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COUNCIL EXECUTIVE

SCOTTISH BUDGET 2023, LOCAL GOVERNMENT FINANCE SETTLEMENT 2023/24 AND REVENUE BUDGET UPDATE

REPORT BY HEAD OF FINANCE AND PROPERTY SERVICES

A. PURPOSE OF REPORT

This report provides the Council Executive with an update in relation to the Scottish Budget presented to the Scottish Parliament on 15 December 2022, and the local government finance settlement for 2023/24, as published in Finance Circular 11/2022 dated 21 December 2022 and revised on 10 January 2023, and an update on the council's latest revenue budget position.

B. RECOMMENDATION

It is recommended that Council Executive:

1. Notes the issue of the Scottish Draft Budget 2023/24, which includes Scottish Government departmental spending plans for 2023/24;
2. Notes the provisional outcome of the local government finance settlement in respect of revenue and capital funding for 2023/24;
3. Notes the provisional position in relation to anticipated revenue grant funding for West Lothian contained in the settlement, including assumed amounts for recurring funding yet to be distributed, is £409.960 million;
4. Notes the net reduction in core revenue funding to the council since 2014/15 and the significant savings that have been required since 2007/08;
5. Notes the current estimated budget gap before savings for 2023/24 to 2027/28 of £47.6 million taking account of revised council tax assumptions and latest local government finance settlement;
6. Agrees that the Head of Finance and Property Services updates the 2023/24 revenue budget report taking account of the outcome of the finance settlement and latest circumstances and updates the capital programme taking account of latest funding position and circumstances;
7. Agrees that the uncommitted General Fund balance of £2 million is retained until the council's budget setting meeting in February 2023;
8. Agrees that the Head of Finance and Property Services should keep the position regarding all aspects of the budget model under review, including Scottish Government funding and report to elected members on any developments or as part of the revenue budget report.

C. SUMMARY OF IMPLICATIONS

I	Council Values	Being honest, open and accountable, working in partnership and making best use of resources.
II	Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)	The council must approve a balanced revenue budget before 11 March each year to comply with statutory obligations. However, the budget is required to be approved no later than 23 February 2023 to facilitate the statutory council tax annual billing process.
III	Implications for Scheme of Delegations to Officers	None.

IV	Impact on performance and performance Indicators	The funding settlement from the Scottish Government has a major impact on the level of resources available to the council and, as a result, on performance.
V	Relevance to Single Outcome Agreement	The council's budgets provide resources necessary to help deliver the Single Outcome Agreement.
VI	Resources - (Financial, Staffing and Property)	Scottish Government funding is not sufficient to meet increasing costs and demand for services. An assessment of the local government finance settlement for 2023/24 has been made and officers have considered the implications for the council's budget.
VII	Consideration at PDSP	Quarterly horizon scan reports are provided to the Corporate Policy and Resources PDSP outlining economic forecasts and potential impacts on public sector funding.
VIII	Other consultations	This update is part of the ongoing briefing and consultation with elected members on financial issues.

D. TERMS OF REPORT

D.1 Background

The Deputy First Minister, in a statement to the Scottish Parliament on 15 December 2022, announced the Scottish Draft Budget for 2023/24. The Minister also wrote to the COSLA President, copying Council Leaders, on 15 December 2022 to confirm details of the local government finance settlement. The Scottish Government published Local Government Finance Circular 11/2022 on 21 December 2022 which was to be read in conjunction with the Minister's letter of 15 December 2022. The allocations form the basis of the annual consultation between the Scottish Government and COSLA, ahead of the Local Government Finance (Scotland) Order 2023 being presented to the Scottish Parliament in 2022. A revised version of the circular was received on 10 January 2023. The draft Scottish Budget will be considered by the Scottish Parliament at readings of the Bill, dates are still to be confirmed, but they are expected to be in the last week of January 2023, first week in February 2023 and after February 2023 recess.

On 13 February 2018, West Lothian Council agreed a long-term financial plan for five years and detailed revenue budgets for the three years 2018/19 to 2020/21. This enabled the council to comply with best practice guidance that public bodies should focus on their medium to long term sustainability, through having a strategy covering a minimum of five years, supported by detailed plans covering a minimum of three years. The financial plan was subsequently updated by Council on 19 February 2019, 28 February 2020, 25 February 2021 and 15 February 2022. The 2019/20 annual audit report from EY, the council's external auditors, commented favourably on the budgetary process followed and the decisions made by the council. A similar process is being followed in developing a five-year plan for 2023/24 to 2027/28 and a detailed three-year budget for 2023/24 to 2025/26.

D.2 Scottish Economy

The Scottish Fiscal Commission (SFC) contributes to the Scottish Budget process by providing independent and official forecasts for the Scottish economy and labour market, devolved tax revenues and devolved social security spending. As income tax has been devolved to Scotland, economic forecasts have an impact on income tax estimates. The Scottish Budget is informed by forecasts and, as information on actual revenues and spending becomes available, the Scottish Government's funding is adjusted in response.

The SFC forecasts, published alongside the draft Scottish Budget, predict a shallow recession with a return to the early 2022 peak by early 2025, along with higher inflation than previously expected. In the medium term, growth in the Scottish economy (GDP), and in real terms earnings, is higher than before while inflation falls well below target and turns negative in 2025/26. Both shifts are in line with UK forecasts made by the Office for Budget Responsibility (OBR).

The decline in GDP is due to reductions in consumption, trade and private investment over 2023/24, given the high cost of living, higher interest rates, and ongoing trade challenges following the UK's exit from the EU.

Table 1: Scottish GDP Forecasts

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Scottish Forecast GDP (Dec 2021)	10.4%	2.2%	1.2%	1.3%	1.4%	1.4%	
Scottish Forecast GDP (Dec 2022)	14.0%	1.7%	(1.0%)	1.2%	2.1%	1.9%	1.5%

The labour market figures are more optimistic than those for the UK as a whole, which is a turnaround from recent years. However, much uncertainty remains concerning all figures at both the Scottish and UK levels. The unemployment rate is expected to peak at 4.7% in 2024/25, which is an upward revision from the December 2021 forecast.

Table 2: Scottish Unemployment Rate Forecasts

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Scottish Forecast Unemployment (Dec 2021)	4.6%	4.5%	4.3%	4.2%	4.2%	4.2%	
Scottish Forecast Unemployment (Dec 2022)	3.9%	3.4%	4.3%	4.7%	4.6%	4.3%	4.1%

The SFC's income tax forecast for 2023/24 has increased by £1.497 billion compared to their December 2021 forecast. SFC expect high inflation leading to increased nominal earnings growth to generate a significant increase in income tax revenue. The Scottish Government's policy decision to freeze thresholds and increase the higher and top rate of tax will also increase tax revenue. A comparison between December 2021 and December 2022 is provided below:

Table 3: Scottish Income Tax Forecasts

	2022/23 £'m	2023/24 £'m	2024/25 £'m	2025/26 £'m	2026/27 £'m	2027/28 £'m
Income Tax Forecast (December 2022)	14,575	15,810	16,633	17,370	18,247	19,437
Income Tax Forecast (December 2021)	13,671	14,313	15,056	15,790	16,445	
Change since previous forecast	904	1,497	1,577	1,580	1,802	

Despite a deterioration in the forecasts of the Scottish and UK economies overall, the outlook for the income tax net position has improved significantly. Comparing the SFC forecasts with the OBR's, the net position is expected to be positive by £325 million in 2023/24, compared to the expected value in December 2021 of negative £257 million. The income tax net position for 2023/24 has increased by £582 million since the December 2021 forecast, however this represents only 3.7% of Scottish income tax revenues in this year.

An additional £129 million of income tax revenue is set to be raised in 2023/24 following policy changes announced as part of the Scottish Budget. In 2022/23 the net tax position was slightly negative, this change is partly driven by Scottish Government policy for income tax in freezing income tax thresholds at a lower rate than that set by the UK Government and raising tax rates.

From 2024/25 onwards, the OBR forecasts UK average nominal earnings growth to average 2.0%. This is low by historical standards and compared to the SFC's forecast of 2.6% for Scotland, leading to a further improvement in the income tax net position over the forecast horizon. Over the last five years, earnings have been growing more slowly in Scotland than the UK.

The SFC state that when the global energy price shock arrived in early 2022, the Scottish economy was still recovering from the impact of measures introduced during the pandemic, labour shortages and supply chain disruptions associated with Covid-19. Throughout 2022, the impact of higher energy prices and the acceleration of wage pressures has worsened. The economy has also been adjusting to the UK being out with the EU as well as the long-term evolution of the oil and gas industry in the North East of Scotland. There is no comparable period in recent economic history when the economy has been hit by two global shocks in immediate succession while adjusting to other significant domestic pressures.

The SFC's assumption is that Scotland has already entered a recession which will last six quarters, with a total peak to trough fall in GDP of 1.8%. Higher prices will mean real incomes fall and put the economy into recession via both a supply and demand side shock. The recession will be dampened by higher nominal pay awards, increased benefits payments and some households using savings to support spending. Following the inflation shock, the level of real incomes in Scotland will be lower and expected to take time to recover. Although prolonged, the SFC expect the recession will be shallower than the Global Financial Crisis or the Covid-19 recession.

D.3 Total Spending in Scotland

In overall terms, Scotland's total proposed spending plans, as set out in the Draft Budget 2023/24, amount to £59.813 billion; this is a cash increase of £3.471 billion compared to 2022/23. The allocations for each portfolio are set out in the table below:

Table 4: Total Scottish Budget by Portfolio

Portfolio	2022/23 Budget £'m	2023/24 Draft Budget £'m	Movement £'m
Health and Social Care	18,044	19,161	1,117
Social Justice, Housing and Local Government	16,844	18,297	1,453
Finance and Economy	8,051	8,401	350
Education and Skills	4,146	4,241	95
Justice and Veterans	3,146	3,366	220
Net Zero, Energy and Transport	4,413	4,648	235
Rural Affairs and Islands	966	965	(1)
Constitution, External Affairs and Culture	370	347	(23)
Deputy First Minister and Covid Recovery	43	45	2
Crown Office and Procurator Fiscal Service	180	197	17
Scottish Parliament and Audit Scotland	140	146	6
Total	56,343	59,813	3,471

Total proposed spending includes both revenue resource and capital spending plans. Health and social care represent the largest element of the overall Scottish Budget, the increase in funding of £1.117 billion for health and social care represents an increase of 6.2%. Of this increase £730 million went to health with £240 million allocated to 'Covid-19 Funding and Other Services'.

Overall, in cash terms, the Scottish Budget is higher than expected in May 2022, although in real terms some of this rise is undermined by higher inflation. The extra money comes from an increased Block Grant, an improvement in Scotland's expected tax position and a rise in Social Security adjustments. This rise is partially offset by an assumption of no drawdown from the resource Reserve next year as well as a reduction due to 'other changes' (including increased borrowing and a decrease in 'other' funding).

The Scottish Budget suggests that devolved public service spending will increase by 1.9% in real terms between 2022/23 and 2023/24. This is a significant improvement compared to the May Spending Review, when the Scottish Government said that spending was set to fall by 1.0% in real terms. This improvement is a result from additional funding from the UK government for the next two years in the December 2022 Autumn Statement, as well as upgrades in the Scottish Fiscal Commission's forecasts for Scottish tax revenues relative to the rest of the UK. These two factors more than offset the increase in inflation forecast for next year since the Scottish Spending Review in May 2022.

D.4 Devolved Taxation

Scottish Government spending plans are underpinned by revenue raising tax powers devolved by the Scotland Act 2016. In 2023/24, the Scottish Government will raise an estimated £15.8 billion from income tax according to the SFC, bringing total revenue from devolved taxes (including Land and Buildings Transaction Tax and Scottish Landfill Tax) to £19.7 billion.

The SFC, which is an independent statutory body, is responsible for producing revenue forecasts for fully devolved taxes and non-savings non-dividend (NSND) income tax. All forecast revenues underpinning the Scottish Budget are produced by the SFC.

Scottish Income Tax

The Scotland Act 2016 confers on the Scottish Parliament the power to set all income tax rates and the threshold of bands (above the Personal Allowance) that apply to the NSND income from Scottish taxpayers. The Scottish Government will receive all the revenue raised from NSND income tax in Scotland as a consequence of rates and bands set by the Scottish Parliament.

The thresholds of the proposed Scottish Income Tax bands for 2023/24 are as follows:

Table 5: Scottish Income Tax Rates and Bands 2023/24

Scottish Income Tax Rates	Scottish Bands
Scottish Starter Rate 19%	Over £12,570 to £14,732
Scottish Basic Rate 20%	Over £14,733 to £25,688
Scottish Intermediate Rate 21%	Over £25,688 to £43,662
Scottish Higher Rate 42%	Over £43,663 to £125,140
Scottish Additional Rate 47%	Over £125,140

The Scottish Government have decided to freeze the Scottish basic, intermediate and higher rate thresholds in cash terms, and to reduce the threshold at which the top rate of tax becomes payable, from £150,000 to £125,140. Both these changes are in line with UK Government decisions made as part of the Autumn Statement.

The reduction in the top rate income tax threshold from £150,000 to £125,140 will increase the number of taxpayers paying the top rate of income tax, which Fraser of Allander have estimated to be around 12,000 individuals in total. In addition to this threshold change, the government have also announced increases in the top rates of income tax in Scotland, with 1p increases in both the additional and top rates of tax, to 42p and 47p, respectively.

Land and Buildings Transaction Tax (LBTT)

Land and Buildings Transaction Tax is a tax applied to residential and commercial land and buildings transactions and replaced stamp duty in Scotland. The Scottish Government have also announced an increase in LBTT paid on additional properties from 4% to 6% which the SFC suggest will generate an additional £34m in 2023/24.

D.5 Public Sector Pay Policy

The Scottish Government has, at this time chosen not to publish formal guidelines for public sector pay in 2023/24. The Deputy First Minister highlighted the uncertain outlook for inflation and a need to conclude ongoing pay negotiations for 2022/23 as the key reasons for holding back a pay policy until 2023. Given that public sector pay accounts for over £22 billion in spending each year, this represents a significant area of uncertainty going forward.

D.6 Welfare Changes

The Scotland Act 2016 devolved various areas of social security to Scotland, mainly related to carers and disability benefits. The Social Security (Scotland) Act 2018 received Royal Assent on 1 June 2018, with Scottish social security benefits now being delivered. The Scottish Government has been implementing the devolved powers on a phased basis and new social security powers over Attendance Allowance, Disability Allowance, Industrial Injuries Disablement Allowance, Personal Independence Payments and Severe Disablement Allowance commenced in 2020/21.

Social security powers transferred to Scotland need to be managed within HM Treasury budget control limits. Any increase in demand against what has been forecast by the SFC needs to be managed through a combination of drawing down funding from the Scotland reserve, utilising resource borrowing powers within the statutory annual limit or in-year adjustments to other budgets.

The SFC forecast social security spending will increase from £4.2 billion in 2022/23 to £7.3 billion in 2027/28. The SFC expects social security spend to be £0.8 billion above the Block Grant Adjustment (BGA) in 2023/24 rising to £1.4 billion more than the BGA by the end of the forecast period in 2027/28.

D.7 Local Government Funding

In 2023/24, the total managed expenditure available within the local government portfolio is £11.684 billion. This figure includes general revenue and capital grant funding, specific revenue and capital grants, as well as an estimate of non-domestic rate income. There are a number of other funding allocations linked to individual policy initiatives held within other spending portfolios and, taking account of these, the total 2023/24 local government funding settlement is £13.229 billion. The formula share of the revenue grant, non-domestic rate income and capital grant for each council is set out in Finance Circular 11/2022, published on 21 December 2022. An updated finance circular was issued on 10 January 2023 as the original finance circular contained some errors and inconsistencies. The total funding from the revised finance circular for local government, based on the Scottish Draft Budget is set out below:

Table 6: Scottish Government Funding to Local Government (Cash Terms)

	2022/23 Budget £'m	2023/24 Draft Budget £'m	Movement £'m
Revenue Funding			
General Revenue Grant	8,696.1	8,579.5	(116.7)
Non-Domestic Rates Income (NDRI)	2,766.0	3,047.0	281.0
Specific Grants	785.0	776.1	(8.9)
Total Revenue Funding	12,247.1	12,402.5	155.4
Capital Funding	811.3	826.6	15.3
Total Government Funding to Local Government	13,058.5	13,229.2	170.7

The provisional total funding allocations form the basis for the annual consultation between the Scottish Government and COSLA ahead of the Local Government Finance (Scotland) Order 2023 being presented to the Scottish Parliament in February 2023. Councils are required to notify COSLA (and for COSLA to inform the Scottish Government) by no later than 27 January 2023 if they think there are any discrepancies or changes required to the provisional allocations.

The capital funding of £826.6 million for 2023/24 includes the £120.6 million for pay plus £706 million capital funding. The Scottish Government agreed to provide £120.6m capital funding in 2022/23 and 2023/24 for Local Government's Scottish Joint Council (SJC) Pay deal. From 2024/25, this funding will be baselined into revenue funding.

The allocations to individual local authorities contained in the finance circular have been arrived at using the standard needs-based distribution methodology and updated indicators. There have been a number of questions on the settlement and local government officers, along with COSLA, are liaising with Scottish Government officials to fully verify the assumptions and figures contained in the settlement. Any redistribution to address agreed discrepancies found in the finance circular will be undertaken within the total settlement allocations set out and not through the provision of any additional resources by the Scottish Government. The allocations are therefore provisional at this stage, and may be subject to any correction agreed as part of the consultation process.

The revenue funding provided by the Scottish Government to local government in 2023/24 will increase in cash terms by £155.4 million. There is an increase of £15.3 million to the capital funding available to local government in 2023/24.

COSLA presented an assessment of the overall position in their budget reality document issued on 15 December 2022. In summary, the position reported by COSLA identified a £71 million cash increase in revenue funding and flat cash position for capital funding for local government.

Table 7: COSLA's Budget Reality – Revenue Budget

	£'m
Cash Increase in Revenue Funding	498.0
<u>Less: Scottish Government Policy</u>	
Recurring funding for pay	(140.0)
Local Heat and Energy Efficiency Strategies	(2.4)
Whole Family Wellbeing Support	(32.0)
Real Living Wage in Adult Social Care	(100.0)
Free Personal and Nursing Care	(15.0)
Free School Meals – P6/7 expansion	(17.5)
Additional Discretionary Housing Payment & Admin	(5.7)
School Clothing Grants increase	(1.2)
To be transferred to SSSC for LG Adults Social Care Fees	(2.2)
LG contribution to Historical Child Abuse Redress Scheme	(6.0)
<u>Less: Other</u>	
Devolution of Empty Property Relief to LG	(105.0)
Cash Increase in Revenue Funding	71.0

Further analysis continues to be carried out on the finance settlement and COSLA are in ongoing dialogue with the Scottish Government on issues.

D.8 Package of Measures and Associated Commitments

The letter from the Deputy First Minister on 15 December 2022 outlined that individual local authorities will, in return for this settlement, be expected to deliver certain specific commitments. The package of measures offered to councils is as follows:

- The budget baselines the additional £260.6 million allocated in 2022/23 to support the local government pay deal and also delivers additional funding to ensure that payment of SSSC fees for the Local Government workforce will continue to be made on a recurring basis.
- A further £102 million of resource to protect key shared priorities particularly around education and social care.
- The Resource Spending Review also confirmed the outcome of the 2021 Capital Spending Review and this has been supplemented by £120.6 million mentioned as part of the support to the local government pay deal plus a further £50 million to help with the expansion of the Free School Meals policy.
- £145 million to be used by councils to support the school workforce.
- The Health and Social Care Portfolio will transfer net additional funding of £95 million to Local Government to support social care and integration, which recognises the recurring commitments on adult social care pay in commissioned services to deliver a £10.90 minimum pay settlement for adult social care workers (£100 million) and inflationary uplift on Free Personal Nursing Care rates (£15 million). This is offset by the non-recurring interim care money ending (£20 million).
- Local Authority social care budgets for allocation to Integration Authorities must be at least £95 million greater than 2022/23 recurring budgets.

As noted, the overall finance settlement for local government in 2023/24 in the circular is £13.229 billion. The settlement also includes a number of items which have yet to be distributed to councils, where distribution of will be confirmed in due course.

The finance circular confirms that a number of funding distributions have still to be allocated at individual local authority level in 2023/24 including teacher induction scheme funding. Although the settlement includes funding for discretionary housing payments and the real living wage for health and social care, the council will receive confirmation of its share of this funding during 2023/24. Once individual funding allocations are known for these sources of funding, the council's grant funding will be updated accordingly. For teachers' induction scheme and discretionary housing payments, it would be reasonable to assume that the level of funding received in 2022/23 will be replicated in 2023/24.

The letter from the Deputy First Minister on 15 December 2022 announced councils will have full flexibility to set the Council Tax rate that is appropriate for their local authority area. It also stated a Cabinet decision made in respect of non-domestic rates proposals and appeals for properties occupied by public bodies. From 1 April 2023, the financial incentive for proposing and appealing will be removed, with the financial outcome of successful proposals or appeals resulting in a downward re-determination of revenue allocations at the next available budget revision. The Budget also freezes the non-domestic rate poundage and devolved the Empty Property Relief, allowance has been provided for the empty property relief in the budget model. A report will be presented to Corporate Policy and Resources PDSP on the proposed approach to empty property relief in February 2023.

D.9 Budget Update

The council budget position was reported to Council Executive on 6 December 2022, and set out an estimated budget gap of £57.7 million for the period 2023/24 to 2027/28. This reflected updated movements in pay, energy, homelessness and NDR cost forecasts which increased the previous gap by over £10 million. Taking account of this, a number of urgent actions were agreed by Council Executive to help mitigate the increased budget gap assumption.

The table below summarises actions from Council Executive on 6 December 2022, and provides an update on these actions.

Table 8: Actions from Council Executive 6 December 2022

Actions agreed as part of the report	Update
Agree that the one-off amounts are reprioritised and held in contingency for supporting delivery of the five-year revenue financial plan, noting that further details on the amounts relating to service concessions will be reported to Council in January 2023 as required by legislation	The agreed amounts are now held in contingency. A report on service concessions will be submitted to the Council meeting on 24 January 2023.
Agree that officers should consider the scope to use revenue funding flexibilities as outlined in the Deputy First Minister's letter of 1 November 2022	Officers have fully considered options. The opportunities to use the flexibilities are limited and it is not envisaged that these will assist the council in balancing the budget.
Agree that officers should further consider council tax options following conclusion of phase 2 of the consultation and provide an update in the council tax scenario report to Corporate Policy and Resources PDSP	The example of 4.5% given in the Council Executive report has been incorporated as an assumption into the revenue budget model for council tax and fees and charges for each of the five years. A report on council tax scenarios will be presented to Corporate Policy and Resources PDSP in January.
Agree that officers review the phasing of saving options to bring forward, as far as reasonably practicable, savings into the first three years with phasing being incorporated into the PDSP reports on potential saving options in January 2023	Officers have reviewed savings and accelerated them where possible. Work is underway to draft the reports on proposed savings for the PDSPs taking place at the end of January 2023.
Agree that officers implement temporary cost reductions as soon as possible in 2022/23, including considering necessary changes to workforce planning, to assist with the financial crisis facing the council	Officers are implementing temporary cost reductions and workforce planning measures.

Actions agreed as part of the report	Update
Agree that officers undertake work to identify additional recurring budget saving options to balance the revenue budgets in years two to five and that new measures will be incorporated into phase 3 of the public consultation to take place in 2023	As agreed by Council Executive, additional energy mitigation savings have been identified and have been incorporated into the proposed savings. It is proposed to include these new measures in the Corporate Policy and Resources PDSP report and also to report on the energy mitigation measures to Council Executive on 7 February 2023.

In line with the actions agreed by Council Executive, the budget model has been updated to include an assumption of annual increases in council tax and fees and charges of 4.5%. The model has also been updated to include the 2023/24 local government finance settlement and other minor adjustments to expenditure (e.g. incorporating the NDR poundage freeze). Other changes made to the budget model since 6 December 2022 include:

- Update of inflation for Landfill Tax based on the Scottish Government announcement from 15 December 2022;
- Indexation and Demographics updated for Living Wage within Health and Social Care;
- The base budget has been updated for the Pay Award;
- Living Wage supplement removed;
- Water inflation updated following announcement of increase from Business Stream;
- Pressure for Green Waste;
- PPP inflation figure for 23/24 has been updated with Decembers 2022 RPI.

The table on the following page summarises the main elements of the budget model for each of the five years, with the revised budget gap for 2023/24 to 2027/28 estimated to be £47.6 million.

Table 9: Summary of Budget Model for 2023/24 to 2027/28

Incremental Movements	23/24 £'m	24/25 £'m	25/26 £'m	Three Year Total £'m	26/27 £'m	27/28 £'m	Five Year Total £'m
Expenditure							
Staffing Costs	14.5	6.3	6.6	27.4	6.7	6.8	40.9
Demographics & Demand Pressures	3.7	3.3	2.9	9.9	3.1	3.4	16.4
Revenue Consequences of Capital	2.3	1.0	0.9	4.2	1.3	0.5	6.0
SG Funded Developments	1.9	0.0	0.0	1.9	0.0	0.0	1.9
Service Pressures & Developments	5.4	0.1	0.2	5.7	0.2	0.4	6.3
Inflation & Indexation	15.0	8.5	5.1	28.6	5.3	5.7	39.6
Gross Expenditure Increases	42.8	19.2	15.7	77.7	16.6	16.8	111.1
Income							
Council Tax (4.5% assumption)	(5.4)	(5.5)	(5.8)	(16.7)	(6.1)	(6.4)	(29.2)
Fees & Charges (4.5% assumption)	(0.4)	(0.5)	(0.5)	(1.4)	(0.5)	(0.6)	(2.5)
Ringfenced SG Grant Funding	(9.4)	(2.5)	(2.5)	(14.4)	(2.5)	(2.5)	(19.4)
Core SG Grant Funding	(9.4)	0.0	0.0	(9.4)	(3.0)	0.0	(12.4)
Income Movements	(24.6)	(8.5)	(8.8)	(41.9)	(12.1)	(9.5)	(63.5)
Forecast Budget Gap	18.2	10.7	6.9	35.8	4.5	7.3	47.6

Officers have developed budget saving options for the three years 2023/24 to 2025/26. At this stage the estimated budget gap over the three-year period 2023/24 to 2025/26 is £35.8 million with officer savings options of £37.4 million for 2023/24 to 2025/26, leaving an estimated surplus of £1.583 million at this time. As agreed by Council Executive on 6 December 2022, officers will develop additional savings to address any remaining gaps. Reports are being presented across all PDSPs in January 2023 which summarise a number of potential saving options to address the council's budget gap over the three-year period 2023/24 to 2025/26, including responses from the WL2028 Your Council, Your Say Phase 2 consultation.

D.10 High Level Implications for West Lothian Council

Draft 2023/24 Scottish Government funding for West Lothian Council is £409.960 million, which is £18.691 million greater than the equivalent figure in 2022/23 and includes assumptions regarding funding for items which have yet to be distributed and therefore are subject to change.

It is important to note that, within the provisional West Lothian allocation, there is £15.202 million of funding which relates to new additional expenditure commitments for 2023/24. Taking account of this, the council's 2023/24 core cash revenue funding from the Scottish Government for existing service delivery has increased by £3.489 million compared to 2022/23. The table below details this.

Table 10: Movement in Recurring Revenue Grant Funding for West Lothian Council

	£'000	£'000
2022/23 Scottish Government Recurring Grant Funding		391,269
2023/24 Scottish Government Recurring Grant Funding		409,960
Gross Increase in Recurring Grant Funding		18,691
Less Ringfenced Grants for Scottish Government Commitments:		
• Children & Young People	(1,240)	
• Health and Social Care	(2,902)	
• 2022/23 Pay Award	(9,811)	
• Other movements (including removal of funding for one-off commitments)	(1,249)	(15,202)
Net Increase in 2023/24 Core Recurring Revenue Grant Funding		3,489

Further information on the medium-term financial implications will be available from the Scottish Fiscal Commission. Levels of growth and productivity in the Scottish economy will have a significant bearing on medium term funding of the Scottish budget going forward, including for local government. Changing economic circumstances, including the recovery from Covid-19 pandemic and the cost of living crisis further contributes to the uncertainty around future funding.

The increased use of ringfenced and earmarked funding for Scottish Government initiatives and priorities, means that total resources available to support existing local service delivery remain constrained. Table 11 illustrates the movement in core revenue funding received by the council over the period since 2014/15.

Table 11: Movement in Core Scottish Government Revenue Grant Funding – 2014/15 to 2023/24

Year	Gross Movement £'000	Ringfenced Funding £'000	Net Movement in Core Funding £'000
2014/15	4,134	4,307	(173)
2015/16	5,960	6,465	(505)
2016/17	(4,580)	2,084	(6,664)
2017/18	(799)	5,052	(5,851)
2018/19	7,715	5,331	2,384
2019/20	7,755	9,462	(1,707)
2020/21	6,404	9,923	(3,519)
2021/22	12,068	6,610	5,458
2022/23	19,091	20,553	(1,462)
2023/24	18,691	15,202	3,489
Total	76,439	84,989	(8,550)

Following the announcement of the updated draft local government finance settlement, officers have reviewed the budget model to incorporate the updated funding for 2023/24. In addition, officers are continuing to review budget model assumptions to reflect changes in circumstances and will keep indexation and service demographics under review. The main risk areas currently being reviewed are:

- Energy / fuel prices
- War in Ukraine related pressures

- Covid-19 related pressures
- Inflation and indexation
- Delivery of savings
- Pay awards
- Service budget pressures, including transport and vehicle pressures

Taking account of confirmation of the 2023/24 local government finance settlement, and the latest budget model assumptions, the Head of Finance and Property Services will present an updated 2023/24 to 2027/28 revenue budget and updated capital investment programme to Council for approval in February 2023. As work has yet to be finalised on the council's 2023/24 to 2027/28 budget, it is recommended that the uncommitted General Fund Balance of £2.0 million, after decision by Council Executive on 6 December 2022, is retained at the current time to be considered as part of the budget setting process at full council in February 2023.

E. CONCLUSION

The Scottish Government published the draft 2023/24 Scottish Budget on 15 December 2022 and the Deputy First Minister wrote to the COSLA President on the same day. The provisional local government finance settlement for 2023/24 was announced on 22 December 2022. The total local government settlement is £13.229 billion with core revenue grant funding for 2023/24 being increased by £155.4 million and capital funding increased by £15.3 million. The original finance circular that was issued on 21 December 2022 contained some errors, the updated finance circular for 2023/24 was issued on 10 January 2023.

For West Lothian, the comparable increase in core funding compared to 2022/23 is £3.489 million. COSLA have expressed disappointment at the revenue funding package proposed by the government to local government and stated that the essential services that local government delivers have not been prioritised. COSLA's Resources Spokesperson said council services will now be at absolute breaking point and some may have to stop altogether.

The outcome of the detailed local government finance settlement has been assessed, taking account of further confirmation required and the further funding streams to be clarified. Based on a review of the figures and forecasts contained in the local government finance settlement and associated documents, the Head of Finance and Property Services will update the revenue and capital budgets for 2023/24 for reporting to Council in February 2023.

Officers continually keep the assumptions in the budget model under review to ensure, as far as possible, they reflect current circumstances and information. Reports are being presented across all PDSPs in January 2023 which summarise a number of potential saving options to address the council's budget gap over the three-year period 2023/24 to 2025/26, including responses from the WL2028 Your Council, Your Say Phase 2 consultation.

F. BACKGROUND REFERENCES

Revenue Budget 2022/23 - Report by Head of Finance and Property Services to West Lothian Council on 15 February 2022

Autumn Budget and Scottish Budget Announcements 2022 – Report by Head of Finance and Property Services to Council Executive on 6 December 2022

WL2028 Your Council Your Say - Public Consultation - Report by Depute Chief Executive on 20 December 2022

Scottish Budget 2023/24 published by Scottish Government on 15 December 2022

Local Government Finance Circular 11/2022 published by Scottish Government on 21 December 2022

COSLA Budget Reality (15 December 2022)

https://www.cosla.gov.uk/_data/assets/pdf_file/0019/40780/Budget-Reality-23-24-UPDATE.pdf

Appendices/Attachments: None,

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