

North Lanarkshire Council Report

Council

Does this report require to be approved? Yes No

Ref EK Date 27/11/24

Finance Update

From Elaine Kemp, Chief Officer (Finance)

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Executive Summary

In line with the framework outlined in the Revenue Budget Strategy, the Council's Medium Term Financial Plan (MTFP), approved by Policy and Strategy Committee on 5 June 2024, identified an envisaged three-year budget gap of £61.976 million, with an estimated shortfall of £21.561 million in 2025/26.

On 30 October 2024, the Chancellor of the Exchequer presented her Autumn Statement to the UK Parliament and announced significant increases in UK public spending, confirming an increase in Scottish Block Grant funding through Barnett consequentials across 2024/25 and 2025/26.

This report aims to summarise the potential impacts of this announcement on the Scottish Government's and North Lanarkshire's budgets and to update on other key movements on the MTFP since its approval. The financial outlook will continue to be reviewed and updated until the 2025/26 is set in February 2025, which will also reflect the Local Government Finance Settlement announcements expected in December 2024.

After adjusting for anticipated changes, the latest Financial Outlook shows an estimated net increase in the 2025/26 budget gap of £3.541 million and £4.661 million over the three-year planning period. This results in a forecast gap of £25.102 million in 2025/26 and a gap of £66.637 million over the three years.

Council is reminded that in setting the Revenue Budget in February 2024 it was recognised that this Council has one of the lowest levels of Council Tax in Scotland. Therefore, reflecting on the forecast challenging financial environment in which the Council operates, the Chief Officer (Finance) was instructed to undertake an analysis of options in relation to a future Council Tax Strategy to explore opportunities to protect vital public services valued by local communities given past, present and future financial forecasts for public sector funding. Therefore, a Council Tax Strategy report will be presented to Policy and Strategy Committee on 5 December 2024, which will present options for consideration. In line with the approach taken for the 2024/25 budget the S95 Officer will outline the income generation potential from Council Tax increases, and the impact on the revenue budget gap or other potential opportunities linked to the Community Investment Fund Programme and the Council's Programme of Work.

Council officers will work with Elected Members to ensure a number of potential solutions are presented to enable the Council to address the budget gap and to meet its legal

obligation to set a balanced budget. A suite of solutions will be presented including income generation from potential Council Tax increases, savings options and prudent use of balances in line with the Council's Reserves Policy.

Recommendations

It is recommended that Council:

- (1) Acknowledges the potential impact of the UK Government Autumn Statement.
 - (2) Recognises the key movements on financial planning assumptions and the impact on the forecast position for 2025/26 financial year and the three-year planning to 2027/28.
 - (3) Acknowledges that a suite of solutions to manage the position and ensure that the Council meets its statutory requirement to set a balanced budget will be presented for members consideration.
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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
Programme of Work	Statutory / corporate / service requirement

1. Background

- 1.1. The statutory requirements in relation to budget setting are contained within Section 93 of the Local Government Finance Act 1992. This is reinforced by CIPFA's guidance which requires that total estimated expenses for the year can be funded by the income estimated from grants, Council Tax and other income. Failure to meet these requirements would result in serious consequences for Council operations and individual members. 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 recommend that Scottish Ministers direct the Council to rectify this.
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2. Report

UK Government Autumn Statement

- 2.1. On 30 October 2024 the Chancellor of the Exchequer presented her Autumn Statement to Parliament, taking cognisance of the Office for Budget Responsibility (OBR) published Economic and Fiscal Outlook. In July 2024 the UK Government published an audit of public spending, which set out £22 billion of in-year pressures, the vast majority recurring in future years.
- 2.2. The Chancellor announced significant increases in UK public spending of around £70 billion per year and confirmed Block Grant funding totals for devolved administrations
- 2.3. As a result, the Scottish Government is set to receive an additional £3.4 billion from Barnett consequential in cash terms across 2024/25 and 2025/26. In 2024/25, resource funding increased by around £1.4 billion in cash terms and capital increased by around £70 million. In 2025/26 resource funding increased by around £1.4 billion (3.4% relative to 2024/25), and capital funding increased by around £600 million (12.3%).

- 2.4. The Scottish Government will determine how the additional funding will be allocated and in line with its priorities and the impact on Local Government will become clearer following the Scottish Budget on 4 December 2024. However, based on the sizeable increase in funding, with a significant amount directed to Local Government in England, it may be reasonable for Local Government in Scotland to expect to see an increased settlement from 2024/25.
- 2.5. The Chancellor also increased the rate and starting point at which employers pay National insurance contributions. Employer National Insurance contributions (eNICs) will increase from 13.8% to 15% from April 2025. In addition, the threshold at which businesses start paying National Insurance will be lowered from £9,100 to £5,000. It is understood that Public Bodies will receive funding to support this additional cost pressure and that any funding will be additional to the £3.4 billion consequentials previously noted. HM Treasury has confirmed that funding will be provided at the UK Main Estimate in Spring 2025.
- 2.6. It has been widely recognised that the public sector in Scotland is larger than UK as a whole and is relatively better paid and, as a result, there is risk that funding provided through Barnett consequentials may not be sufficient to fully cover this cost in Scotland.

Financial Outlook 2025/26 to 2027/28 Update

- 2.7. In line with the framework outlined in the Revenue Budget Strategy, the Council's Medium Term Financial Plan (MTFP), approved by Policy and Strategy Committee on 5 June 2024, identified an envisaged three-year budget gap of £61.976 million, with an estimated shortfall of £21.561 million in 2025/26.
- 2.8. Appendix 1 highlights the main movements across financial years 2025/26 to 2027/28 since the MTFP was approved in June 2024.

Net Budget Impact

- 2.9. The overall net financial impact of changes are as follows:

Employee costs

- 2.9.1. The 2024/25 pay award for teachers and single status employees which is currently being implemented is estimated to cost an additional £8.400 million in 2025/26 (exc. adult health and social care [AHSC]), with an additional cost of £0.300 million anticipated to 2027/28 as a result of the higher baseline position. Additional Scottish Government funding of £7.240 million (exc. AHSC) has been agreed to partially offset the increased cost, resulting in a net increased cost of £1.160 million in 2025/26 and £1.460 million over the three year period.
- 2.9.2. Following changes to employer National Insurance Contributions (eNIC) announced as part of the UK Government's Budget on 30 October and highlighted above, it is estimated that this will cost the general revenue budget an additional £11.000 million. The current planning assumption is that Local Government in Scotland will be fully compensated for this change, representing a net nil impact. COSLA has advised that HM Treasury have confirmed that the additional funding announced in the budget for Scotland of £3.4 billion does not include the funding to compensate public sector for such increases and it is understood that the UK Government are working through the impact, with additional support expected in the spring supplementary estimates in February 2025. However, Scottish Parliament Information Centre (SPICe) notes that due to the relatively larger size of the public sector in Scotland, a Barnett related

share of funding is insufficient to fully cover this extra cost. Future updates will report on any additional impact as the position becomes clearer.

- 2.9.3. Similarly, the financial forecast still assumes that the increased cost of employer contributions to teacher pensions, estimated at £6.000 million, will be fully funded, representing a net nil impact. Therefore, any shortfall in this funding will have a financial impact. Clarity on this position is awaited.

Contract Inflation

- 2.9.4. The Office for Budget Responsibility (OBR) published its latest Economic and Fiscal Outlook alongside the UK Government's budget, which indicates that CPI/ RPI inflation is anticipated to remain higher for longer than previously expected. Therefore, it is deemed prudent to update the forecast to reflect the impact on contract inflationary pressures. This change is estimated to cost an additional of £1.400 million in 2025/26, and a further £0.820 million to 20207/28. However, given the volatility in forecasts it is proposed that this remains under review, with a further update provided in a future financial outlook.

Current Service Provision & Other Cost Pressures

- 2.9.5. There is currently a budget burden in 2024/25 in relation to the Council's insurance premiums, which is being managed through one-off use of reserves. Following recent contract renewals it has now been confirmed that a recurring shortfall in budget of £0.873 million needs to be managed.
- 2.9.6. Following the Scottish Local Authority Remuneration Committee's recommendations on councillor remuneration from July 2024, an additional cost pressure of £0.310 million has been provided for in this update. Also, the Council's external audit fee has been increasing over the years, which is now causing a recurring budget burden to be managed of £0.115 million.
- 2.9.7. In addition, the Council's liability for non-domestic rates (NDR) has increased materially in 2024/25 mainly as a result of a revaluation of all NDR properties by the Assessors, and the impact of tapering transitional reliefs introduced to reduce the impact for businesses. This has resulted in a recurring budget shortfall to be managed of £1.380 million, after accounting for increased inflationary pressures.
- 2.9.8. Other less material updates include a requirement to manage a £0.204 million recurring reduction in the 2024/25 general revenue grant in respect of final adjustments to the settlement, which were confirmed after the 2024/25 budget had been approved. Also, increased internal recharges to the capital programme for of £0.197 million in respect of work for City Deal has had a positive impact on the position.

Approved/ Proposed/ Potential Action

- 2.9.9. There is a trend in recent years of increased recovery of overpayments on rent rebates and allowances, which is currently unbudgeted. Therefore, it is deemed prudent to create a £0.200 million recurring income budget to recognise this.
- 2.9.10. The Environment and Climate Change Committee on 30 October 2024 approved the proposal to introduce a charge of £40 per annum for the uplift of garden waste, which is estimated to generate net income of £1.504 million.

2.9.11. The MTFP in June 2024 reflects previous indications of a flat cash settlement for Local Government in 2025/26. However, it should be acknowledged that the UK Government Budget on 30 October 2024 confirmed an additional £3.400 billion in consequentials for Scotland over 2024/25 and 2025/26. COSLA has advised that just under £1.400 billion is in respect of revenue resources for 2025/26. Part of the consequentials are driven by a material increase in funding for Local Government in England, therefore it does not seem unreasonable that there may be a more positive settlement for Local Government in Scotland than had been previously anticipated. This of course is very much dependent on the Scottish Government's priorities and how they choose to allocate the funding. Therefore, whilst not currently reflected in this update it should be noted that a 1% increase general revenue grant equates to more than £8.000 million. The Council will only have more certainty on this position following the provisional Local Government Finance Settlement to be issued in December 2024.

Budget Gap

2.10. As indicated in the updated Financial Outlook provided in Appendix 1, the changes outlined above are estimated to increase the 2025/26 budget gap by £3.541 million and £4.661 million over the three-year planning period. This results in a forecast gap of £25.102 million in 2025/26 and a gap of £66.637 million over the three years.

Addressing the Budget Gap

2.11. A Council Tax Strategy report will be presented to Policy and Strategy Committee on 5 December 2024, which will present options for members consideration. In line with the approach taken last year the Section 95 Officer will outline the income generation potential from Council Tax increases, and the impact on the revenue budget gap or other potential opportunities linked to the Community Investment Fund Programme and the Council's Programme of Work.

2.12. Finally, Members may have to consider approving savings. Therefore, a refreshed Savings Options pack will be distributed to senior politicians of all political groups on 28 November 2024 to inform budget deliberations.

2.13. Council officers will work with Elected Members to ensure a number of potential solutions are presented to enable the Council to address the budget gap in each financial year and to meet its legal obligation to set a balanced budget. Solutions around income generation from potential Council Tax increases, savings and prudent use of balances in line with the Council's Reserves Policy will be considered.

2.14. In line with the approach taken for the 2024/25 budget, the Section 95 Officer will consider recommending a strategy to members to ensure a robust, deliverable and sustainable budget is set.

Areas of Risk and Uncertainty

2.15. In preparing the Updated Financial Outlook, a number of volatile assumptions have been made. Therefore, it should be noted that estimates including those for pay, non-pay inflation, energy, and future local government finance settlements, present significant risk and uncertainty to the position reported. Thus, the position remains under continuous review and any material changes will be reported in future outlooks.

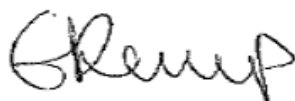
- 2.16. It is envisaged that any manageable unbudgeted pressures arising after the budget is set in February 2025, will be managed on a one-off basis from reserves set aside to support future budget challenges, with any recurring impact addressed in future Medium Term Financial Plan, when there is greater certainty of impact.
- 2.17. In addition, the grant settlement received by the Council may be subject to change as the Finance Budget Bill progresses through Parliament. Therefore, the current planning assumption is that should further undirected funds be received on a recurring basis as a result of this process, they will be held in reserves on a one-off basis to mitigate against budget risks and challenges and to mitigate future budget gaps. This is in line with previous years' practices.

3. Measures of success

- 3.1. Ensuring that the Council sets a balanced budget for 2025/26.

4. Supporting documentation

Appendix 1 Updated Financial Outlook



Elaine Kemp
Chief Officer (Finance)

5. Impacts

<p>5.1 Public Sector Equality Duty and Fairer Scotland Duty Does the report contain information that has an impact as a result of the Public Sector Equality Duty and/or Fairer Scotland Duty? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> If Yes, please provide a brief summary of the impact?</p> <p>If Yes, has an assessment been carried out and published on the council's website? https://www.northlanarkshire.gov.uk/your-community/equalities/equality-and-fairer-scotland-duty-impact-assessments Yes <input type="checkbox"/> No <input type="checkbox"/></p>
<p>5.2 Financial impact Does the report contain any financial impacts? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> If Yes, have all relevant financial impacts been discussed and agreed with Finance? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> If Yes, please provide a brief summary of the impact? The financial impacts are detailed in the report.</p>
<p>5.3 HR policy impact Does the report contain any HR policy or procedure impacts? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> If Yes, have all relevant HR impacts been discussed and agreed with People Resources? Yes <input type="checkbox"/> No <input type="checkbox"/> If Yes, please provide a brief summary of the impact?</p>
<p>5.4 Legal impact Does the report contain any legal impacts (such as general legal matters, statutory considerations (including employment law considerations), or new legislation)? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> If Yes, have all relevant legal impacts been discussed and agreed with Legal and Democratic? Yes <input type="checkbox"/> No <input type="checkbox"/> If Yes, please provide a brief summary of the impact?</p>
<p>5.5 Data protection impact Does the report / project / practice contain or involve the processing of personal data? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> If Yes, is the processing of this personal data likely to result in a high risk to the data subject? Yes <input type="checkbox"/> No <input type="checkbox"/> If Yes, has a Data Protection Impact Assessment (DPIA) been carried out and e-mailed to dataprotection@northlan.gov.uk Yes <input type="checkbox"/> No <input type="checkbox"/></p>
<p>5.6 Technology / Digital impact Does the report contain information that has an impact on either technology, digital transformation, service redesign / business change processes, data management, or connectivity / broadband / Wi-Fi? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> If Yes, please provide a brief summary of the impact?</p>

Where the impact identifies a requirement for significant technology change, has an assessment been carried out (or is scheduled to be carried out) by the Enterprise Architecture Governance Group (EAGG)?

Yes No

5.7 Environmental / Carbon impact

Does the report / project / practice contain information that has an impact on any environmental or carbon matters?

Yes No

If Yes, please provide a brief summary of the impact?

5.8 Communications impact

Does the report contain any information that has an impact on the council's communications activities?

Yes No

If Yes, please provide a brief summary of the impact?

5.9 Risk impact

Is there a risk impact?

Yes No

If Yes, please provide a brief summary of the key risks and potential impacts, highlighting where the risk(s) are assessed and recorded (e.g. Corporate or Service or Project Risk Registers), and how they are managed?

The production of the annual budget report, annual updates to the Medium Term Financial Plan and regular updates to the Council's Financial Outlook presented to Elected Members all support the Council in managing the risk of ongoing financial sustainability which is a key corporate risk. The delivery of recurring savings and sustainable use of reserves mitigate against risks to the Council's financial sustainability.

5.10 Armed Forces Covenant Duty

Does the report require to take due regard of the Armed Forces Covenant Duty (i.e. does it relate to healthcare, housing, or education services for in-Service or ex-Service personnel, or their families, or widow(er)s)?

Yes No

If Yes, please provide a brief summary of the provision which has been made to ensure there has been appropriate consideration of the particular needs of the Armed Forces community to make sure that they do not face disadvantage compared to other citizens in the provision of public services.

5.11 Children's rights and wellbeing impact

Does the report contain any information regarding any council activity, service delivery, policy, or plan that has an impact on children and young people up to the age of 18, or on a specific group of these?

Yes No

If Yes, please provide a brief summary of the impact and the provision that has been made to ensure there has been appropriate consideration of the relevant Articles from the United Nations Convention on the Rights of the Child (UNCRC).

If Yes, has a Children's Rights and Wellbeing Impact Assessment (CRWIA) been carried out?

Yes No

Updated Financial Outlook

	2025/26	2026/27	2027/28	Total
	£000	£000	£000	£000
Gap per approved MTFP June 2024	21,561	21,320	19,095	61,976
Updated assumptions Nov 2024				
24/25 Pay Award - increased cost (exc IJB)	6,700	100	200	7,000
25/26 Pay Award - rebaseline & increased teachers impact	1,700			1,700
24/25 Pay Award increased SG Funding (net of IJB)	(7,240)			(7,240)
Change to Employers National Insurance Contributions (eNIC)	11,000			11,000
Assumed Funding for increased eNIC	(11,000)			(11,000)
Increased Teacher Pension Costs	6,000			6,000
Estimated Funding for Increased Teacher Pension Costs	(6,000)			(6,000)
Contract Inflation	1,400	680	140	2,220
CSPs; Audit Fee, Insurance Premiums, Cllr Salaries	1,298			1,298
Other Net Cost Pressures; NDR, GRG, City Deal	1,387			1,387
Net impact of changes	5,245	780	340	6,365
Revised Gap Nov 2024	26,806	22,100	19,435	68,341
Approved/ Proposed Action				
<i>Base Budget Adjustments;</i>				0
Introduction of charges for green waste	(1,504)			(1,504)
Trend in recovery of rent allowance/ rebates	(200)			(200)
Revised MTFP Gap	25,102	22,100	19,435	66,637
Movement	3,541	780	340	4,661