

ANGUS COUNCIL

ANGUS COUNCIL – 15 DECEMBER 2022

**2022/23 STAFF PAY DEAL – COSTS AND FUNDING ARRANGEMENTS INCLUDING REVIEW OF
GENERAL FUND RESERVE COMMITMENTS**

REPORT BY IAN LORIMER, DIRECTOR OF FINANCE

ABSTRACT

This report advises members of the costs and proposed funding arrangements arising from the 2022/23 staff pay deals negotiated between COSLA on behalf of all Councils and staff Trade Unions. The complexity of the pay deals, the financial implications for the Council and the need to consider how additional Scottish Government funding will be applied, have necessitated a specific report on this matter. At the time of writing pay deals for teachers and chief officials have still to be reached but funding decisions cannot be delayed any further.

1. RECOMMENDATION

It is recommended that the Council:

- a. note the background to the 2022/23 pay deals and current position as set out in this report;
- b. note the total estimated cost to the Council and partners from the 2022/23 pay deals noting that the pay deals for teaching staff and chief officials have, at the time of writing, still to be settled and therefore remain an area of risk and uncertainty;
- c. note the additional funding being provided by the Scottish Government to support some of the cost of the 2022/23 pay deals as set out in Section 8;
- d. approve the allocation of a proportionate share of the additional government funding to the Angus Health and Social Care Partnership (AHSCP), Tayside Contracts and ANGUSalive as set out in Section 8 to support those partner organisations with part of their pay deal costs. This includes delegating authority to the Director of Finance to finalise the proposed shares to the AHSCP, Tayside Contracts and ANGUSalive once all pay deals have been finalised and the full financial implications for the Council and these partners is confirmed;
- e. approve the approach to using the additional capital grant funding being provided by the Scottish Government set out in Section 9 and the associated revisions to the funding of the 2022/23 Housing Capital Budget which arise from this;
- f. approve the revisions to the Council's General Fund Reserve commitments and the new budget carry forwards as set in Section 10 and Appendix A;
- g. approve the use of up to £2.906 million of the Council's uncommitted General Fund Reserves in financial year 2022/23 to meet the gap between costs and available funding as set out in Table 4 (Section 8), noting that the final required use of Reserves will depend on the outcome of the pay deals which have still to be settled and the overall outturn on the Council's 2022/23 budget; and
- h. Note the implications for the Council's Medium Term Budget Strategy outlined in Section 12.

2. ALIGNMENT TO THE COUNCIL PLAN

- 2.1 This report contributes to the following strategic priorities in the Angus Council Plan, we want:
- Angus Council to be efficient and effective

3. BACKGROUND

- 3.1 Although the Council has its own pay and grading structures for all staff except teachers decisions on pay increases and other potential changes to terms and conditions affecting all local government staff are negotiated nationally by COSLA with relevant Trade Unions. Teaching staff pay, terms and conditions are set and negotiated nationally as part of a tripartite arrangement between COSLA, teaching Trade Unions and the Scottish Government.
- 3.2 There are 4 distinct groupings of staff and the current position in regard to pay negotiations with those staff groups is noted in Table 1 below.

Table 1 – Staff Groups and Current Pay Negotiation Position

Staff Group	Current Position
Teachers	At the time of writing this report pay negotiations with teaching trade unions are ongoing and industrial action is taking place. A revised offer was made on 22 November which replicated the deal agreed with local government employees but that has been rejected by the EIS.
Local Government Employees (LGE)	A negotiated settlement with this staff group has been reached. This is the largest staff group. There is a risk that Unions representing LGE staff will seek to re-open the settlement if the pay deal reached with teaching staff is more favourable.
Craft Workers	Angus Council has no craft workers.
Chief Officials	At the time of writing this report pay negotiations with this group are ongoing.

4. TEACHERS

- 4.1 As noted above no pay deal has yet been reached with the teaching staff group. A 10% increase is being sought by the EIS (the largest teaching union) against the latest offer of up to 6.85% for the lowest paid teaching staff. The costings in this report and the funding gap which exists are based on the latest offer which on average across the whole workforce is around 5.1%. As set out later in this report the Council already faces a very large shortfall in funding to meet pay costs based on the latest offer so any increase in that offer which is not fully funded by additional Scottish Government grant will increase the funding gap in the current year and add to the projected funding gap over the next 3 years.

5. LOCAL GOVERNMENT EMPLOYEES (LGE)

- 5.1 The pay settlement reached with the unions representing LGE staff across local government provides a higher percentage increase for the lowest paid staff but a minimum 5% increase up to a cap. Details of the settlement are set out below:-

- For those staff on the Scottish Local Government Living Wage (SLGLW) and Spinal Column Pay Points 19-24 an undifferentiated 5% or a £2,000 uplift, whichever is larger. This is calculated based on a nominal 36-hour full-time working week.
- For the rest of the LGE workforce the offer is for an undifferentiated 5% or a £1,925 uplift, whichever is larger. This is also calculated on a nominal 36-hour full-time working week). This is capped for those currently earning £60,000 or more at a £3,000 uplift (based on a 37-hour week).
- An additional day's annual leave.

- 5.2 Based on Angus Council pay scales the above means the following:-

Angus Council Pay Grade	Increase in Salary*	Percentage Increase
LG1 to LG6	£2,000	10.8% to 8.3%
LG7 to LG10	£1,925	7.7% to 5.0%
LG11 to LG14	£1,998 to £2,771	5.0%
LG16 to LG 17	£3,000	4.9% to 4.1%

* - some increases overlap grades so figures shown cover the majority of pay grade points

- 5.3 As an average across the Council based on the numbers of staff and their grades the pay deal represents a 7.2% increase to the Council's total pay costs for this staff group. This reflects the fact that most of the Council's staff are paid between Grades LG1 to LG10.
- 5.4 The cost impact of the LGE pay deal on the Council's key partners, particularly Tayside Contracts, is more significant because they have a higher proportion of their staff on lower grades than is the case for the Council as a whole. This means that the pay deal will add an average 9.79% to the pay costs of Tayside Contracts. For ANGUSalve the overall percentage increase is 7.2% which is in line with the Council average. Both of those partner organisations rely heavily on Angus Council for part of their income so their higher pay costs put additional pressure onto the Council's finances.

6. CHIEF OFFICIALS

- 6.1 The trade union representing the Chief Officials staff group remains in dispute with COSLA. In Angus only the Chief Executive, Depute Chief Executive and Directors are part of this grouping. Costings in this report assume that the £3,000 cap will apply, this being the latest COSLA offer.

7. PAY DEAL COSTS

- 7.1 Table 2 below summarises the estimated costs of the 2022/23 pay deals based on the actual settlement for LGE staff and the latest offers to other staff groups. Table 2 shows the estimated cost for the Council itself; for those Council employees employed in the Angus Health & Social Care Partnership (AHSCP); for Tayside Contracts (estimated Angus share) and for ANGUSalve.
- 7.2 Since negotiations with some staff groups remain ongoing the figures in Table 2 represent a likely "best-case" scenario in terms of the cost/affordability to the Council. The figures include employer's on-costs (national insurance and pension contributions) and in the case of national insurance reflect the cancellation of the social care levy from 6 November 2022.

Table 2 – Estimated Cost of 2022/23 Pay Deals – Angus Council and Partners

Staff Group/Organisation	Estimated Cost £millions
Angus Council – Teachers (not yet settled)	3.559
Angus Council – LGE	4.984
Angus Council – Chief Officials (not yet settled)	0.039
Angus Council – pay increase impact onto Apprenticeship Levy	0.042
Total – Angus Council	8.624
Council Employees – Angus Health & Social Care Partnership (AHSCP)	1.596
Tayside Contracts (estimated maximum Angus share)	0.900
ANGUSalve	0.583
TOTAL COST TO COUNCIL & KEY PARTNERS	11.703

- 7.3 For information each 1% additional increase on pay for Angus teachers will cost approximately £0.7million and for chief officials the cost would be £14,000.
- 7.4 The cost of the pay deal for those staff whose salaries are paid from ring-fenced grants such as Early Years Expansion funding or Pupil Equity Funding (PEF) are not included above because in line with existing practice these will be met directly from those ring-fenced grants.

Partner Pay Deal Implications for Angus Council

- 7.5 Table 2 shows the estimated total direct cost to the Council and the total cost to the Council plus the three partner organisations shown. How pay deal costs are dealt with by the Council with each partner is important as this affects the approach to funding of those costs.
- 7.6 In relation to Council employees working for AHSCP the Council's funding policy has for a number of years been that AHSCP must fund pay deal costs from within its existing budget by making compensating savings elsewhere. This was the assumption made when Council agreed its 2022/23 funding allocation to AHSCP as part of the budget setting process in March 2022 and it is not proposed to change this policy/expectation. However in light of the fact that additional

funding has been provided by the Scottish Government to support the costs of the pay deal across the local government workforce, including Council staff working for AHSCP, it proposed that the Council use a proportionate share of that additional funding to support the pay cost impact on to AHSCP – see Section 8 below.

- 7.7 As noted above the pay deal works out at an average increase for Tayside Contracts of 9.79% and since the vast majority of income Tayside Contracts earn is from work done for the 3 constituent councils they have no choice but to pass on most of the increase in costs from the pay deal to the Councils in higher charges. Discussions with Tayside Contracts are continuing in regard to how the cost of the pay deal in 2022/23 will be met so the figure shown in Table 2 above is considered to be a worst case of the additional cost Angus Council may have to meet. The Council will use a proportionate share of the additional funding for pay from the Scottish Government to support the pay cost impact from Tayside Contracts to the Council – see Section 8 below.
- 7.8 ANGUSalive is a wholly owned company of the Council and members will be aware from other reports of the Council’s financial support for the company to enable it to continue to operate on a going concern basis. In determining the management fee from the Council to ANGUSalive for financial year 2022/23 it was assumed that the cost of pay increases would be met in full by compensating savings ANGUSalive would make and it is not proposed to change this policy/expectation. However, as with AHSCP above additional funding has been provided by the Scottish Government and it proposed that the Council use a proportionate share of that additional funding to support the pay cost impact on to ANGUSalive – see Section 8 below.

8. PAY DEAL FUNDING AND FUNDING GAP

- 8.1 In setting the 2022/23 revenue budget the Council made provision for pay increases of £2.8 million equivalent to an increase of 1.5% plus an allowance for the costs of consolidating the local government living wage into the Council’s pay scales. This figure included an estimate for the impact on to Tayside Contracts which would be passed on to the Council through higher prices. Although inflation was on the increase when that assumption was made it was guided by a logic that higher levels of increase were not affordable. The council had to use reserves on a one-off basis of just under £4 million to achieve a balanced budget for 2022/23. Such one-off solutions are not sustainable and due to this significant reliance on reserves the level of pay rise the Council could actually “afford” was considered to be £nil. In other words pay increases beyond the 1.5% assumed would add significantly to the Council’s existing financial problems. This remains the case. The Council had a total funding gap for 2022/23 to bridge of just under £14 million including the £2.8m provided for pay increases.
- 8.2 As part of the lengthy negotiations on pay between COSLA and trade unions the Scottish Government agreed to provide additional funding to Councils to enable a higher offer (now accepted by LGE staff) to be made. As a reflection of the challenges facing the Scottish Government’s own financial position some of this additional funding has had to be provided as additional capital grant. Capital grant cannot be used directly to meet revenue expenditure such as pay deal costs so it is necessary for the Council to readjust its capital and revenue funding plans to make the additional government funding offer work in accounting terms.
- 8.3 The Scottish Government is providing the additional funding to support 2022/23 pay deals shown in Table 3. The funding beyond financial year 2022/23 is crucial because the pay deals increase the Council’s pay costs on an ongoing basis and that requires ongoing additional funding.

Table 3 – Additional Scottish Government Funding/Commitments

Funding Source	All Scotland Total £million	Angus Council Allocation £million
Additional Revenue Grant Funding 2022/23 (note 1)	140.0	2.923
Additional Capital Grant Funding in 2022/23 (note 2)	120.6	2.518
Sub-total of 2022/23 Additional Funding	260.6	5.441
Additional Capital Grant Funding in 2023/24 (note 2,3)	120.6	2.518

Note 1 – this additional funding is to be “baselined” (added permanently to the revenue grant funding the Scottish Government provides to Councils from financial year 2023/24 onwards. This additional funding is to support pay deals for all pay groups

Note 2 – the Council needs to use this grant to create revenue headroom elsewhere in the budget (see Section 9 below). The funding is to support the LGE and Chief Officials pay deals only.

Note 3 – from financial year 2024/25 this funding will be baselined in to the revenue grant funding the Scottish Government provides to Councils.

8.4 From Table 3 it will be noted that Angus Council will receive a total of £5.441 million as permanent additional funding from the Scottish Government to support the 2022/23 pay deals. Whilst this is very welcome it still only covers around 47% of the total cost of those pay deals with the Council and partners having to fund the remainder.

8.5 Table 4 summarises the costs and existing funding available to support the costs of 2022/23 pay deals and the resultant funding gap. As stated earlier this gap assumes the teachers and chief officials final pay deals are based on the latest offers made. This represents a risk given industrial action is now underway by teaching unions.

Table 4 – Summary of Costs & Funding Financial Year 2022/23

	£million	£million
Direct Costs to Council	8.624	
Possible Council share of Tayside Contracts Pay Cost (note 1)	0.900	9.524
Total Funding from Scottish Government	(5.441)	
Less Proposed Share Allocated to AHSCP (note 2)	0.899	
Less Proposed Share Allocated to ANGUSalive (note 2)	0.328	(4.214)
2022/23 Budgeted Pay Deal Provision	(2.800)	
Less required for consolidation of living wage (note 3)	0.600	
Add balance of funding from 2021/22 budgeted pay provision	(0.204)	(2.404)
Gap Between Costs and Funding Available		2.906

Note 1 – in practice the Council will use a proportion of the additional funding from the Scottish Government towards this cost. This will enable Council services to pay Tayside Contracts for work done which reflects the cost of pay increases in Tayside Contracts.

Note 2 – AHSCP and ANGUSalive will be required to meet the full cost of the pay deal from within their existing budget allocation from the Council. The proposed share of additional government funding will cover approximately 56% of that cost for each partner.

Note 3 – this figure is an estimate. The initial basis of consolidating the Scottish Local Government Living Wage into the Council’s pay structure requires review in light of the 2022/23 LGE pay deal.

8.6 The proposed share of the additional Government funding to be allocated to the AHSCP and ANGUSalive is based on the proportion of the total cost of the pay deal which those organisations make up. The final share to those organisations may however vary from that shown in Table 4 once the pay deals for all staff groups have been concluded. Members are accordingly asked to delegate authority to the Director of Finance to finalise the proposed shares to the AHSCP, Tayside Contracts and ANGUSalive once all pay deals have been finalised and the full financial implications for the Council and these partners is confirmed.

8.7 Bearing in mind the teachers and chief officials deals have not yet concluded the gap of £2.906 million shown in Table 4 represents the current estimate of the cost of the 2022/23 pay deals which is unfunded.

8.8 The unfunded gap in costs shown in Table 4 compares to a figure of £3.7 million which had been included in the Council’s recent Medium Term Budget Strategy (MTBS) and therefore is an improvement of £0.794m on the previous high level estimate.

9. USE OF ADDITIONAL CAPITAL GRANT FUNDING 2022/23 AND 2023/24

- 9.1 Section 8 (Table 3) of this report shows that the Council will receive additional capital grant funding from the Scottish Government of £2.518 million in both the 2022/23 and 2023/24 financial years to help part fund the pay deal costs in those years. Accounting rules prevent the use of capital grant for revenue expenditure such as staff pay increases so it is necessary to use that additional capital grant in an alternative way to achieve the same end. The Scottish Government has provided statutory guidance which allows the Council to use the capital grant for purposes not normally available.
- 9.2 After due consideration of the options allowed for under the Government's statutory guidance it is recommended that the Council use the capital grant in the following ways:-
- I. Financial Year 2022/23 - to fund expenditure in the Council's Housing Capital Programme which is currently planned to be funded from the Housing Revenue Account as capital financed from current revenue (CFCR). Using the capital grant in place of CFRC will generate a surplus in the HRA budget of an equivalent amount which will then be transferred to the Council's General Fund at the end of the financial year to support the pay deal cost. The Housing Capital Budget assumes £5.990 million of capital spending will be met from the HRA budget in 2022/23. Using the additional capital grant of £2.518 million will reduce this sum to £3.472 million. This change will be reflected in the next budget monitoring report on the Housing capital budget to the Communities Committee.
 - II. Financial Year 2023/24 – to fund part of the Council's loans fund principal repayments of debt. This use of the capital grant will generate a surplus in the General Fund revenue budget of an equivalent amount which can be used to support the pay deal costs in that year. The 2023/24 General Fund revenue budget has still to be set but will require to include provision for loan repayments on previous borrowing. A sum of just over £5 million would be required. The additional capital grant of £2.518 million will reduce this sum to around £2.5 million.
- 9.3 Two differing approaches to using the capital grant in the relevant years are proposed because the Council may wish to use another temporary flexibility being offered by the Government to take a 1 year "holiday" on loans fund principal repayments. This flexibility can now only be used in financial year 2022/23 and would not be available in full if the Council used the capital grant to fund principal repayments in that year.

10. REVIEW OF EXISTING COMMITMENTS IN GENERAL FUND RESERVES

- 10.1 Report 178/22 submitted to the Council meeting in June 2022 advised members of various budget risks and actions being taken to try to manage those. One of those actions was to review all of the Council's existing commitments within Reserves to determine whether any of those could be cancelled or reduced. The scale of the financial challenges facing the Council over the next 3 years including the significant unfunded cost arising from the 2022/23 pay deals mean previously intended plans for using reserves need to be re-assessed.
- 10.2 Report 179/22 also submitted to the June 2022 Council meeting sought approval for a number of budget carry forwards of service budget underspends from financial year 2021/22 into 2022/23. The report noted that further carry forward requests were being evaluated and would be the subject of a further report seeking approval.
- 10.3 Attached as Appendix A is a list of existing commitments in reserves which it is proposed to cancel or amend (to de-commit) and a small number of new budget carry forward proposals. Members are being asked to approve the proposed adjustments to General Fund Reserve commitments shown in Appendix A. If approved the proposals in Appendix A will add £2.945 million to the Council's uncommitted reserves at 31 March 2022.
- 10.4 The Council's uncommitted General Fund Reserve has increased slightly following completion of the external audit process and Council has also agreed to use some of the uncommitted reserve for demolition costs on Lochside Leisure Centre and work to the Council chamber. Subject to approval of Appendix A the revised uncommitted reserve would now stand at £9.427 million.

10.5 While this level of uncommitted Reserve is significant it will very quickly be called upon to:-

- Support additional inflationary costs pressures affecting Tayside Contracts (Report 404/22 refers)
- Support the projected budget deficit in financial year 2022/23 (Report 404/22 refers)
- Support achieving a balanced budget over the next 3 years by extending the current Reserves Drawdown Strategy
- Support the costs of delivering the savings projected to be required in the Council's Medium Term Budget Strategy (Report 361/22 refers)

11. ADDRESSING THE PAY DEAL FUNDING GAP

11.1 It is important to stress that pay offers which include a permanent uplift to pay add to the Council's cost base on an ongoing (year after year) basis. While one-off funding sources of funding such as reserves can be used to address a shortfall arising on pay in-year as a temporary solution they cannot be used as a means of paying for pay deals on an ongoing basis.

11.2 The Council cannot increase Council Tax during the year and because the pay negotiations have taken so long to conclude the options for finding permanent savings in the remainder of financial year 2022/23 over and above the £6.8 million already required per the Change Programme are limited. The Council will therefore have to cover the gap of £2.906 million shown in Table 4 through other means.

11.3 Report 404/22 to the Policy & Resources Committee of 6 December 2022 shows an overall projected deficit for the 2022/23 financial year on the General Fund revenue budget of £1.487 million. That deficit includes the £2.906 million unfunded cost of the pay deals shown in Table 4 above which means part of that pay deal impact is projected to be covered in 2022/23 by underspends elsewhere in the budget. The latest projected deficit of £1.487 million will have to be met from uncommitted General Fund Reserves however given this position will be subject to change it is recommended that members approve the use of up to £2.906 million of the Council's uncommitted General Fund Reserves in financial year 2022/23 to meet the gap between costs and available funding as set out in Table 4 (Section 8), noting that the final required use of Reserves will depend on the outcome of the pay deals which have still to be settled and the overall outturn on the Council's 2022/23 budget.

11.4 Addressing the £2.906 million gap on the 2022/23 pay deal on an ongoing basis will require to be considered as part of the 2023/24 budget setting process but will inevitably require consideration of cuts in spending elsewhere in the Council's budget along with increases in fees and charges and possibly increases in Council Tax. By way of illustration if all of that gap were to be met from increased Council Tax the Council Tax would need to increase by 4.9%.

12. IMPLICATIONS FOR THE COUNCIL'S MEDIUM TERM BUDGET STRATEGY 2023/24 TO 2025/26

12.1 The detailed calculations on the impact of 2022/23 pay deals as currently known shows an improvement of £0.794 million compared to the recent MTBS (Report 361/22) and would, all other things being equal, reduce the projected funding gap for 2023/24 of £22.861 million by an equivalent amount. However the fact that the 2022/23 pay deal for teachers remains unresolved means there is a risk that this improved position may not be the final position. To be clear the improved position is that the previously estimated gap is now less but a sizeable gap still remains to be addressed.

13. FINANCIAL IMPLICATIONS

13.1 There are significant financial implications for the Council arising from the 2022/23 pay settlements which will affect the current financial year 2022/23 and future years. Those financial implications have however been explained in the body of this report.

14. EQUALITY IMPACT ASSESSMENT

14.1 An Equality Impact Assessment is not required. The equalities implications of the pay deals have been assessed nationally.

NOTE: The following background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 were relied on in preparing the above report.

- Scottish Government Guidance - Temporary Statutory Accounting Flexibility 2022-23 & 2023-24 Additional Capital Grant – Finance Circular 11/2022 - issued 30 November 2022

REPORT AUTHOR: Ian Lorimer

EMAIL DETAILS: Finance@angus.gov.uk

List of Appendices

Appendix A – General Fund Reserves – Revisions to Commitments and Budget Carry Forwards