

MANAGEMENT COMMENTARY

The 2024/25 local government finance settlement deviated from previously announced Scottish Government plans, particularly in relation to capital where funding was substantially less than anticipated. In addition to constrained financial settlements, Scottish Government policy decisions and commitments place additional demands on local government. The continuing financial crisis facing councils is of a magnitude never experienced before. Interventions, such as the Verity House Agreement, have not supported local discretion and flexibility with effective ringfencing of resources continuing. The position on the Scottish funding envelope allocated to local government will continue to be kept under close review especially with continuing inflation risks and the performance of the wider UK and Scottish economy.

It is important that the council continues to reflect on a fast changing position where there are fundamental areas of risk, including wider economic risks that could have a range of impacts on the council's achievement of objectives. Recognising this there are regular reports to the council's Governance and Risk Committee on the following:

- High Risks – an update on the council's high risks is provided to each committee meeting, providing an update on all high risks and setting out actions being taken to manage these risks. This includes current controls in place and further additional risk actions being progressed to further mitigate potential impacts. The council's high risks are also reported on a regular basis to both the Governance and Risk Board, an officer group that exercises oversight over the council's governance and risk management arrangements, and the Executive Management Team (EMT).
- Strategic Risks – the council's strategic risks are defined as those risks which, if they occur, could have a major impact on the ability of the council to achieve its objectives. This includes serious failures of a regulatory or compliance nature. The strategic risks fall into a small number of categories including those relating to economic uncertainties or financial constraints or pressures, those relating to health and safety including statutory compliance and those relating to business continuity. These risks are regularly reviewed by the Governance and Risk Committee, Governance and Risk Board and EMT.
- Business Continuity Planning – the Corporate Business Continuity Plan and the outcome of desktop testing this covers all elements of service delivery including potential cyber-attacks.

Although the council approved balanced budgets for 2024/25 and 2025/26, albeit with the use of £5.743 million of one-off funding, a recurring budget gap remains across the four year period to 2027/28. There are also a number of risks that could increase current anticipated budget gaps further. Key risks in relation to funding and overall financial planning assumptions include:

- Future levels of Scottish Government grant funding, especially for non-protected areas, and policy changes which restrict flexibility to deliver service locally through effective ringfencing (e.g. education restrictions and the National Care Service). This also includes inadequate funding for new legislation and national commitments, especially where previously provided funding is not uplifted to reflect inflationary pressures.
- General economic uncertainty, where economic growth is not in line with forecasts due to worldwide market conditions, and how these risks impact on public spending levels, especially as the overall Scottish funding envelope is now highly contingent on economic performance.
- Increases to pay award above the rates assumed in the council's financial plan. At this stage there is no agreed pay settlement for all staffing groups for 2024/25. The council's planning assumptions for pay for 2024/25 is 3% however it is likely based on recent developments that the agreed pay award will be higher than 3% which would result in a budget pressure. There is also a risk associated with the pay costs for the period of the overall five year financial plan.
- Increase in costs in demand led services is greater than financial planning assumptions. Continued and accelerated increases, greater than forecasts, will create additional pressures.
- Inflation that is in excess of budget assumptions and funding made available by the Scottish Government. The council's inflationary assumptions for future years are closely monitored and updated as necessary taking account of various sources of information including specific inflationary indices for utilities, fuel and food. Contract inflation, for areas such as transport, and market price increases following procurement exercises remain an area of concern.
- The council's ability to meet its statutory homeless duty and maintain spend on housing need within budget despite providing substantial resources to support this priority in recent budgets. The council is taking action to manage pressures in this area, as outlined in a report to Council Executive on 7 November 2023, in addition to expanding the supply of social housing through the new build housing programme and market acquisitions, however demand continues to markedly outstrip supply. Construction will also commence on the new young persons homeless unit in Livingston in 2024/25.
- Recognising budgetary pressures within Operational Services as part of the 2024/25 budget setting process, significant actions will have to be implemented to ensure overall pressures in this area can be brought back within the revised budget.