12 overleaf summarises the Council's projected financial planning position for the next 5 years including previously approved savings. The envisaged scenario indicates a budget gap over the 5 year planning period of £87.069 million and as outlined in Appendix 1 the envisaged budget gap for the 3 year budget for 2021/22 to 2023/24 is £46.700 million. 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 12

Financial Year	General Fund and IJB		
	Budget Gap Optimistic (£000)	Budget Gap Envisaged (£000)	Budget Gap Pessimistic (£000)
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TOTAL	(2,336)	87,069	184,014

7 Risks and Uncertainties

7.1 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

7.2 In the current COVID-19, financial and political climate there is increasing uncertainty making it extremely difficult to predict settlement funding.

Inflation and Interest Rate Assumptions

7.3 The envisaged position assumes future years' inflation indices will be broadly in line with Office of Budget Responsibility forecasts, for CPI and RPI as appropriate. 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 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.

COVID-19 Recovery

7.4 It remains uncertain what impact the global health pandemic will have on the UK and Scottish economies. The situation continues to be closely monitored and the assumptions of this plan will be updated and reported in future Financial Outlook reports.

Implications of UK's decision to exit the European Union

7.5 The result of the UK's referendum on EU membership resulting in the UK's exit from the EU on 31st January 2020, significantly increases uncertainty in respect of the forecast and planning assumptions throughout this financial plan.

7.6 It is important to note that assumptions within this financial plan do not account for the various views on the UK's exit i.e. Trade deals however, as and when further information becomes available that will have a material impact on the Council's long-term planning assumptions, those assumptions will be updated.

Political Factors

7.7 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.

7.8 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.

Community Empowerment (Scotland) Act 2015

- 7.9 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.

Environmental Factors

Climate Change Bill

- 7.10 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.

8 Equality and Diversity

8.1 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.

8.2 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.

9 Implications

9.1 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.

9.2 HR/Policy/Legislative Impact

There are no HR/Policy/Legislative impact as a result of this report.

9.3 Environmental Impact

There is no Environmental Impact as a result of this report.

9.4 Risk Impact

The assumptions underpinning the Council's financial plan have been made in a period of great uncertainty due to the unknown impact on the economy as a result of COVID-19. Therefore there is even greater risk that these assumptions could over/understate the overall level of savings required to address future budget gaps. However the assumptions will be continually reviewed and updates will be reported in future Financial Outlook reports to reflect the most up to date position possible.

10 Measures of success

10.1 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 balanced budget for 2021/22 and subsequent years
- Successful and timeous implementation of approved savings plans

11 Supporting documents

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



Elaine Kemp
Head of Financial Solutions

Appendix 1

North Lanarkshire Council
Financial Strategy Model – Envisaged Position

	2021/22	2022/23	2023/24	2024/25	2025/26
	£000s	£000s	£000s	£000s	£000s
<u>Anticipated Cost Pressures</u>	36,945	21,542	27,202	31,130	27,860
Pay Award	9,900	10,200	15,500	16,000	16,400
Pension Costs	0	0	0	4,000	0
Contract Inflation	5,600	6,770	7,232	7,070	7,070
Energy Costs	320	130	130	260	480
NDR	4,650	360	390	390	400
Business Transformation costs	2,000	2,000	2,000	0	0
CSP's	4,490	1,170	(970)	450	480
Other Cost Pressures	1,564	(210)	(80)	(40)	30
Demographics	3,635	3,629	3,000	3,000	3,000
Legislative	496	493	0	0	0
COVID Recovery	4,290	(3,000)	0	0	0
<u>Other Commitments</u>	2,690	2,965	3,190	3,290	3,390
City Deal Commitments	290	290	290	290	290
Additional Support Needs	(500)	(625)	0	0	0
Capital Investment	500	500	0	0	0
Community Investment Fund	2,400	2,800	2,900	3,000	3,100
<u>B/F Total Cost Pressures</u>	39,635	24,507	30,392	34,420	31,250
Less:					
<u>Anticipated Funding/Savings</u>	5,264	2,700	12,300	12,500	12,800
AEF adjustments	(7,500)	(4,300)	5,000	5,000	5,000
Council Tax Income	6,800	7,000	7,300	7,500	7,800
Use of Reserves (Growth)	3,045	0	0	0	0
COVID Recovery	2,919	0	0	0	0
Budget Gap	34,371	21,807	18,092	21,920	18,450
<u>Advance Action</u>	(11,795)	(15,775)	0	0	0
20/21 Approved Savings	(11,795)	(15,775)	0	0	0
Total Budget Gap (General Fund)	22,576	6,032	18,092	21,920	18,450
3 year total (21/22 to 23/24)			46,700		

Appendix 2

North Lanarkshire Council
Financial Strategy Model – Pessimistic Outlook

	2021/22	2022/23	2023/24	2024/25	2025/26
	£000s	£000s	£000s	£000s	£000s
<u>Anticipated Cost Pressures</u>	45,665	27,452	32,972	34,980	30,110
Pay Award	14,900	15,400	21,100	21,900	22,700
Pension Costs	2,000	0	0	6,000	0
Contract Inflation	6,200	7,170	7,032	2,800	2,900
Energy Costs	420	240	240	380	610
NDR	4,610	570	640	620	620
Business Transformation costs	2,000	2,000	2,000	0	0
CSP's	5,750	930	(1,080)	240	240
Other Cost Pressures	1,364	20	40	40	40
Demographics	3,635	3,629	3,000	3,000	3,000
Legislative	496	493	0	0	0
COVID Recovery	4,290	(3,000)	0	0	0
<u>Other Commitments</u>	3,355	2,130	2,255	2,255	2,355
City Deal Commitments	955	955	955	955	955
Additional Support Needs	(500)	(625)	0	0	0
Capital Investment	500	500	0	0	0
Community Investment Fund	2,400	1,300	1,300	1,300	1,400
<u>B/F Total Cost Pressures</u>	49,020	29,582	35,227	37,235	32,465
Less:					
<u>Anticipated Funding/Savings</u>	(9,636)	(8,900)	(8,500)	0	(1,019)
AEF adjustments	(16,900)	(10,200)	(9,800)	(1,400)	(2,419)
Council Tax Income	1,300	1,300	1,300	1,400	1,400
Use of Reserves (Growth)	3,045	0	0	0	0
COVID Recovery	2,919	0	0	0	0
Budget Gap	58,656	38,482	43,727	37,235	33,484
<u>Advance Action</u>	(11,795)	(15,775)	0	0	0
20/21 Approved Savings	(11,795)	(15,775)	0	0	0
Total Budget Gap (General Fund)	46,861	22,707	43,728	37,235	33,484
3 year total (21/22 to 23/24)			113,296		

Appendix 3

North Lanarkshire Council
Financial Strategy Model – Optimistic Outlook

	2021/22	2022/23	2023/24	2024/25	2025/26
	£000s	£000s	£000s	£000s	£000s
<u>Anticipated Cost Pressures</u>	25,555	16,742	22,192	19,660	18,150
Pay Award	5,000	5,000	10,200	10,400	10,600
Pension Costs	(2,000)	0	0	2,000	0
Contract Inflation	5,500	6,770	7,332	2,900	2,900
Energy Costs	210	20	10	160	360
NDR	0	0	0	0	0
Business Transformation costs	2,000	2,000	2,000	0	0
CSP's	5,070	1,820	(370)	1,180	1,270
Other Cost Pressures	1,354	10	20	20	20
Demographics	3,635	3,629	3,000	3,000	3,000
Legislative	496	493	0	0	0
COVID Recovery	4,290	(3,000)	0	0	0
<u>Other Commitments</u>	2,590	3,765	3,990	4,190	4,390
City Deal Commitments	290	290	290	290	290
Additional Support Needs	(500)	(625)	0	0	0
Capital Investment	500	500	0	0	0
Community Investment Fund	2,300	3,600	3,700	3,900	4,100
<u>B/F Total Cost Pressures</u>	28,145	20,507	26,182	23,850	22,540
Less:					
<u>Anticipated Funding/Savings</u>	21,164	15,800	16,400	17,000	25,626
AEF adjustments	5,000	5,000	5,000	5,000	12,926
Council Tax Income	10,200	10,800	11,400	12,000	12,700
Use of Reserves (Growth)	3,045	0	0	0	0
COVID Recovery	2,919	0	0	0	0
Budget Gap	6,981	4,707	9,782	6,850	(3,086)
<u>Advance Action</u>	(11,795)	(15,775)	0	0	0
20/21 Approved Savings	(11,795)	(15,775)	0	0	0
Total Budget Gap (General Fund)	(4,814)	(11,068)	9,783	6,850	(3,086)
3 year total (21/22 to 23/24)			(6,099)		