Notice of meeting and agenda

Additional Finance and Resources Committee

2.00pm, Thursday 8 February 2018

Dean of Guild Court Room, City Chambers, High Street, Edinburgh

This is a public meeting and members of the public are welcome to attend

Contact

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1. Order of business

1.1 Including any notices of motion and any other items of business submitted as urgent for consideration at the meeting.

2. Declaration of interests

2.1 Members should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

3. Deputations

3.1 The Edinburgh World Heritage Trust in respect of item B1.1 – Tron Kirk, Edinburgh.

4. Minutes

4.1 None

5. Executive decisions

5.1 Revenue Budget Framework 2018/23: Progress Update – report by the Executive Director of Resources (circulated)

5.2 Council's Budget 2018/23 - Risks and Reserves – report by the Executive Director of Resources (circulated)

5.3 Capital Investment Programme 2018/19 to 2022/23 – report by the Executive Director of Resources (circulated)

5.4 Accounts Commission – Local Government in Scotland – Financial Overview 2016-17 – referral by the Governance, Risk and Best Value Committee (circulated)

5.5 Council Revenue Budget Framework (2018-2023) - Impact Assessments - report by the Chief Executive (circulated)

5.6 Housing Revenue Account Budget Strategy 2018 – 2023 – report by the Executive Director of Place (circulated)

5.7 2018-19 Budget Proposals: overview of citizen engagement process and feedback – report by the Chief Executive (circulated)

5.8 Edinburgh Leisure – Pension Guarantee – report by the Executive Director of Resources (circulated)

6. Routine decisions

6.1 None

7. Motions

7.1 If any

Laurence Rockey

Head of Strategy and Insight

Committee Members

Councillors Rankin (Convener), Donaldson (Vice-Convener), Bridgman, Corbett, Howie, Hutchison, Johnston, Miller, Neil Ross, Watt and Whyte.

Information about the Finance and Resources Committee

The Finance and Resources Committee consists of 11 Councillors and is appointed by the City of Edinburgh Council. The Finance and Resources Committee usually meets every eight weeks.

The Finance and Resources Committee usually meets in the Dean of Guild Court Room in the City Chambers on the High Street in Edinburgh. There is a seated public gallery and the meeting is open to all members of the public.

Further information

If you have any questions about the agenda or meeting arrangements, please contact Veronica MacMillan or Blair Ritchie, Committee Services, City of Edinburgh Council, Business Centre 2.1, Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG, Tel 0131 529 4283 / 0131 529 4085 or e-mail veronica.macmillan@edinburgh.gov.uk / blair.ritchie@edinburgh.gov.uk

A copy of the agenda and papers for this meeting will be available for inspection prior to the meeting at the main reception office, City Chambers, High Street, Edinburgh.

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For remaining items of business, likely to be considered in private, see separate agenda.

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Finance and Resources Committee

2.00pm, Thursday, 8 February 2018

Revenue Budget Framework 2018/23: Progress Update

Item number	5.1
Report number	
Executive/routine	
Wards	
Council Commitments:	**None**

Executive Summary

On 7 November 2017, members of the Finance and Resources Committee considered the Council's revenue budget framework mid-year review. The report provided an update on progress in delivering the savings approved for implementation in 2017/18 and advised as to the outcome of a review of the main income and expenditure factors included within the long-term financial plan. The report furthermore highlighted a number of risks and demand-led pressures affecting, in particular, the Health and Social Care and Safer and Stronger Communities functions.

Taking into account both updated projections of grant funding and the need to address underlying structural deficits within the two service areas above on a sustainable basis, the report set out a revised in-year 2018/19 savings requirement of £20.9m, with significant further incremental annual savings requirements thereafter, together totalling £151.2m by 2022/23. While the Committee approved the release for public engagement of specific and themed proposals with the potential to address in full the estimated savings requirement in 2018/19, it was emphasised that the precise requirement would be determined by the Local Government Finance Settlement announced on 14 December 2017 and any subsequent amendments resulting from both the consultation period on the accompanying Finance Circular and Parliamentary consideration of the Draft Scottish Budget Bill. This report therefore updates members on the anticipated outcome of the Settlement and, in particular, its impact on the budget framework.

Report

Revenue Budget Framework 2018/23: Progress Update

1. Recommendations

1.1 Members of the Finance and Resources Committee are asked to:

1.1.1 note the impact of the provisional 2018/19 Local Government Finance Settlement on the 2018/23 revenue budget framework;

1.1.2 consider, as appropriate, the officer recommendations in allocating additional available grant funding relative to framework assumptions;

1.1.3 note, nonetheless, the estimated remaining savings requirements across the overall period of the framework; and

1.1.4 refer the report to Council as part of the budget-setting process.

2. Background

2.1 On 7 November 2017, members of the Finance and Resources Committee considered the Council’s revenue budget framework mid-year review. The report provided an update on progress in delivering the savings approved for implementation in 2017/18 and advised as to the outcome of a review of the main income and expenditure factors included within the long-term financial plan. The report furthermore highlighted a number of risks and demand-led pressures affecting, in particular, the Health and Social Care and Safer and Stronger Communities functions.

2.2 Taking into account both updated projections of grant funding and the need to address underlying structural deficits within the two service areas above on a sustainable basis, the report set out a revised in-year 2018/19 savings requirement of £20.9m, with significant further incremental annual savings requirements thereafter, together totalling £151.2m by 2022/23. The savings requirement in each year of the framework assumes:

(i) delivery of all previously-approved savings;

(ii) a 3% annual increase in Council Tax; and

(iii) management of other risks and pressures over and above those for which specific additional budgetary provision has been made.

2.3 In considering the report’s contents, members of the Committee also approved the release for public engagement of a number of specific proposals to a total value of £17.393m, with the balance of the incremental savings requirement for 2018/19 to be met through a number of Council-wide themes. Taken together, these proposals, if all approved and the associated savings delivered, would address in full the estimated savings requirement in 2018/19. While the report noted that implementation and delivery of these, or alternative, proposals would go a significant way towards re-establishing financial stability across the period of the budget framework, it was emphasised that the 2018/19 proposals are best seen as a first step on a longer journey.

2.4 Members will be aware that the Council's budget framework, by necessity, included estimates of grant funding for 2018/19 and subsequent years based on best-available independent projections of likely levels of public expenditure and relative Scottish Government policies, priorities and commitments over the short- to medium-term. Following the announcement of the Local Government Finance Settlement on 14 December 2017 and subsequent changes arising from the consultation period on the accompanying Finance Circular and the wider Draft 2018/19 Scottish Budget's Parliamentary consideration, however, this report provides details of the implications of the Council's provisional funding allocation for the budget framework.

3. Main report

Background

3.1 The Cabinet Secretary for Finance and the Constitution presented a one-year Local Government Finance Settlement to the Scottish Parliament as part of the 2018/19 Draft Scottish Budget on 14 December 2017. As in previous years, the draft Settlement has been subject to a number of weeks' consultation, with any Council Leader not agreeing to the full package of measures included within it asked to notify the Cabinet Secretary in writing, setting out the reasons, by 2 February 2018. No such letter was submitted by the Council Leader. Comments on the calculations underpinning the accompanying Finance Circular were similarly invited and, as a consequence, the allocations within it remained provisional at the time of issue. Members are reminded that any reallocations of funding resulting from agreed distributional changes are made within the overall level of resources provided within the Settlement and there is thus the potential for any council's final allocation to vary from the provisional level intimated therein.

3.2 Receipt of each council's full funding allocation is dependent upon increasing Council Tax levels by no more than 3% in 2018/19 and continuing adherence to national commitments around maintaining current pupil:teacher ratios and guaranteeing a place for every probationary teacher who requires one under the Teacher Induction Scheme.

3.3 The funding package reflects baselining of the £130m of revenue resources initially provided on a one-off basis as part of the revised Local Government Finance Settlement in February 2017. It also includes additional revenue and capital monies to facilitate expansion of early learning and childcare provision and further investment of £66m to support implementation of the Carers (Scotland) Act 2016, continued payment of the Living Wage and increases in personal and nursing care payments. Given these additional monies received through the Local Government Finance Settlement, recurring Social Care Fund investment will be maintained at 2017/18 levels. While local authorities will be expected to prioritise their financial support for social care, the Settlement contains no specific requirements with regard to the level of financial "offer" to be made to Integration Joint Boards in 2018/19.

Scotland-wide and Edinburgh-specific 2018/19 Settlement as initially announced on 14 December 2017

3.4 Compared on a like-for-like basis and taking account of monies provided in respect of new commitments and/or pressures, the headline year-on-year Scotland-wide decrease in revenue funding announced on 14 December 2017 was around £150m, or 1.6%, a somewhat lower level of decrease than had been anticipated by local authority commentators.

3.5 While, subject to the outcome of the consultation process, the grant allocations remained provisional, on the basis of the figures contained within the accompanying Finance Circular, Edinburgh's equivalent reduction was marginally higher than the national average at 1.7%, equating to some £12.2m. Although the Council's share of the core, needs-based indicators has increased (reflective of the city's relative population growth), the continuing effect of significant reductions in Edinburgh's level of historic debt has resulted in a significant reduction in borrowing support. As a result, the Council remains firmly within the funding floor, with £21.6m of support provided to offset the level of grant reduction that would otherwise have been faced.

3.6 Following amendments to the basis of calculation first introduced in 2017/18, while Edinburgh's per capita funding levels remain the lowest in Scotland, only Aberdeen City Council received additional funding as part of the Scottish Government policy whereby no authority receives less than 85% of the per capita average level of revenue support.

Revision to funding floor calculation

3.7 As part of the consultation on the content of the Finance Circular, an error came to light in the calculation of the funding floor. The floor is a stability mechanism that, in times of reducing resources, has the effect of minimising the level of year-on-year reduction faced by any authority, thereby allowing the corresponding decrease in expenditure to be phased in over a longer period.

3.8 The floor is self-funding, meaning that any resources provided to support authorities facing higher reductions are met by means of contributions from those authorities receiving more favourable relative settlements. Following the issuing of a revised Settlement, the Council's contribution reduced by £3m to £18.6m. By extension, the Council's grant funding allocation fell by a further £3m, with the year-on-year level of grant reduction, at that stage, increasing to around 2.2%.

Scottish Parliamentary consideration of the Draft Scottish Budget Bill

3.9 Previous reports have noted the potential for further changes to result from the Draft Budget's consideration by the Scottish Parliament. As part of the Stage 1 Budget Bill Debate on 31 January, a number of further amendments were introduced by the Cabinet Secretary. These revised budget proposals were approved by 69 votes to 56 and now move onto the next stage in the legislative process ahead of a final Parliamentary vote on 21 February.

3.10 Following a re-assessment of the total level of grant funding to be made available to councils, an additional £170m has been introduced into the Local Government Finance Settlement for 2018/19. This total comprises £159.5m of support to be allocated across councils in accordance with shares of overall assessed expenditure need and £10.5m specifically in respect of funding support for inter-island ferries for Orkney and Shetland Islands Councils. While a number of differing comparisons of the relative change in the level of Settlement can be made, on a like-for-like basis relative to the Council's planning assumptions, receipt of these additional monies results in an overall Scotland-wide year-on-year cash-terms increase of about 0.1%.

3.11 Based on its proportionate needs share of 7.77%, Edinburgh's allocation from the additional resources of £159.5m is £12.399m. While an element of the funding will be paid in March 2018, the full sum is being provided in respect of 2018/19.

Implications of level of grant settlement for Council's budget framework

3.12 The Council's revenue budget framework assumed a headline decrease in grant of 2.9%, along with non-continuation of the £130m referenced at 3.4 above. Taken together, these factors resulted in an estimated total reduction of about 4.3%. The provisional actual level of reduction of 0.4%, inclusive of the additional monies noted at 3.12 above, therefore results in a favourable movement of 3.9% (equating to £27.1m) relative to framework assumptions.

3.13 While no further changes are anticipated at this stage, following consideration by the Scottish Parliamentary's Finance Committtee on 15 February, the final Parliamentary debate will take place (with formal approval expected) on 21 February. Members will be kept apprised of any further changes resulting from this Parliamentary consideration.

Potential application of additional funding relative to framework assumptions

3.14 An indicative allocation of some of the £27.1m of funding identified above, taking into account a number of national and local commitments, pressures and policies, is provided in the following sections. The proposals' starting point assumes approval and delivery of all of the specific proposals that were the subject of recent public engagement and that none of the service investment funded through the £10m of "one-off" monies in 2017/18 continues. In addition, it assumes delivery of £9.8m of savings previously approved for implementation in 2018/19, including £4.2m through the Asset Management Strategy.

Officer proposals based on actual funding settlement	£m	£m
Property condition surveys and repairs and maintenance		8.5
Health and Social Care - additional funding		4.0
Private Sector Leasing (PSL) - contract renewal/uplift		0.9
Extension of broad principles of Scottish Government 2018/19 pay award to Local Government		3.5
Unallocated funding		**10.2**
Total		**27.1**

Asset Management Strategy

3.15 The update report considered by the Finance and Resources Committee on 23 January indicated that some £2.6m of Asset Management-related savings previously approved for delivery in 2018/19 were assessed as red, with a further £0.9m at amber. The budget framework proposals for 2018/19 include an additional £0.539m of staffing-related savings.

3.16 A number of primarily one-off savings to be delivered in 2018/19, alongside maintenance of the level of performance factor implicit in the staff-related saving above, have now been identified, with the potential to address in full the £3.5m of red- and amber-assessed savings. This notwithstanding, sustainable savings measures, particularly those relating to process efficiencies and estate rationalisation, are being developed by officers , fully accepting that such savings will require cross-party political support and approval to secure longer term financial stability

Looked-After Children and Young People

3.17 A marked increase in the number of children requiring to be looked after within the Council's own residential facilities is placing additional pressure on the numbers of out-of-council placements required. While a range of mitigating actions is being examined, there is a risk that this expenditure pressure and any subsequent growth will not be able to be managed in full in 2018/19. On this basis, regular updates on this issue will be provided to members.

Property condition surveys and repairs and maintenance

3.18 A report setting out the outcomes of the property condition surveys and the consequent requirement for a planned programme of backlog maintenance across the Council's operational estate was also considered at the Finance and Resources Committee's meeting on 23 January. Following in-depth analysis, this assessment points to a total in-year requirement in 2018/19 of £8.5m, based on the expected profile of the first year's capital works. The delivery plan, aligned to the financial profile contained in the report, is being developed on the assumption that the required funding will be available as set out. Subject to members' approval, the budget framework will be revised to incorporate the additional required revenue provision to support the further capital requirement of £48.9m emerging from this assessment.

Health and Social Care

3.19 The £4m sum for Health and Social Care, alongside a corresponding assumed contribution from NHS Lothian, is intended to facilitate the provision of care packages to individuals previously assessed as requiring support, alongside provisions for new demographic demand and the part-year care requirement emerging from those individuals currently awaiting an assessment. Going forward, it is envisaged that the full-year impact of this increased demand will primarily be met from release of capacity through telecare, support planning and brokerage and homecare/re-ablement initiatives.

3.20 Discussions are continuing with NHS Lothian to supplement any additional investment provided by the Council, with decisions in this area subject to ratification by both the Edinburgh Integration Joint Board and NHS Lothian. On-going work is also taking place to assess both the service demand and capacity available to increase service provision next year.

Private Sector Leasing (PSL)

3.21 It is anticipated that, following this Committee's in-principle approval at its previous meeting on 23 January, arrangements to extend the current PSL contract will be finalised later in February 2018. These revised arrangements will require payment of the increased rent and management fees rates implicit in the uplift at 3.15 above to allow the Council to continue to meet its statutory responsibilities in this area. Approving the extension of this contract and the associated increase in cost is a key part of continuing to deliver against Council commitments to address homelessness in the city.

Pay awards

3.22 While Local Government pay awards are separately negotiated through COSLA, as part of the Cabinet Secretary's announcement on 14 December 2017, a revised Scottish Government public sector pay policy for 2018/19, comprising the following elements, was confirmed:

(i) a 3% increase for all staff whose annual remuneration is less than £30,000;

(ii) a 2% increase for staff whose salary falls between £30,000 and £80,000; and

(iii) a £1,600 capped maximum increase for those staff earning more than £80,000.

3.23 The detailed application of this policy, particularly the appropriate level of increase to apply to staff in the middle banding, requires to be confirmed. Based on a literal application of the principles above, however, the additional annual cost to the Council of matching this offer would be about £2.2m.

3.24 As part of the Draft Scottish Budget Bill's consideration by the Scottish Parliament, the Cabinet Secretary for Finance and the Constitution subsequently announced a change in the Scottish Government's public sector pay policy on 30 January, increasing to £36,500 (from £30,000) the upper threshold to which the 3% pay increase applies. Based on an assessment of the additional Council staff now brought into scope of the higher percentage increase, the estimated full-year cost relative to the policy announced on 14 December 2017 is £1.3m, bringing the total additional cost relative to budget framework assumptions to £3.5m.

3.25 While it is anticipated that, as in previous years, pay awards will be negotiated between COSLA and the representative trade unions at a Scotland-wide level, the officer recommendation reflects this additional liability as indicative of the upward pressure on staff salaries that would be anticipated to result from a relaxation of the Scottish Government's policy.

3.26 In view of the general heightening of expectations around staff pay awards witnessed by the levels of claim lodged by both the representative teaching and non-teaching trade unions, however, it may be prudent to increase further the level of provision across all staffing groups to 3%. While not included in the proposals at 3.15 above, adoption of this assumption would result in a further increase of £1.9m i.e. to £5.4m in total, relative to the budget framework baseline.

Development of "themed" savings

3.27 A series of meetings between the Chief Executive and Executive Directors, supported by the relevant Principal Accountants, has been held with a view to identifying additional, or accelerating existing, proposed savings that could contribute towards the £3.5m of "themed" savings assumed within the budget consultation and framework in 2018/19. Whilst the wider focus has been on the immediate budget requirements for 2018/19, these meetings have had the main purpose of ensuring that the medium-term financial framework and savings profile for the next four years are being actively developed and are wholly aligned to the Council's emergent Change Strategy. While these proposals and opportunities focus on the medium term and are intended to enable the delivery of savings from 2019/20 onwards, some of them may be able to be accelerated into 2018/19.

3.28 At this stage, £1m of additional officer proposals, representing a combination of service efficiencies and acceleration from later years' initiatives, have been identified and corresponding one-page templates will be made available to all Groups prior to Council's budget-setting on 22 February 2018.

3.29 In addition to this primarily medium-term work, as an agreed part of this wider review, consideration of the Council's corporate budgets has identified additional savings opportunities as follows:

(i) £1m of recurring savings in loan charge provision, based on anticipated slippage within the current year's capital programme reflected in the month nine monitoring position reported to the Finance and Resources Committee on 23 January 2018;

(ii) £1m of additional Council Tax income evident within updated assessments of the size and profile of the city's Council Tax base; and

(ii) £0.5m of additional interest on the Council's available cash balances, assumed for one year only at this stage, following the recent increase in base interest rates.

Overall position for 2018/19

3.30 Taken together, these identified corporate savings and other unallocated funding offer the potential for a total of £10.2m of additional investment in addition to that set out in Paragraph 3.15. Given that a significant savings requirement remains to be addressed in subsequent years of the framework, members may wish to identify, in particular, items of a one-off nature.

3.31 This investment could be used to support a range of expenditure including that of a preventative nature or, alternatively, rejection of, or amendment to, the level of previously-approved or proposed savings. The further reading section contains a link to the report setting out the approved uses of the £10m of one-off investment in 2017/18 that may form part of this consideration.

3.32 At its meeting on 23 November 2017, Council considered a motion from Cllr Hutchison seeking clarification on the feasibility of analysing the Council's budget according to the statutory or non-statutory nature of the activities concerned. Whilst relevant legislation sets out a range of powers and duties, no definitive and accepted list of such services exists. In addition, the extent and nature of statutory provision is, in many cases, not formally prescribed.

3.33 To provide additional transparency and further inform members' consideration, however, an analysis of the Council's principal areas of expenditure is included at Appendix 1.

Future years

3.34 In view of the larger financial challenges anticipated in subsequent years of the framework, work to develop additional proposals involving service redesign, improved demand management and service prioritisation will continue to be accelerated in line with the intention to present a four-year, sustainable plan, built upon the Programme for the Capital and aligned to the Change Strategy, to the Finance and Resources Committee in September 2018. A review of the financial framework assumptions will also be undertaken as part of the four-year budget planning exercise.

Barclay Review on Non-Domestic Rates

3.35 Following the earlier publication of the recommendations of the Barclay Review on Non-Domestic Rates, the Cabinet Secretary for Finance and the Constitution made a ministerial statement to Parliament on the Scottish Government's response on 12 September 2017. This response signalled an intention, subject to Parliamentary approval, to implement the majority of the Review's recommendations, including granting a year's relief for newly-constructed and expanded properties, introducing more frequent revaluations, full rates relief for childcare facilities and conducting a comprehensive review of the operation of the Small Business Bonus Scheme.

3.36 The Scottish Government indicated that it would engage further with key stakeholders concerning the Review's recommendations on entitlement to charitable relief for local authority arm's length leisure and cultural trusts and independent schools, before publishing its response to these proposals by the end of 2017.

3.37 On 28 November 2017, the Cabinet Secretary confirmed that existing rates relief for local authority arm's length organisations (ALEOs), including Edinburgh Leisure and the Festival City Theatres Trust, would be maintained, thereby avoiding a potential annual liability of around £2.5m across the two organisations. The Cabinet Secretary further intimated, however, that rates relief would not be granted for any further proposed ALEOs.

3.38 As part of the Scottish Budget announcement, the Cabinet Secretary also intimated that existing charitable relief for independent schools (except special schools) would be removed from 2020/21. Overall changes in school roll projections will continue to be monitored and inform demographic-related projections contained within the Council's Long-Term Financial Plan.

4. Measures of success

4.1 Relevant measures in setting the revenue budget include:

- Accurate capturing and quantification of the key determinants of the Council's overall expenditure requirement and available sources of income, allowing a balanced overall budget for 2018/19 and subsequent years to be set as part of a sustainable longer-term framework;
- Development of savings and investment options aligned to the Council's priority outcomes, with due opportunity provided for public consultation and engagement; and
- Subsequent delivery of the approved savings, particularly where these are linked to additional service investment, along with key service performance indicators.

5. Financial impact

5.1 Delivery of a balanced budget in any given year is contingent upon the development, and subsequent delivery, of robust savings, alongside management of all risks and pressures, particularly those of a demand-led nature.

5.2 By adopting more prudent assumptions with respect to grant funding levels, the budget framework has offered elected members the potential to consider a wider range of savings and investment options.

6. Risk, policy, compliance and governance impact

6.1 An annual report on the risks inherent in the budget process (contained elsewhere on today's agenda) is considered by the Finance and Resources Committee and referred to Council as part of setting the revenue and capital budgets.

6.2 The savings assurance process is intended to ensure that, as far as is practicable, those proposals approved by Council deliver the anticipated level of financial savings in a way consistent with the expected service impacts outlined in the respective budget proposals.

6.3 A summary of progress in respect of savings delivery is reported to the Finance and Resources Committee on a quarterly basis, with additional detail and commentary on risks, mitigations and alternative measures (as appropriate) reported to Executive Committees.

7. Equalities impact

7.1 While there is no direct additional impact of the report's contents, all budget proposals are now subject to an initial relevance and proportionality assessment and, where appropriate, a formal Equalities and Rights Impact Assessment is then undertaken. A report on material impacts arising from the budget proposals and associated planned mitigating actions is included elsewhere on today's agenda. The equalities and rights impacts of any substitute measures identified to address savings shortfalls are similarly assessed.

8. Sustainability impact

8.1 While there is no direct additional impact of the report's contents, the Council's revenue budget includes expenditure impacting upon carbon, adaptation to climate change and contributing to sustainable development. In addition, all budget proposals are now subject to an upfront assessment across these areas, with the main impacts included elsewhere on today's agenda.

9. Consultation and engagement

9.1 As in previous years, an extensive programme of engagement on the specific proposals and wider themes comprising the framework has been undertaken. A separate report on the main areas of feedback emerging from this year's citizen budget engagement exercise is included elsewhere on today's agenda.

10. Background reading/external references

10.1 Capital Coalition Budget Motion, City of Edinburgh Council, 9 February 2017

10.2 Revenue and Capital Budget Framework 2018/23 – progress update, Finance and Resources Committee, 5 September 2017

10.3 Revenue Budget Monitoring 2017/18 – Update, Finance and Resources Committee, 28 September 2017

10.4 Revenue Budget Framework 2018/23: Mid-Year Review, Finance and Resources Committee, 7 November 2017

10.5 Approved 2017/18 – 2020/21 Revenue Budget and 2017/18 – 2021/22 Capital Investment Programme – plans for supplementary investment, Finance and Resources Committee, 23 March 2017

Stephen S Moir

Executive Director of Resources

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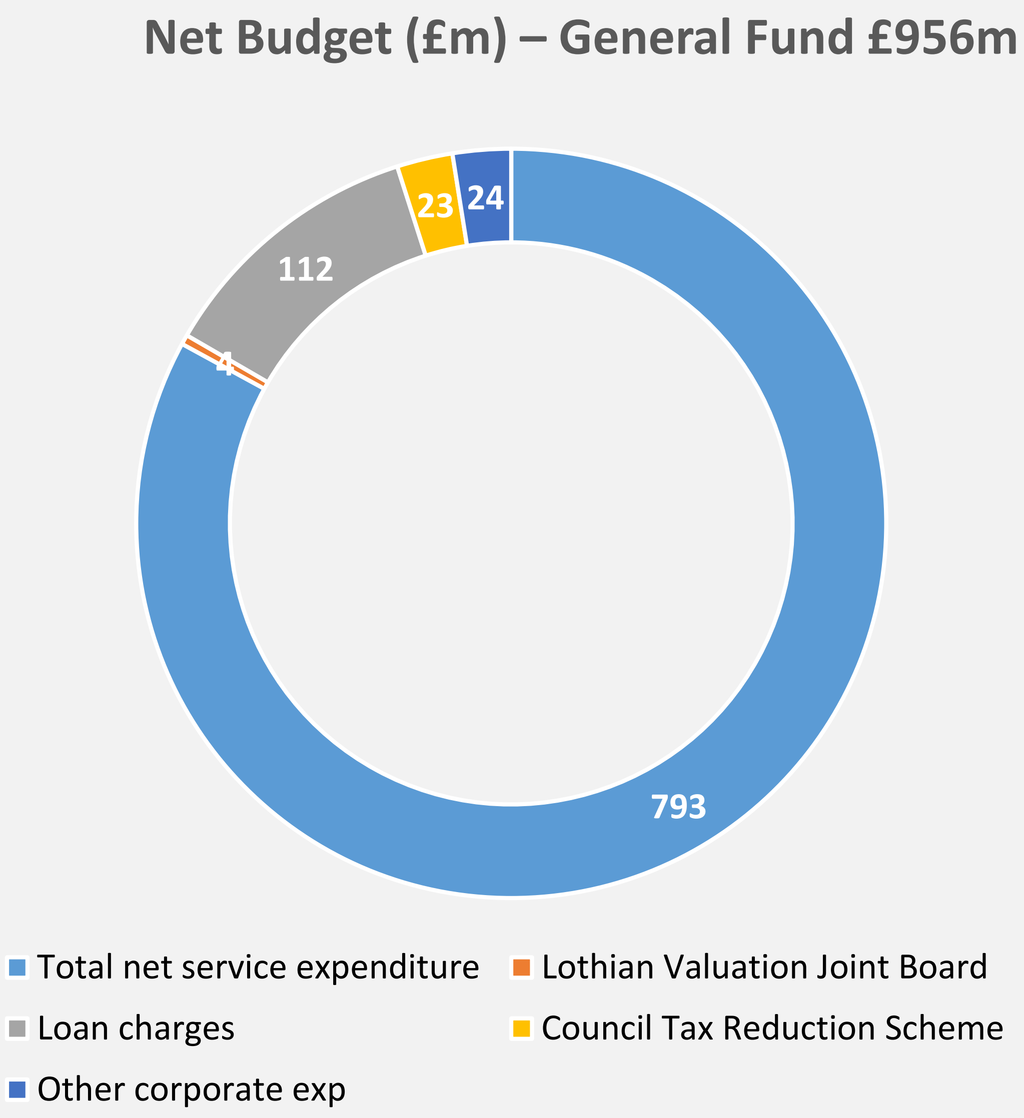
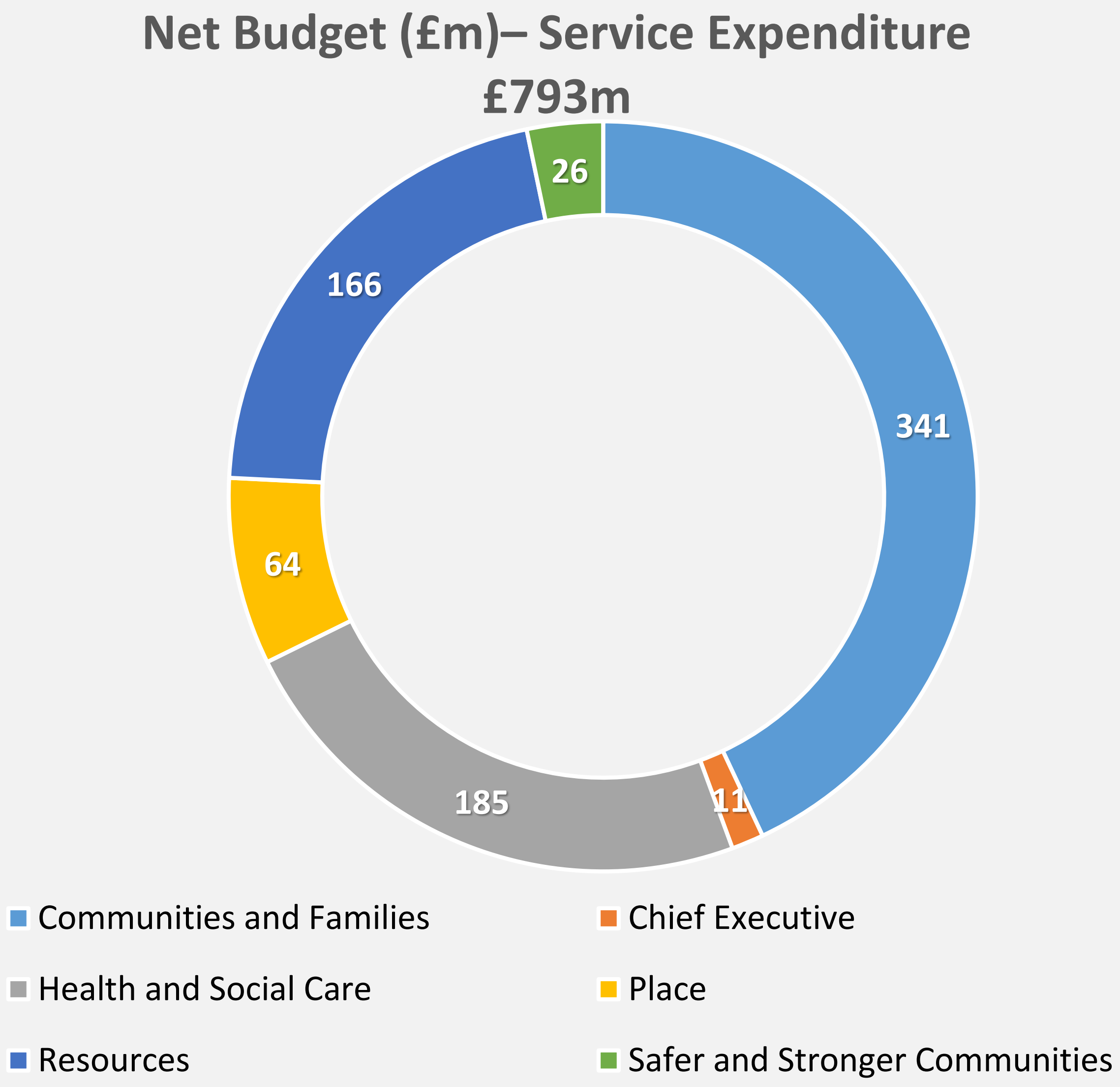
11. Appendices

Appendix 1 – Corporate and service-by-service analysis of 2017/18 approved revenue budget

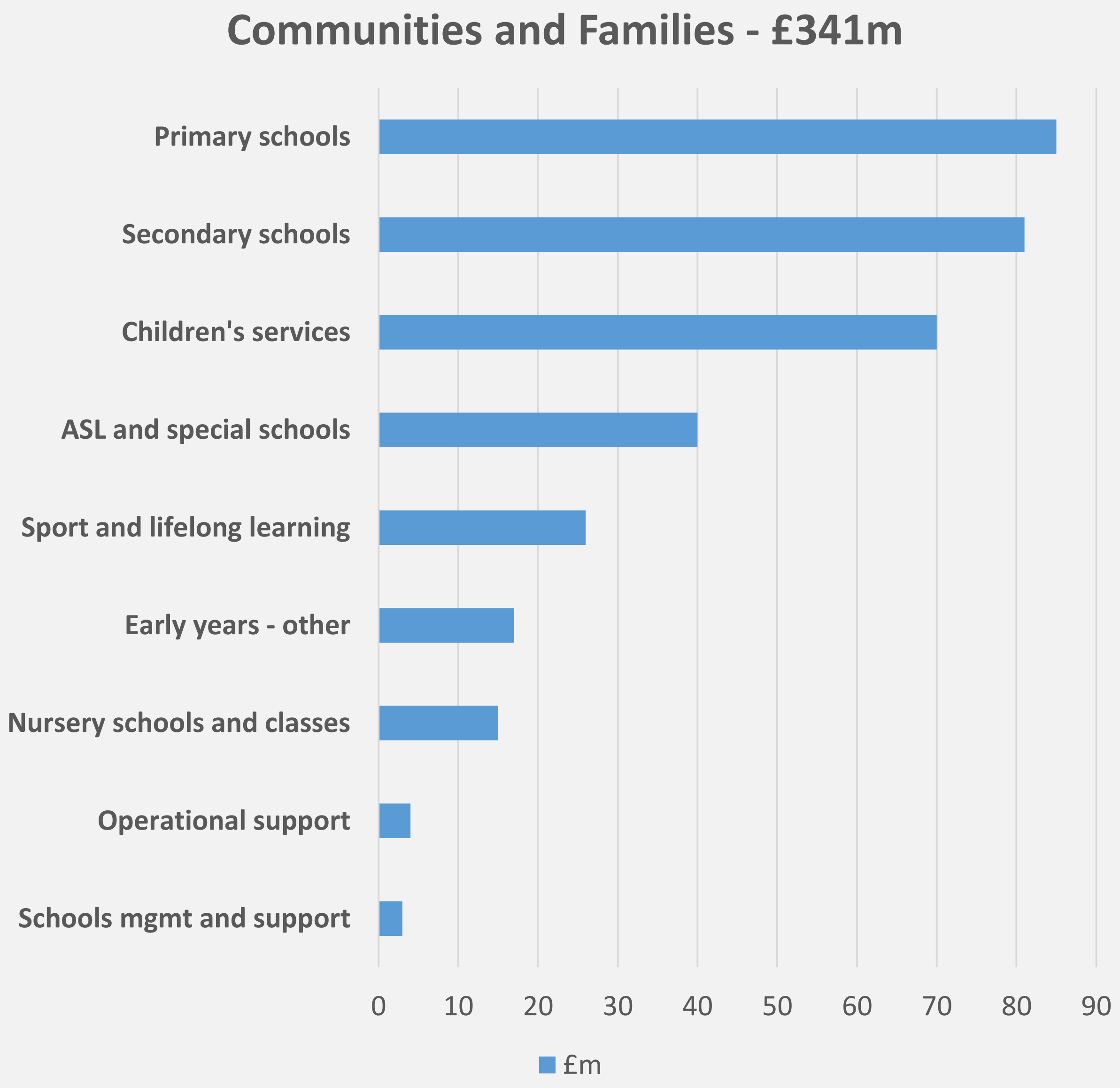
Revised Council revenue budget, 2017/18

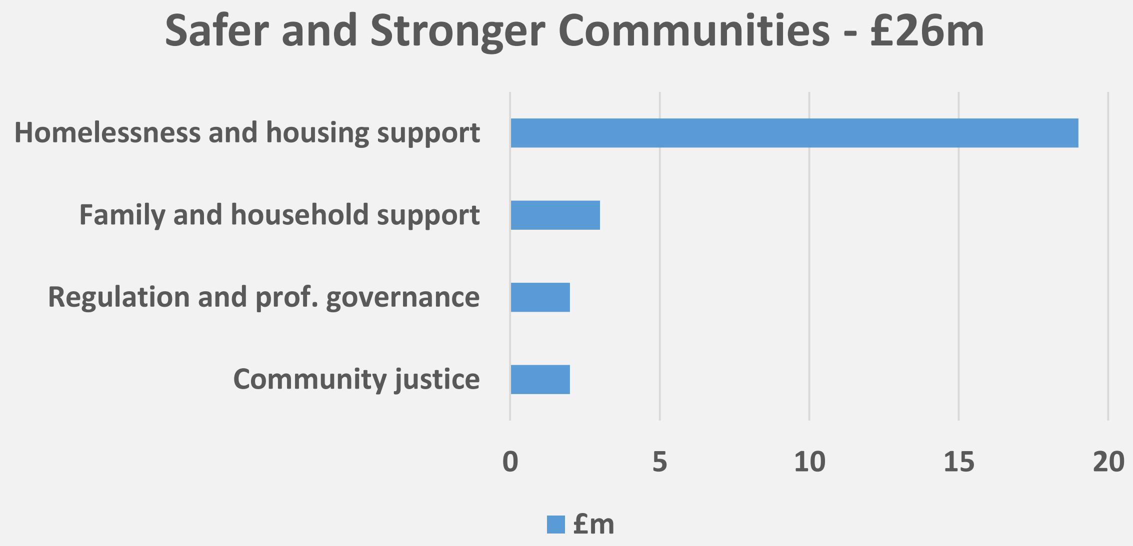
Appendix 1

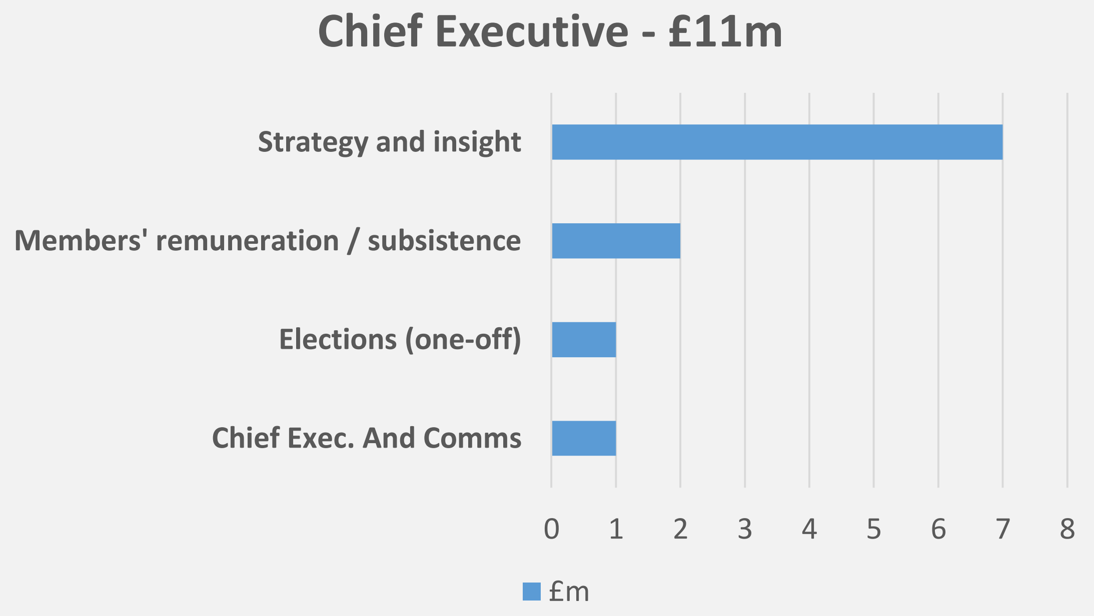




Financial context – Council Budget

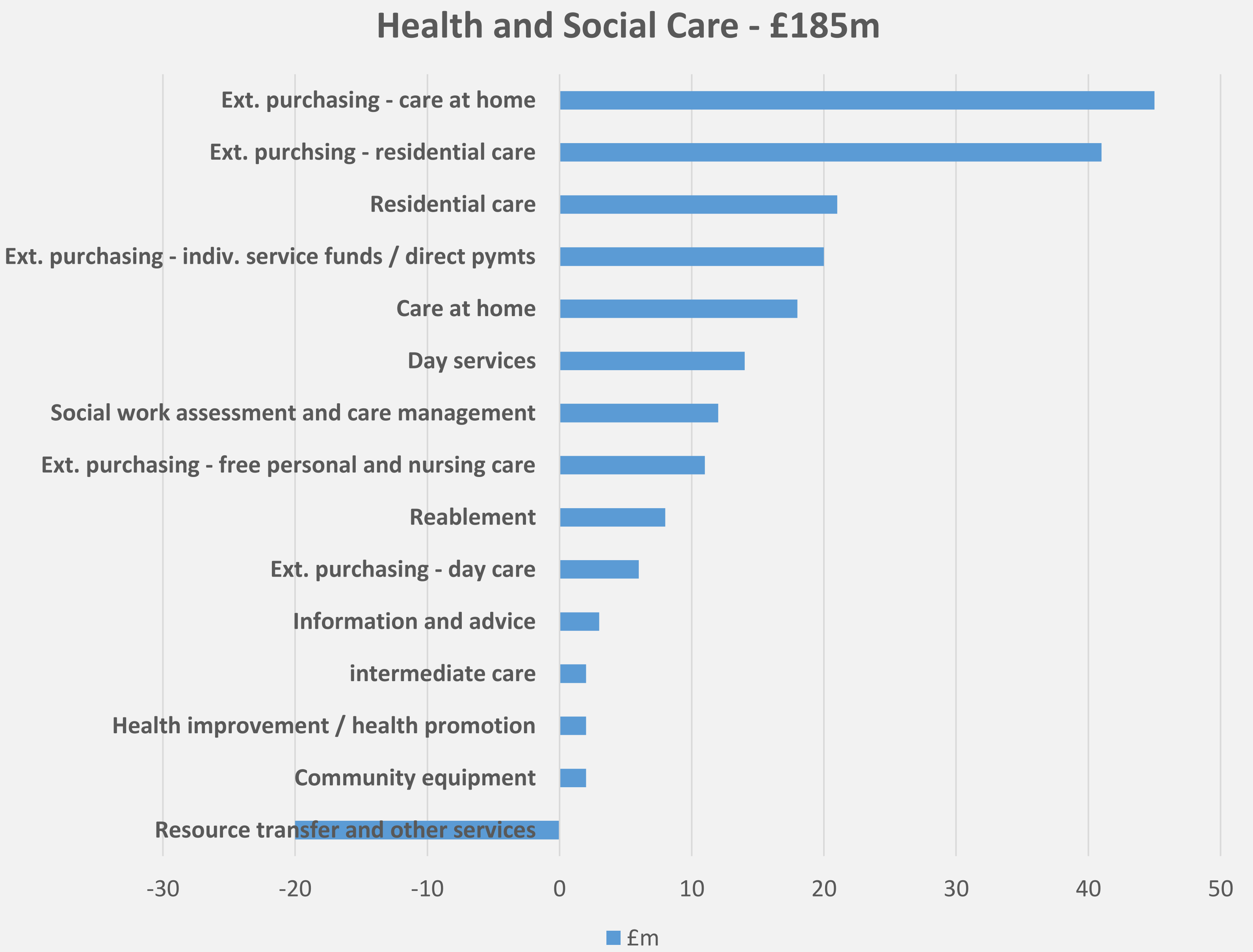






Financial context – Council Budget

Financial context – Council Budget



Budgets are net of funding through the Social Care Fund.

Finance and Resources Committee

2.00pm, Thursday, 8 February 2018

Council's Budget 2018/23 – Risks and Reserves

Item number	5.2
Report number	
Executive/routine	
Wards	
Council Commitments:	None

Executive Summary

The report advises members of the risks inherent in the revenue and capital budget framework and the range of measures and provisions established to mitigate these.

The report outlines the level of reserves held and the purpose for which they are maintained, including consideration of the adequacy of balances held to mitigate against known risks.

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Council's Budget 2018/23 – Risks and Reserves

1. Recommendations

1.1 Members of the Finance and Resources Committee are asked to:

1.1.1 Note the content of this report; and

1.1.2 remit the report to the City of Edinburgh Council for decision on 22 February 2018 as part of the budget-setting process.

2. Background

2.1 This report advises members of significant risks identified in the budget process, quantifying them wherever possible, and sets out the range of measures and provisions in place to mitigate these.

2.2 Unallocated reserves are held against the risks of unanticipated expenditure and/or reduced income arising in any particular year. In addition, there are specific earmarked reserves set aside to manage timing differences between the receipt of income and the related expenditure being incurred, in accordance with accounting rules.

2.3 The reserves held by the Council are reviewed annually as part of the revenue budget process. The review considers the level of balances, the risks inherent in the budget process and the adequacy of arrangements in place to manage these known risks.

3. Main report

Risks

3.1 There are always risks inherent in the budget process. What is important, however, is that they are identified and mitigated/managed effectively. Appendix 1 shows a risk matrix, setting out how it is planned the known risks identified in this report will be managed. The list is however not exhaustive, due both to the complexity of the changing environment within which the Council operates and the diversity of its activity.

Funding Settlements

3.2 Financial settlements and wider fiscal policy changes, or more specifically their impact on the level of savings required to set a balanced budget, pose a significant risk to the financial stability of the Council. The 2018/19 Local Government Financial Settlement was announced on 14 December 2017 and confirmed a higher level of external funding than had been assumed within the budget framework, primarily reflecting the impact of the Scottish Government's baselining of the additional funding approved as part of the revised Settlement for 2017/18. Further additional funding was also announced for Local Government during consideration of the draft budget by the Scottish Government. A more detailed update on the implications of this provisional level of grant funding is included elsewhere on today's agenda.

3.3 The level of funding for future years could vary for a number of reasons, including the use of updated population data and the complexities of the funding distribution formula, as well as wider Scottish Government and UK Government fiscal policy. Current expectations, however, are for future years' local government settlements to be increasingly challenging given the substantial level of savings delivered in recent years, reinforcing the need for significant service change, demand management and service prioritisation beyond 2018/19.

Delivery of approved savings

3.4 The budget process makes assumptions on the level of savings that can be delivered for individual proposals and those linked to wider projects and initiatives. There are risks around the ability to deliver both the savings of £9.8m already approved by Council for 2018/19, particularly those linked to the Council's Asset Management Strategy, and the additional proposals brought forward in the revenue budget framework for decision on 22 February 2018 within the timescales stated and on a sustainable basis.

3.5 The increased scrutiny introduced during recent years' budget processes at both the proposal development and implementation stages has contributed to a significant increase in the proportion of savings subsequently delivered. There remains a risk, however, that the full level of approved savings may not be delivered, particularly in areas affecting frontline service provision and those proposals rooted in demand management and service transformation such as Health and Social Care.

Demographic changes

3.6 Demographic changes continue to have an impact of the overall level of demand for the Council's services and the ability to provide for this within available resources. The budget framework contains significant additional demographic-related investment in 2018/19 and subsequent years, however the level of additional funding provided assumes that both greater use of preventative approaches to service delivery and service prioritisation will be required.

Welfare reform and other legislative changes

3.7 The Council's revenue budget framework incorporates provision for anticipated additional expenditure demands, and where relevant, reduced income, of planned welfare reform on its activities. Due to the emerging nature of some of these reforms, however, there is a risk that additional pressures become apparent and require the identification of further savings across other areas of Council activity, particularly following the full roll-out of Universal Credit for new claims from October 2018.

Income

3.8 Assumptions are made in the budget process on the level of income that will be generated by services. There are risks associated with these assumptions around (i) demand for chargeable services and (ii) the ability to collect all income due. The Council has a range of measures in place to mitigate these risks, such as service level agreements with external users, application of appropriate debt policies and regular monitoring of income levels as a prompt to remedial action.

Other risks

3.9 The long-term revenue implications of the Local Development Plan and other major infrastructure-related projects and facilities are still emerging. While the revenue and capital budget frameworks incorporate some provision in these areas, there is a significant risk that the Council will require to support additional borrowing and/or running costs. The Council will therefore continue to review the adequacy of the level of provision made within the budget framework as funding requirements and their associated timing become clearer.

3.10 There is a risk, in particular, that insufficient investment in the Council's buildings infrastructure will prevent delivery of core services. With this in mind, the revenue budget framework update included elsewhere on today's agenda reminds members of the significant backlog and on-going maintenance requirements across the corporate estate and the potential for additional investment to be committed to these areas.

3.11 Following some relaxation of public pay policy at both UK and Scottish Government levels, there is a risk that the agreed level of pay award for 2018/19 and subsequent years exceeds the corresponding provision within the budget framework. As with all expenditure and income factors, while these assumptions will be regularly reviewed, this risk reinforces the need for on-going tightening of workforce controls and prioritisation of the Council's activities to ensure that employee costs are maintained within affordable and sustainable levels.

Reserves

3.12 Members are aware that the Council holds a number of earmarked reserve balances within the General Fund. At 31 March 2017, the General Fund balance stood at £141.826m, of which £128.801m was earmarked for specific purposes.

The unallocated General Fund balance remained at £13.025m, in line with the medium-term strategy of the Council. There are significant planned applications of earmarked reserves during 2017/18, in the region of £28m, consistent with the assessment of the risks and commitments underpinning the Council's wider financial strategy, with a projected balance at 31 March 2018 of £101m. Over the longer term, the Council has plans to use further reserves to support a range of targeted service initiatives.

3.13 There is no provision within the current budget framework to provide for any increase in the unallocated General Fund, which will remain at £13.025m. As part of the 2016/17 annual audit, the Council's external auditor assessed the level of unallocated reserve as appropriate, in light of the financial risks likely to face the Council in the short to medium term, and the level of earmarked balances held for specific risks.

4. Measures of success

4.1 The Council identifies and quantifies, where possible, risks that are inherent in the revenue budget in advance of these materialising and puts mitigating actions in place.

4.2 The Council maintains an adequate level of unallocated General Fund reserves.

5. Financial impact

5.1 The report identifies where funding has been made available for the risks set out. The Council holds unallocated General Fund reserves against the likelihood of unfunded risks occurring.

6. Risk, policy, compliance and governance impact

6.1 The aim of the report is to identify the key risks to the Council and outline actions to manage those risks through planning, mitigating actions and use of reserves, as outlined in the attached appendices.

7. Equalities impact

7.1 While there is no direct additional impact of the report's contents, all budget proposals are now subject to an assessment of their potential equalities and rights impacts. The equalities and rights impacts of any substitute measures identified to address savings shortfalls are similarly assessed and are reported elsewhere on today's agenda.

8. Sustainability impact

8.1 While there is no direct additional impact of the report's contents, the Council's revenue budget includes expenditure impacting upon carbon, adaptation to climate change and contributing to sustainable development. In addition, all budget proposals are now subject to an upfront assessment across these areas and are reported elsewhere on today's agenda.

9. Consultation and engagement

9.1 There is no external consultation and engagement arising directly from this report, although the Council's budget continues to be subject to a process of regular consultation and engagement, as reported elsewhere on today's agenda.

10. Background reading/external references

10.1 Revenue and Capital Budget Framework 2018/23 - progress update, Finance and Resources Committee, 5 September 2017

10.2 City of Edinburgh Council – 2016/17 Annual Audit Report to the Council and the Controller of Audit, Governance, Risk and Best Value Committee, 26 September 2017

10.3 Capital Investment Framework 2018/19 to 2026/27, Finance and Resources Committee, 27 October 2017

10.4 Revenue Budget Framework 2018/23 – mid-year review, Finance and Resources Committee, 7 November 2017

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11. Appendices

Appendix 1 – Risk Matrix

Appendix 2 – Projected Movement in General Fund

Appendix 1

Risk Matrix

The table below summarises how the risks identified in the report are managed.

Risk	Provision to Manage
Financial settlements	Provisions made in the Long-Term Financial Plan (LTFP) Regular monitoring of public expenditure projections and recognise potential or actual grant variations in LTFP
Demographic changes leading to rising service demands	Provisions made in LTFP
Legal Claims	The Council provides for a number of known risks and liabilities. Funding could, however, be drawn down from the unallocated General Fund balance to meet unanticipated or additional costs.
Service area-specific risks	Mitigating action undertaken by Directors to identify alternative measures to manage risks, within available resources
Welfare Reform	Provisions made in LTFP Ongoing monitoring of impacts on expenditure and income
Health and Social Care Integration	Ongoing development of Strategic Plan with NHS

Projected Movement in General Fund

Appendix 2

General Fund	Projected Balance at 1.04.18 £000	Planned (Uses) / Contributions £000	Projected Balance at 31.03.19 £000	
<u>Statutory and / or restricted use</u>				
Balances held by schools under DSM	2,000	0	2,000	Balances set aside for Devolved School Management Scheme. There will always be a balance at March as the DSM scheme is based on an academic year.
Council Tax Discount Fund	26,239	(6,895)	19,344	Monies set aside as a result of reducing Council Tax second home discounts. Use of the fund is prescribed by the Scottish Government and is restricted to supporting the development of affordable housing. It forms part of the Strategic Housing Investment Fund (SHIF), alongside income from the Repair and Renewals fund. The SHIF is fully committed to the delivery of new affordable homes by the Council and housing association partners over the next ten years and investment in services to reduce tenants' living costs.
Licensing Income	3,043	0	3,043	Monies representing licensing income related to cabs, houses in multiple occupation, liquor and landlord registration. Council is not permitted to use these monies on other services.
Unspent revenue grants	1,273	(1,000)	273	Monies set aside at the year end, in accordance with proper accounting practice, where income has been received prior to the relevant expenditure being incurred. Funds will be drawn down in accordance with the grant conditions to match planned expenditure. The majority of funds will be drawn down in year and then new unspent grant funding will be carried forward.

General Fund	Projected Balance at 1.04.18 £000	Planned (Uses) / Contributions £000	Projected Balance at 31.03.19 £000	
<u>Balances set aside to manage financial risk</u>				
Balances set aside for specific investment	11,075	(5,779)	5,296	Funding set aside for specific projects. Including monies for Asset Management Strategy, building repairs, Weather Emergency and statutory notice legacy costs.
Workforce restructuring	22,502	(2,500)	20,002	Monies held to cover costs of workforce management changes including staff severance costs, which may be utilised to support future change programmes.
Council Priorities Fund	3,146	0	3,146	Monies set aside from previous years' underspends which will be utilised to fund emerging Council priorities or expenditure pressures.
Dilapidations Fund	5,243	0	5,243	Monies set aside to meet costs arising from the termination of property leases and other related contractual commitments.
Insurance Fund	14,387	102	14,489	Insurance Funds are held to defray any loss where the Council could have insured against a loss but has not done so, and for paying premiums on an insurance policy. This includes the power to meet excesses on insurance policies and other claims arising from ongoing legal inquiries.
<u>Balances set aside from income received in advance</u>				
Recycling balances	324	(324)	0	Monies received through Zero Waste funding, which are fully committed to manage current pressures in Waste Services.
Lothian Buses	795	(795)	0	Holds dividend income previously received from Lothian Buses which is being drawn down to support the Tram Extension feasibility project.

General Fund	Projected Balance at 1.04.18 £000	Planned (Uses) / Contributions £000	Projected Balance at 31.03.19 £000	
Pre-paid PPP monies and lifecycle costs	2,493	322	2,815	Monies set aside in recognition of the phasing issues related to grant monies, for lifecycle costs of projects.
Other Minor Funds	179	(15)	164	Minor funds for other specific projects.
<u>Balances set aside for investment in specific projects</u>				
City Strategic Investment Fund	5,377	(2,855)	2,522	Funds set aside to sit alongside private sector finance to create new city development opportunities. Confirmed or approved uses include drawdown for industrial units at Sighthill and monies to support tram feasibility and EDI transition.
Spend to Save Fund	2,849	(192)	2,657	Funds set aside to assist service areas deliver revenue savings in future years through provision of one-off upfront revenue investment.
Unallocated General Fund	13,025	0	13,025	Unallocated funds held against the risk of unanticipated expenditure and / or reduced income arising in any particular year, in line with Council reserves policy.
Total General Fund	**113,949**	**(19,930)**	**94,019**	

Finance and Resources Committee

2.00pm, Thursday 8 February 2018

Capital Investment Programme 2018/19 to 2022/23

Item number	5.3
Report number	
Executive/routine	
Wards	
Council Commitments:None	

Executive Summary

The roll forward Capital Investment Programme (CIP) sets out planned investment for the period 2018/19 to 2022/23. Projects have been realigned, reflecting slippage and acceleration in the current financial year. Spending in the latter years should be viewed as indicative, as details of the likely level of capital grant can only be estimated at this time.

The Finance Settlement announced on 14 December 2017 provided general capital funding for 2018/19 of £49.405m which is an increase of £4.905m over the level previously assumed and this remains unallocated in the CIP. The provisional Finance Settlement also announced specific capital grants for Management Development Funding of £27.950m and Cycling, Walking and Safer Street of £0.691m. These sums will require to be confirmed as part of the approval of the Scottish Budget.

The Capital Investment Framework 2018/19 – 2026/27 considered by Finance and Resources Committee on 27 October 2017 advised that, subject to the achievement of a balanced overall position across the 2018/23 revenue budget framework, resources of up to £112m could also be made available to support additional capital investment for Estate Infrastructure, the Local Development Plan and the City Region Deal. A further report elsewhere on this agenda advises that a further £48.90m could be made available to support the capital investment requirement identified from the outcome of property condition surveys in the report to the Finance and Resources Committee on 23 January 2018.

The CIP is based upon the capital plan which will be rolled forward to the period 2021/22 to 2026/27. Since rolling forward the capital plan in February 2017, £7m per annum of funding, available from 2021/22 has remained unallocated.

Report

Capital Investment Programme 2018/19 to 2022/23

1. Recommendations

1.1 Members of the Finance and Resources Committee are requested to:

1.1.1 Note the contents of this report and remit to Council's budget meeting of 22 February 2018 the 2018-2023 Capital Investment Programme;

1.1.2 Note that the announcement of the Finance Settlement made in December 2017 indicated a general capital grant for 2018/19 of £49.405m which exceeds the Council's previous indicative plans by £4.905m and that this amount remains unallocated;

1.1.3 Note that the announcement of the Finance Settlement made on 14 December 2017 indicated specific capital grants for Development Management Funding of £27.950m and Cycling, Walking and Safer Streets of £0.691m

1.1.4 Agree that £5m of any available budget resulting from the underspend against the Water of Leith Phase 2 project be transferred to the North Bridge refurbishment project, subject to approval by full Council.

1.1.5 Note that following the proposed update to the capital plan in Appendix 1, £179.805m remain unallocated. Within this is an amount of £160.9m from additional borrowing repayable from the General Fund revenue budget subject to the achievement of a balanced overall position across the 2018/23 revenue budget framework;

1.1.6 Note the up to date analysis of unfunded service priorities and pressures set out within this report;

1.1.7 Note the recommended use of the additional resources to address some of the Council's capital investment priorities and remit to Council for decision on 22 February 2018 in the context of infrastructure needs, priorities and existing Council commitments.

2. Background

2.1 Council approved the five-year capital programme for the period 2017-2022 in February 2017. A revised programme, incorporating both net slippage /

acceleration from 2016/17 and the outcome of the re-phasing exercise, was reported to Finance and Resources Committee in September 2017. The capital programme is based on the ten-year capital plan originally set out in 2009, which has subsequently been rolled forward on an indicative basis to 2027 on broadly similar terms as before.

3. Main report

3.1 The table below summarises the capital grant allocation the Council has assumed for 2018/19 from the Scottish Government. This is based on analysis of the Finance Settlement released on 14 December 2017. Details within the Finance Settlement are subject to approval of the Scottish Budget in February 2017.

Edinburgh's Allocation	**2018/19 £m**
General Capital Grant	49.405
Specific Capital Grant	28.641
Of which:	
Management Development Funding	27.950
Cycling, Walking and Safer Streets	0.691

3.2 The Finance Settlement on 14 December 2017 also confirmed that the deferred allocation of £150m of Scotland-wide resources from 2016/17, of which £10.264m relates to Edinburgh, would be paid to Councils in 2019/20. This is in line with the previous assumptions underpinning the Capital Investment Programme.

3.3 As no firm allocations have been advised beyond this, an estimate of each year's General Capital Grant Settlement has been factored in for the period 2019/20 to 2022/23 based on a prudent estimate of the possible Scotland-wide funding.

3.4 The programme has also been adjusted for current projected capital receipts forecasts and other known sources of income expected from developers and other third party contributions.

3.5 Executive Directors, working in conjunction with the Capital Monitoring team have been asked to re-profile the existing capital programme, including slippage and acceleration identified at period eight, based on cash flow information.

3.6 The roll forward capital programme, incorporating the above factors can be seen at Appendix 1.

<u>National Housing Trust (NHT) Update</u>

3.7 On 12 February 2015, Council approved on-lending of up to £54.998m for entering into NHT phase 3. The report to Finance and Resources Committee 19 January 2017 advised that three of the four developments would progress at Fruitmarket, Shrubhill and Western Harbour providing 368 new affordable homes by the end of 2020.

3.8 The Fruitmarket development is now complete and the Shrubhill and Western Harbour projects continue to progress.

3.9 The estimated overall requirement for on-lending for the three developments remains unchanged at £50.121m and the current Capital Investment Programme includes provision of £40.968m for the completion of the Shrubhill and Western Harbour developments.

Water of Leith/North Bridge Refurbishment

3.10 An underspend of at least £5.0m (£4.5m in 2017/18 and £0.5m in 2018/19) from the Water of Leith Phase 2 project has previously been reported to the Committee. It is proposed that £5m from this underspend is vired to the North Bridge Refurbishment project.

Current Unfunded Priorities and Pressures

3.11 Executive Directors have identified unfunded capital expenditure priorities for the period 2018-2022 totalling approximately £450.95m. These priorities are listed in Appendix 2.

3.12 Each project bid has been reviewed by the Strategic Asset Management Division and allocated a priority score. The scoring methodology is detailed in Appendix 3.

3.13 As noted above, the Finance Settlement announced on 14 December 2017 and provides for an additional £4.905m of general capital grant.

3.14 The Capital Investment Framework 2018/19 – 2026/27 considered by Finance and Resources Committee on 27 October 2017 advised that, subject to the achievement of a balanced overall position across the 2018/23 budget framework, of corresponding revenue provision to support the following capital investment:

3.14.1 **Infrastructure** – £56m to address the Council’s capital infrastructure requirements,

3.14.2 **Local Development Plan** – £35m to contribute towards the element of LDP related infrastructure not met by developers’ contribution and other sources; and

3.14.3 **City Region Deal** – £21m, representing the anticipated Council contribution in respect of the West Edinburgh Transport Appraisal improvements and a new concert venue off St. Andrew Square (IMPACT project) over the period of the framework.

3.15 The updated report on the Revenue Budget Framework elsewhere on this agenda includes revenue provision to support a further capital requirement of £48.90m identified from the outcome on property condition surveys in the report to Finance and Resources on 23 January 2018, subject to the achievement of a balanced overall position across the 2018/23 budget framework, of corresponding revenue provision to support the following capital investment:

3.16 While there are insufficient resources to meet all priorities, members may wish to consider applying additional resources against the Council's top priorities as determined by the Council Leadership Team which are detailed in Appendix 4 and summarised below

Infrastructure

- Asset Management Works shortfall - £48.9m (as described in paragraph 3.15)
- Communities and Families estate - £43.355m
- Transport infrastructure - £13.05m
- New Care Home - £10m
- Theatre upgrades – £5m
- Communal Bin Upgrade - £2.5m
- Play parks - £1m

Local Development Plan

- Schools - £11.818m
- Transport infrastructure - £6.5m

City Region Deal

- West Edinburgh Transport Appraisal improvements - £16m
- IMPACT project contribution - £5m

3.17 The roll forward capital programme is for General Fund projects only. The Housing Revenue Account capital budget can be seen elsewhere on the agenda.

Prudential Indicators

3.18 A revised Prudential Code for Capital Finance in Local Authorities was published by CIPFA in December 2017. The new Prudential Code has deleted two Prudential Indicators which were applicable to Scottish local authorities; Incremental impact of Council Tax and the adoption of the Treasury Management Code.

3.19 A new local indicator will show the revenue impact of the loans charges which will result from the forecast capital financing requirement.

3.20 The revised indicators which will accompany the Budget Motion to the Council meeting on 22 February 2018 will reflect the changes.

4. Measures of success

4.1 The City of Edinburgh Council sets a capital budget which adheres to the key objectives of the Prudential Code. These are to ensure, within a clear framework, that the capital plans of the Council are affordable, prudent and sustainable.

5. Financial impact

5.1 The revenue funding required to support the borrowing costs associated with the five-year capital programme (2018-2023) is provided for in the long term financial plan.

5.2 Council can only commit to further capital expenditure if revenue expenditure plans are affordable and sustainable. Inclusion of any revenue investment within the budget framework is contingent upon the development, and subsequent delivery, or corresponding savings, alongside management of all risks and pressures, particularly those of a demand-led nature.

6. Risk, policy, compliance and governance impact

6.1 Significant budget virements have complied with relevant financial rules and regulations.

6.2 Capital monitoring and budget setting processes adopted ensure effective stewardship of resources. The processes applied aim to ensure projects are delivered on time and budget whilst fulfilling the financial criteria of value for money.

6.3 Monitoring of major capital projects including risk assessment is carried out by the Council's Strategy and Insight service.

6.4 The nature of capital projects means that there is an inherent risk of delays or unforeseen circumstances outwith the control of the Council.

6.5 The risk of not adequately investing in infrastructure means that it does not meet Council's and stakeholders needs and does not remain fit for purpose in the future.

6.6 Legal and reputational risk from failure in considering and evidencing due regard of the Climate Change (Scotland) Act 2009 Public Bodies Duties and Equality Act 2010 Public Sector Duties in capital projects.

7. Equalities impact

7.1 The Council's capital expenditure contributes to the delivery of the public sector equality duty to advance equality of opportunity and foster good relations e.g. enhancement works related to the Disability Discrimination Act, works on Children and Families establishments and capital expenditure on Council housing stock.

8. Sustainability impact

8.1 The impacts of the projects set out within the appendices of this report in relation to the three elements of the Climate Change (Scotland) Act 2009 Public Bodies Duties have been considered, and the outcomes are summarised below. Relevant Council sustainable development policies have been taken into account.

8.1 The proposals in this report will help achieve a sustainable Edinburgh because they are ensuring funding for key strategic projects that will enhance facilities and infrastructure in the city. A carbon impact assessment shall be carried out on each new project to achieve the most sustainable outcome for the city in each case.

9. Consultation and engagement

9.1 Consultation on the appropriate prioritisation of capital resources was undertaken as part of the budget process.

10. Background reading/external references

Capital Monitoring 2016-17- Outturn and Receipts Finance and Resources Committee, 5 September 2017

Capital_Investment_Framework_2018/19 -2026/27 Finance and Resources Committee, 27 October 2017

Capital Investment Programme Plan_2017/18_to_2025/26 Finance and Resources Committee 19 January 2017

Outcome of Property Condition Surveys – Finance and Resources Committee, 23 January 2018

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11. Appendices

1 - Revised Capital Investment Programme 2018-2023 – General Fund

2 - Unfunded Capital Priorities and Pressures

3 - Strategic Asset Management Capital Priority Weighting Methodology

4 - Capital Investment Priorities - Officer Recommendations

REVISED
CAPITAL INVESTMENT
PROGRAMME 2018-2023
(Incorporating part-year slippage from 2017/18)

REVISED CAPITAL INVESTMENT PROGRAMME 2018-2023

FUNDING - GENERAL SERVICES	**Revised Budget 2018-19 £000**	**Indicative Budget 2019-20 £000**	**Indicative Budget 2020-21 £000**	**Indicative Budget 2021-22 £000**	**Indicative Budget 2022-23 £000**	**Total Budget 2018-2023 £000**
Expenditure	**199,909**	**166,000**	**185,762**	**54,066**	**46,900**	**652,637**
Funding						
Capital receipts						
General asset sales	11,021	6,318	3,000	3,000	3,000	**26,339**
Less additional receipt income transferred to capital fund	-809	-	-	-	-	**-809**
Asset sales to reduce corporate loans fund advances	609	-	-	-	-	**609**
Ring-fenced asset sales	4,895	10,000	-	-	-	**14,895**
Capital Fund drawdown	15,439	4,561	-	-	-	**20,000**
Developers and other contributions	40	585	-	-	-	**625**
Capital Grants Unapplied account	2,504	-	-	-	-	**2,504**
Total receipts	33,699	21,464	3,000	3,000	3,000	**64,163**
Capital Grants						
General Capital Grant	49,405	48,264	38,000	38,000	38,000	**211,669**
Specific Capital Grants	28,641	-	-	-	-	**28,641**
Total Grants	78,046	48,264	38,000	38,000	38,000	**240,310**
Loans Fund Advances						
Advances supported through Council Tax	7,000	56,000	84,000	8,000	5,900	**160,900**
Advances supported from Council revenue budgets	58,848	53,215	65,442	-	-	**177,505**
Total advances	65,848	109,215	149,442	8,000	5,900	**338,405**
Over / (under)-programming	22,316	-12,943	-4,680	5,066	-	**9,759**
Total Funding	**199,909**	**166,000**	**185,762**	**54,066**	**46,900**	**652,637**

Grant funding from 2019/20 onwards is based on prudent estimates.

REVISED CAPITAL INVESTMENT PROGRAMME 2018-2023

<u>**SUMMARY OF EXPENDITURE**</u>	**Revised Budget 2018-19**	**Indicative Budget 2019-20**	**Indicative Budget 2020-21**	**Indicative Budget 2021-22**	**Indicative Budget 2022-23**	**Total Budget 2018-2023**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
General Services						
Communities and Families	32,045	17,850	2,485	165	165	**52,710**
Edinburgh Integration Joint Board	2,069	1,528	-	-	-	**3,597**
Safer and Stronger Communities	1,125	-	-	-	-	**1,125**
Place	127,398	76,622	85,277	19,835	19,835	**328,967**
Resources - Asset Management Works	14,537	14,000	14,000	19,066	14,000	**75,603**
Resources - Other	10,830	-	-	-	-	**10,830**
City Deal	-	14,000	7,000	-	-	**21,000**
Local Development Plan - unallocated	-	14,000	21,000	-	-	**35,000**
Infrastructure - unallocated	-	14,000	42,000	-	-	**56,000**
Condition Survey Outcomes - Unallocated	7,000	14,000	14,000	8,000	5,900	**48,900**
Unallocated	4,905	-	-	7,000	7,000	**18,905**
Total General Services	**199,909**	**166,000**	**185,762**	**54,066**	**46,900**	**652,637**

** Expenditure budgets relate to the delivery of capital projects and exclude the cost of sale of assets which is netted off the capital receipt

REVISED CAPITAL INVESTMENT PROGRAMME 2018-2023

COMMUNITIES AND FAMILIES	**Revised Budget 2018-19**	**Indicative Budget 2019-20**	**Indicative Budget 2020-21**	**Indicative Budget 2021-22**	**Indicative Budget 2022-23**	**Total Budget 2018-2023**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Early years						
Corstorphine primary school nursery	45	-	-	-	-	**45**
Davidson's Mains primary school nursery	53	-	-	-	-	**53**
Early years contingency	2,669	-	-	-	-	**2,669**
Ferryhill primary school nursery	50	-	-	-	-	**50**
Granton early years centre	70	-	-	-	-	**70**
Longstone primary school nursery	50	-	-	-	-	**50**
Early years total	2,937	0	0	0	0	**2,937**
Primary schools						
New South Edinburgh primary school	1,274	8,613	2,320	-	-	**12,207**
Primary schools total	1,274	8,613	2,320	0	0	**12,207**
Secondary schools						
Replacement Queensferry high school	4,979	-	-	-	-	**4,979**
Secondary schools total	4,979	0	0	0	0	**4,979**
Community centres						
Duncan Place	45	-	-	-	-	**45**
Community centres total	45	0	0	0	0	**45**
Children's services						
Oxgangs New young persons centre	200	-	-	-	-	**200**
Children's services total	200	0	0	0	0	**200**
Other projects						
Kirkliston primary school - development works	40	-	-	-	-	**40**
Other projects total	40	0	0	0	0	**40**
Rising School Rolls						
Rising school rolls general	-	1,206	-	-	-	**1,206**
Roseburn primary school (part of phase 4)	50	-	-	-	-	**50**
Rising School Rolls phase 5	6,367	-	-	-	-	**6,367**
Rising School Rolls Total	6,417	1,206	0	0	0	**7,623**
Wave three school projects						
Boroughmuir high school replacement	1,400	-	-	-	-	**1,400**
New park former Portobello high school	1,000	-	-	-	-	**1,000**
St Crispin's special school replacement	107	5,167	-	-	-	**5,274**
St John's new wave 3 school	4,327	171	-	-	-	**4,498**
Wave three inflation contingency	2,913	-	-	-	-	**2,913**
Wave three school projects total	9,747	5,338	0	0	0	**15,085**
Libraries						
George IV Bridge Library-enhancement works	365	-	-	-	-	**365**
Libraries general	340	-	-	-	-	**340**
Libraries projects total	705	0	0	0	0	**705**
Sports						
Edinburgh Leisure	165	165	165	165	165	**825**
Hunter Hall cycle hub and pitch	1,017	-	-	-	-	**1,017**
New Meadowbank sports centre	4,519	2,528	-	-	-	**7,047**
Sports projects total	5,701	2,693	165	165	165	**8,889**
Total Communities and Families	**32,045**	**17,850**	**2,485**	**165**	**165**	**52,710**

REVISED CAPITAL INVESTMENT PROGRAMME 2018-2023

EDINBURGH INTEGRATION JOINT BOARD	Revised Budget 2018-19	Indicative Budget 2019-20	Indicative Budget 2020-21	Indicative Budget 2021-22	Indicative Budget 2022-23	Total Budget 2018-2023
	£000	£000	£000	£000	£000	£000
Care homes						
New care home	2,069	1,528	-	-	-	**3,597**
Care homes total	2,069	1,528	-	-	-	**3,597**
Total Edinburgh Integration Joint Board	**2,069**	**1,528**	**0**	**0**	**0**	**3,597**

SAFER AND STRONGER COMMUNITIES	Revised Budget 2018-19	Indicative Budget 2019-20	Indicative Budget 2020-21	Indicative Budget 2021-22	Indicative Budget 2022-23	Total Budget 2018-2023
	£000	£000	£000	£000	£000	£000
Community Safety						
CCTV Capital	1,125	-	-	-	-	**1,125**
	1,125	0	0	0	0	**1,125**
Total Chief Executive	**1,125**	**0**	**0**	**0**	**0**	**1,125**

REVISED CAPITAL INVESTMENT PROGRAMME 2018-2023

PLACE	Revised Budget 2018-19 £000	Indicative Budget 2019-20 £000	Indicative Budget 2020-21 £000	Indicative Budget 2021-22 £000	Indicative Budget 2022-23 £000	Total Budget 2018-2023 £000
Environment						
Waste services						
Zero Waste: Millerhill - Capital contribution	-	28,000	-	-	-	**28,000**
	0	28,000	0	0	0	**28,000**
Depot Review						
Bankhead depot	-	10,600	-	-	-	**10,600**
Russell road depot	-	1,963	-	-	-	**1,963**
Seafield depot - Phase 2	-	763	-	-	-	**763**
	0	13,326	0	0	0	**13,326**
Environment Total	0	41,326	0	0	0	**41,326**
Housing and Regeneration						
Home owners adaptation grants	1,000	1,000	1,000	1,000	1,000	**5,000**
National Housing Trust 3	32,208	4,718	4,042	-	-	**40,968**
Development Funding Grant	27,950	-	-	-	-	**27,950**
Housing and Regeneration Total	61,158	5,718	5,042	1,000	1,000	**73,918**
Transport and Planning						
Roads, Structures and Flood Prevention						
Bridge strengthening	882	-	-	-	-	**882**
Burnshot Bridge	400	-	-	-	-	**400**
North Bridge Major Refurbishment	7,494	3,572	-	-	-	**11,066**
Water of Leith - phase 1	319	-	-	-	-	**319**
Water of Leith - phase 2	7,909	-	-	-	-	**7,909**
	17,004	3,572	0	0	0	**20,576**
Roads Asset Management Plan						
Bus Stop Investment	77	-	-	-	-	**77**
Carriageway and footway works [block]	19,364	13,585	13,585	13,585	13,585	**73,704**
Right first time carriageway & footway works	497	-	-	-	-	**497**
	19,938	13,585	13,585	13,585	13,585	**74,278**
Street Lighting and Traffic Signals						
Traffic signals (renewal)	679	-	-	-	-	**679**
Street lighting	3,467	1,500	1,500	1,500	1,500	**9,467**
Street lighting - City wide LED replacement	15,810	7,171	-	-	-	**22,981**
	19,956	8,671	1,500	1,500	1,500	**33,127**
Roads and Network						
St Andrew Square public realm	430	-	-	-	-	**430**
Transport asset management	1,000	1,000	1,000	1,000	1,000	**5,000**
	1,430	1,000	1,000	1,000	1,000	**5,430**
Policy and planning						
A71 Dalmahoy Junction Upgrade	291	-	-	-	-	**291**
Bus priority schemes / bus shelters	474	-	-	-	-	**474**
Cycle projects [block]	454	-	-	-	-	**454**
Cycling, Walking and Safer Streets	691	-	-	-	-	**691**
Road safety	167	-	-	-	-	**167**
St Andrew Square bus station	201	-	-	-	-	**201**
Walking projects [block]	649	-	-	-	-	**649**
Road safety, cycling and public transport	1,750	1,750	1,750	1,750	1,750	**8,750**
	4,677	1,750	1,750	1,750	1,750	**11,677**

REVISED CAPITAL INVESTMENT PROGRAMME 2018-2023

PLACE (Continued)	**Revised Budget 2018-19**	**Indicative Budget 2019-20**	**Indicative Budget 2020-21**	**Indicative Budget 2021-22**	**Indicative Budget 2022-23**	**Total Budget 2018-2023**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Transport - City Centre						
Rose Street - public realm	490	-	-	-	-	**490**
Leith Walk Constitution Street	1,443	-	-	-	-	**1,443**
	1,933	0	0	0	0	**1,933**
Localities						
North East Locality	603	-	-	-	-	**603**
North West Locality	229	-	-	-	-	**229**
South East Locality	335	-	-	-	-	**335**
South West Locality	135	-	-	-	-	**135**
	1,302	0	0	0	0	**1,302**
Transport Other						
Tram Lifecycle Replacement	-	1,000	1,000	1,000	1,000	**4,000**
Transport and other infrastructure total	66,240	29,578	18,835	18,835	18,835	**152,323**
Strategic support						
St James GAM - Public Realm	-	-	61,400	-	-	**61,400**
Strategic support total	0	0	61,400	0	0	**61,400**
Total Place	**127,398**	**76,622**	**85,277**	**19,835**	**19,835**	**328,967**

REVISED CAPITAL INVESTMENT PROGRAMME 2018-2023

RESOURCES - ASSET MANAGEMENT WORKS	**Revised Budget 2018-19**	**Indicative Budget 2019-20**	**Indicative Budget 2020-21**	**Indicative Budget 2021-22**	**Indicative Budget 2022-23**	**Total Budget 2018-2023**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Communities and Families						
Boilers	856	497	-	-	-	**1,353**
Doors and Windows	-	824	-	-	-	**824**
External Fabric	29	-	-	-	-	**29**
Fabric Enhancement	2,303	500	-	-	-	**2,803**
Fire Safety	600	600	-	-	-	**1,200**
Mechanical and Electrical Upgrades	2,708	1,962	-	-	-	**4,670**
Roof and Rainwater	-	175	-	-	-	**175**
Stonework	-	181	-	-	-	**181**
Water Quality	600	400	-	-	-	**1,000**
Windows and Doors	38	634	-	-	-	**672**
Unallocated funding	1,040	99	-	-	-	**1,139**
Total for Communities and Families	8,174	5,872	0	0	0	**14,046**
Edinburgh Integration Joint Board						
Mechanical and Electrical Upgrades	-	25	-	-	-	**25**
Total for Edinburgh Integration Joint Board	0	25	0	0	0	**25**
Place						
Fire Safety	-	165	-	-	-	**165**
Unallocated funding	189	-	-	-	-	**189**
Total for Place	189	165	0	0	0	**354**
Resources - Corporate Property						
Unallocated funding	105	275	200	-	-	**580**
Total for Resources - Corp. Property	105	275	200	0	0	**580**
Funding not yet allocated to projects	6,069	7,663	13,800	19,066	14,000	**60,598**
Total Asset Management Works	**14,537**	**14,000**	**14,000**	**19,066**	**14,000**	**75,603**

RESOURCES - OTHER	**Revised Budget 2018-19**	**Indicative Budget 2019-20**	**Indicative Budget 2020-21**	**Indicative Budget 2021-22**	**Indicative Budget 2022-23**	**Total Budget 2018-2023**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
ICT function						
ICT transformational change investment	10,830	-	-	-	-	10,830
ICT function total	10,830	-	-	-	-	**10,830**
Total Resources - Other	**10,830**	**0**	**0**	**0**	**0**	**10,830**

APPENDIX 2

Unfunded Capital Priorities

Priority	Project	18/19	19/20	20/21	21/22	22/23	Total	Advanced	% LDP
		£000s	£000s	£000s	£000s	£000s	£000s	Stage*	attributable
1	North Bridge Upgrade shortfall	0	0	5,300	0	0	5,300	Y	0
2	St Crispins replacement (Wave 3)	0	5,850	0	0	0	5,850	Y	0
3	Queensferry HS - potential funding gap	0	3,000	0	0	0	3,000	Y	23%
4	Oxgangs YPC replacement	459	0	0	0	0	459	Y	0
5	Backlog Maintenance funding gap	4,000	16,000	16,000	6,450	6,450	48,900	N	0
6	Roads budget increased to £100m over term	10,011	7,229	7,229	6,415	7,229	38,113	N	0
7	LDP roads obligations (excluding WETA)	3,190	10,275	13,343	18,314	7,682	52,804	N	100%
8	West Edinburgh Transport Appriasal (WETA)	0	0	4,000	5,000	7,000	16,000	N	0%
9	Central Edinburgh Transformation (public realm)	600	1,900	1,000	3,000	3,500	10,000	N	0
10	Integrated Care Facility - additional capacity	0	400	9,600	9,600	400	20,000	N	0
11	Wave 4 Schools Programme **	0	2,981	19,958	114,180	39,092	176,211	N	16%
12	Play park replacement equipment	200	200	200	200	200	1,000	N	0
13	Burnshot Bridge replacement	1,000	2,500	0	0	0	3,500	N	0%
14	Communal bin upgrade	750	750	1,000	0	0	2,500	N	0
15	Castlebrae High School - replacement	0	374	9,706	5,004	0	15,084	N	37%
16	Kings Theatre refurbishment contribution	1,000	1,000	1,000	1,000	1,000	5,000	N	0
17	Broomhills Primary School - LDP new	0	4,416	1,848	0	0	6,264	N	100%
18	Victoria Primary School - replacement and LDP	649	5,775	2,382	0	0	8,806	N	29%
19	South Edinburgh Primary School - new	0	0	90	1,542	0	1,632	N	0
20	Boroughmuir High School - additional places	100	2,200	1,862	0	0	4,162	N	1%
21	Ross Theatre/Princes St Gardens Upgrade	5,000	15,000	0	0	0	20,000	N	0
22	Impact	500	2,500	2,000	0	0	5,000	N	0%
23	Saughton Park - Micro Hydro Scheme	362	0	0	0	0	362	N	0%
24	Leith Theatre refurbishment	500	500				1,000	N	0%
	TOTAL	**28,321**	**82,850**	**96,518**	**170,705**	**72,553**	**450,947**		

*Project underway and at an advanced stage/contract about to be let

**Wave 4 Schools includes Balerno, Currie, Liberton High Schools, Trinity Academy, WHEC and the new West Edinburgh High School

APPENDIX 3

CAPITAL INVESTMENT PROGRAMME BIDS PRIORTISATION CRITERIA

All bids for the 2018 capital budget setting process have been assessed against a series of criteria to determine their priority for funding, as described below.

Stage 1

A number of bids relate to projects already in flight, at an advanced stage but with a funding gap still remaining or newly emerging as a result of more detailed feasibility revealing higher costs, further intelligence on developer contributions, or, in some cases, lower value capital receipts than anticipated. These projects have been rated highest priority, having been assessed with a simple, Yes criterion.

Stage 2

All bids have been assessed on a scale of 0-5 points against the following criteria to determine their relative merits. The first three criteria are considered to be particularly important, and have accordingly been given a weighting of three to reflect their importance, allowing a maximum score of 15 per criterion. The remaining criteria are of lesser importance and a maximum score of 5 per criterion is possible.

1. Health and Safety – poor condition buildings or equipment score highly as they pose a risk to health and safety (max points 3x5 = 15);
2. Statutory Requirement – where the Council is obliged to make provision under statute – for example having sufficient school places (max points 3x5 = 15);
3. Risk of operational failure – where an existing asset is at risk of failing, requiring the closure of the asset and stopping the delivery of the service (max points 3x5 = 15);
4. High reputational risk – where national media coverage is a risk, this scores 5; local news coverage scores 3 (max points =5);
5. Fulfils Council commitment – contributes to delivering one the of the 52 Council commitments from the Business Plan (max points =5);
6. Significant income implication – projects may generate higher income (eg increased footfall in commercial venues), or may expose the Council to increased revenue costs if the project is not delivered – in either case they would score highly on this criterion (max points =5);
7. Sustainability benefits – may deliver benefits such as increased recycling, improved public transport use or building fabric upgrade, all scoring high points. New buildings which increase the Council's estate size and carbon footprint score 0. Buildings which replace existing buildings score some points for allowing a more sustainable design to be achieved (max points =5).

A total score of 65 is achievable.

The initial scores were undertaken by each service department, however these were moderated by Strategic Asset Management to ensure consistency across the application of the scoring methodology. It is recognised that the standardised scoring methodology can only provide an initial starting point and further information on the particular circumstances of a project may increase its priority.

APPENDIX 4

CAPITAL INVESTMENT PRIORITIES - OFFICER RECOMMENDATIONS

Unallocated Funding

		18/19	19/20	20/21	21/22	22/23	Total
		£000s	£000s	£000s	£000s	£000s	£000s
	Capital Plan	0	0	0	7,000	7,000	14,000
	2018/19 Financial Settlement	4,905	0	0	0	0	4,905
	Budget Framework - Infrastructure	7,000	14,000	14,000	8,000	5,900	48,900
	Budget Framework - New Infrastructure	0	14,000	42,000	0	0	56,000
	Budget Framework - City Deal	0	14,000	7,000	0	0	21,000
	Budget Framework - LDP	0	14,000	21,000	0	0	35,000
	Total	**11,905**	**56,000**	**84,000**	**15,000**	**12,900**	**179,805**

Recommended Investment

	Project	18/19	19/20	20/21	21/22	22/23	Total
		£000s	£000s	£000s	£000s	£000s	£000s
	Infrastructure						
	North Bridge Upgrade shortfall	0	0	5,300	0	0	5,300
	St Crispins replacement shortfall (Wave 3)	0	5,850	0	0	0	5,850
	Oxgangs YPC replacement shortfall	459	0	0	0	0	459
	Asset Management Works shortfall	4,000	16,000	16,000	6,450	6,450	48,900
	Roads, Pavements and Public Realm	1,500	1,500	1,500	1,500	1,750	7,750
	Play Park Replacement Equipment	200	200	200	200	200	1,000
	Communal Bin Upgrade	750	750	1,000	0	0	2,500
	Victoria Primary School	461	4,100	1,691			6,252
	South Edinburgh Primary School shortfall			90	1,542		1,632
	Boroughmuir High School - additional places	100	2,200	1,862	0		4,162
	Theatres Refurbishment	1,000	1,000	1,000	1,000	1,000	5,000
	Unallocated Match Funding for Replacement High School (Wave 4)			12,500	12,500		25,000
	New Care Home			5,000	5,000		10,000
		8,470	**31,600**	**46,143**	**28,192**	**9,400**	**123,805**
	LDP						
	Queensferry HS		3,000				3,000
	Victoria Primary (LDP Share)	188	1,675	691	0	0	2,554
	Broomhills Primary School		4,416	1,848			6,264
	LDP roads obligations (excluding WETA)	500	1,000	1,000	2,000	2,000	6,500
	LDP education and transport projects (unallocated)		16,682				16,682
		688	**26,773**	**3,539**	**2,000**	**2,000**	**35,000**
	City Deal						
	IMPACT	500	2,500	2,000			5,000
	West Edinburgh Transport Appraisal (WETA)			4,000	5,000	7,000	16,000
		500	**2,500**	**6,000**	**5,000**	**7,000**	**21,000**
	Under / (Over) programming	2,247	-4,873	28,318	-20,192	-5,500	0
	Total Investment	**11,905**	**56,000**	**84,000**	**15,000**	**12,900**	**179,805**
		9,658	60,873	55,682	35,192	18,400	179,805

Notes

1. These officer recommendations assume that additional monies are being allocated from the revenue framework to address backlog maintenance
2. It is recommended that a significant level of funding remains unallocated. This will enable the Council to match fund Scottish Government funding for new secondary schools, should it be announced, and to revisit other priorities during the 2018/19 budget process.
3. It is assumed that additional capital receipts arising from the winding up of the EDI group will be made available for investment in Craigmillar.

Finance and Resources Committee

2.00pm, Thursday 8 February 2018

Accounts Commission – Local Government in Scotland – Financial Overview 2016-17 - referral from the Governance, Risk and Best Value Committee

Item number	5.4
Report number	
Wards	All

Executive summary

The Governance, Risk and Best Value Committee on 16 January 2018 considered a report detailing the Accounts Commission's Scotland-wide review of local government financial performance for 2016/17 which was published in November 2017.

The report has been referred to the Finance and Resources Committee for its consideration in the context of setting the Council's 2018/23 revenue and capital budget framework.

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Terms of Referral

Accounts Commission – Local Government in Scotland – Financial Overview 2016-17

Terms of referral

1.1 On 16 January 2018, the Governance, Risk and Best Value Committee considered a report detailing the Accounts Commission's Scotland-wide review of local government financial performance for 2016/17 which was published in November 2017.

1.2 The report by the Executive Director of Resources indicated that the overview report was aimed primarily at councillors and senior officers and assessed councils' financial performance and preparedness in the context of a number of existing and emerging challenges.

1.3 The Governance, Risk and Best Value Committee agreed:

1.3.1 To note the report by the Executive Director of Resources.

1.3.2 To refer the report to the Finance and Resources Committee for its consideration in the context of setting the Council's 2018/23 revenue and capital budget framework.

1.3.3 To circulate a copy of the Account Commission: Local Government in Scotland – Financial Overview 2016/17, to all councillors for information.

1.3.4 To provide details on why the renewals and repair fund element of the Council's reserves was so significant.

For Decision/Action

2.1 The Finance and Resources Committee is asked to consider the attached Financial Overview 2016/17 report.

Background reading / external references

Webcast of Governance, Risk and Best Value Committee – 16 January 2017

Laurence Rockey
Head of Strategy and Insight

Contact: Louise Williamson, Assistant Committee Clerk

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Links

Appendices	Appendix 1 – Accounts Commission: Local Government in Scotland – financial Overview 2016/17 – report by the Executive Director of Resources

Governance, Risk and Best Value Committee

10.00am, Tuesday, 16 January 2018

Accounts Commission: Local Government in Scotland – Financial Overview 2016/17

Item number	7.4
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive summary

In November 2017, the Accounts Commission published its Scotland-wide review of local government financial performance for 2016/17. The report concludes that in light of increasing demand and reducing funding, the financial challenges facing all councils continued to grow in 2016/17. Savings were correspondingly more difficult to identify and deliver and greater use was made of reserves, in some cases to support routine service delivery.

Given an accompanying increase in debt levels in some authorities, robust medium-term planning, transparent reporting and effective leadership will be key to securing on-going financial sustainability in informing the increasingly difficult decisions that undoubtedly lie ahead. In confronting these challenges, close working amongst officers, councillors, stakeholders and partners will be vital.

Report

Accounts Commission: Local Government in Scotland – Financial Overview 2016/17

1. Recommendations

1.1 Members of the Governance, Risk and Best Value Committee are asked to:

1.1.1 note the contents of the report; and

1.1.2 refer the report to the Finance and Resources Committee for its consideration in the context of setting the Council's 2018/23 revenue and capital budget framework.

2. Background

2.1 Until 2014/15, as an integral part of its annual programme of scrutiny and inspection across Scotland's local authorities, the Accounts Commission published a high-level, independent overview report. This annual report drew upon work undertaken in the preceding year, summarising findings and key themes emerging from financial statement, Best Value, Community Planning and wider performance audits.

2.2 For the 2015/16 review year, a slightly different approach was adopted. Rather than providing coverage of all of the above areas within a single overview, a series of discrete reports was instead issued. The financial overview report, issued several months earlier than usual in November 2016 with the intention that it then inform and complement councils' budget-setting processes, was considered by the Governance, Risk and Best Value Committee on 2 February 2017. A Scotland-wide overview of service performance and the range of challenges facing councils was subsequently released in March 2017 and considered by the Governance, Risk and Best Value Committee on 20 April 2017. A similar two-part approach is being adopted for the 2016/17 review year, with the financial overview report issued on 28 November 2017.

2.3 As in 2015/16, the overview report is aimed primarily at councillors and senior officers and assesses councils' financial performance and preparedness in the context of a number of existing and emerging challenges. These challenges centre on reconciling demographic-led increases in service demand, other cost pressures and growing complexity arising from legislative change with on-going, real-terms reductions in funding. In seeking to enhance councillors' understanding of the issues concerned to discharge effectively their scrutiny role, a number of specific suggested questions for consideration are also highlighted. These questions, and the accompanying contextual commentary, provide an accessible overview of the complex local government landscape and may be of particular interest to recently-elected members.

2.4 Given its Scotland-wide coverage, the report's recommendations are correspondingly general. Edinburgh-specific and other reports covering areas of direct applicability to the Council's activities are, however, regularly considered by the Governance, Risk and Best Value Committee. Of particular relevance is the Council's own Annual Audit Report, considered by the Governance, Risk and Best Value Committee on 26 September 2017.

3. Main report

Overview of report and key messages

3.1 The Accounts Commission report comprises three distinct sections. The first (on pages 10 to 19) provides a high-level overview of councils' income and expenditure in 2016/17, placing these within the context of recent years' trends. The second section (pages 20 to 32) then proceeds to examine the effectiveness of councils' financial management arrangements in 2016/17. The third section (on pages 33 to 41) provides an overview of the outcome of councils' budget-setting processes for 2017/18, before identifying a number of key messages geared towards securing both longer-term financial sustainability and on-going delivery of priority outcomes.

3.2 In overall terms, the report concludes that in light of increasing demand and reducing funding, the financial challenges facing all councils continued to grow in 2016/17. Savings were correspondingly more difficult to identify and greater use was made of reserves, in some cases to support routine service delivery.

3.3 Given an accompanying increase in debt levels in some authorities, robust medium-term planning, transparent reporting and effective leadership will be key to securing on-going financial sustainability in informing the increasingly difficult decisions that undoubtedly lie ahead. In confronting these challenges, close working amongst officers, councillors, stakeholders and partners will be vital.

Relevance to Edinburgh

3.4 As noted above, the conclusions of the overview report are drawn from audit work undertaken across all Scotland's councils and, as such, the messages are intended to be of general applicability. In considering the report's contents, however, specific attention is drawn to the following:

3.4.1 **Exhibit 3, page 12** – Edinburgh's combined level of General Revenue Grant, Non-Domestic Rates and Council Tax funding, when expressed on a per capita basis, was the lowest in Scotland in 2016/17. This reflects a number of factors including the city's relative affluence (with a knock-on impact on its spending needs assessment), economies of scale in service delivery and, most materially, the size of the independent education sector;

3.4.2 **Exhibit 5, page 15** – the Council was one of the first in Scotland to introduce a long-term financial plan, doing so in 2009. The plan captures movements in key expenditure (and income) factors influencing the Council's activities, with those shown in the diagram collectively adding over £25m to the Council's cost base in 2016/17. This cost increase contributed to an overall requirement to deliver some £73m of savings to maintain balance between expenditure and income during the year;

3.4.3 **Paragraph 23, page 16** – the Council adopted a corporate charging policy framework in June 2014, with increases in most discretionary fees and charges linked to wider changes in inflation rates to maximise the level of investment in key services;

3.4.4 **Exhibit 6, page 17** – in line with the position for Scotland as a whole, the Council has afforded relative protection to education and social work services in recent years' budgets. Given that expenditure in these areas accounts for over two-thirds of the Council's budget and is increasing with each year of relative protection, however, it is clear that all areas need to contribute to addressing savings requirements going forward if financial sustainability is to be secured;

3.4.5 **Exhibit 9, page 22** – the Council was one of a minority in Scotland that increased their levels of reserves in 2016/17 against the backdrop of an overall reduction of £32m. The Council's recent external audit concluded that an effective approach to the management of reserves is in place, with the combination of unallocated and earmarked reserves appropriate to the risks it faces and the annual Risks and Reserves report considered by the Finance and Resources Committee identified as an example of good practice. In this vein, the Council has already applied earmarked reserves in the current year in meeting, for example, building dilapidation liabilities and obligations associated with its waste disposal contract;

3.4.6 **Exhibit 12, page 25** – the demand-driven nature of a number of service overspends in 2016/17 mirrors the experience in Edinburgh, with the budget framework subsequently providing additional investment in the priority areas of Health and Social Care, Communities and Families and Safer and Stronger Communities. This additional investment is, however, only affordable through the identification of corresponding savings elsewhere within the budget, with a consequent need for much more fundamental consideration of what the Council does and how it does it;

3.4.7 **Exhibits 15 and 16, page 28 and 29** – as with reserves, councils' relative levels of debt should be interpreted in the context of their contribution to wider strategic objectives and their underlying prudence, affordability and sustainability. The Council's overall level of debt is influenced, for example, by the purchase of its Waverley Court headquarters building in 2008, with the approved business case predicated on delivering net savings relative to the previous lease arrangement of at least £38m over the borrowing term, as well as gaining ownership of the building. The Council's overall level of debt has decreased by over £120m since December 2012, with the resulting savings in loans charge expenditure maximising the level of resources available for frontline service provision;

3.4.8 **Paragraph 55, page 30** – following a centralisation of the Council's capital budget monitoring and development processes in 2012, a best-practice review was undertaken with a view to better co-ordinating management of the capital programme by identifying opportunities to accelerate projects to offset slippage elsewhere. This approach resulted in a marked overall decrease in slippage which continues to be amongst the lowest of all Scottish councils, ensuring that available resources are applied effectively;

3.4.9 **Exhibit 19, page 35** – the approval by Council of a 3% increase in Council Tax rates, along with the impact of Scotland-wide revisions to multipliers for higher-banded properties, has resulted in a marked increase in revenues generated through Council Tax in 2017/18. Despite this, the proportion of the Council's net expenditure funded through Council Tax remains relatively low at 27%, with the balance met through General Revenue Grant and Non-Domestic Rates;

3.4.10 **Paragraph 69, page 35** – enhanced senior officer and elected member scrutiny at the inception, development and implementation stages have seen significant improvements in the proportion of savings subsequently delivered in recent years, with nearly 90% by value delivered in both 2015/16 and 2016/17. The Council's approved budget for 2017/18 is underpinned by the delivery of around £40m of savings, with around 80% of these currently assessed to be on track for full delivery. In recognition of the shortfall in delivery within, in particular, Health and Social Care, the budget framework provides significant additional service investment in 2018/19.

3.4.11 **Exhibit 21, page 37** - no use of general (unallocated) reserves was assumed in approving the Council's 2017/18 budget. In view of external audit recommendations around enhancing in-year transparency of the use of earmarked reserves, however, a review of practice elsewhere is being undertaken and will be incorporated in subsequent Council-wide revenue monitoring reports;

3.4.12 **Exhibit 22, page 38** – subsequently to the publication of the overview report, the Scottish Government has confirmed that it will not implement the Barclay Review on Non-Domestic Rates' recommendation on the removal of charitable relief from existing Council arm's length organisations (ALEOs) which had the potential to introduce combined annual rates liabilities across Edinburgh Leisure and the Festival City Theatres Trust of more than £2.5m. The Cabinet Secretary for Finance and the Constitution confirmed, however, that relief would likely be withheld from newly-formed ALEOs going forward.

4. Measures of success

4.1 The report reiterates a number of principles of sound financial management and assesses councils' current practices against these. The Council's own arrangements were assessed to be effective as part of the 2016/17 Annual Audit process, with expenditure contained within budget for the tenth successive year and almost 90% of approved savings delivered.

5. Financial impact

5.1 Delivery of a balanced budget in any given year is contingent upon the development, and subsequent delivery, of robust savings, alongside management of all risks and pressures, particularly those of a demand-led nature.

6. Risk, policy, compliance and governance impact

6.1 An annual report on the risks inherent in the budget process is considered by the Finance and Resources Committee, usually in January, and referred to Council as part of setting the revenue and capital budgets. This report was identified as an example of good practice as part of the 2016/17 external audit process.

6.2 The savings assurance process is intended to ensure that, as far as is practicable, those proposals approved by Council deliver the anticipated level of financial savings in a way consistent with the expected service impacts outlined in the respective budget proposals.

6.3 A summary of progress in respect of savings delivery is reported to the Finance and Resources Committee on a quarterly basis, with additional detail and commentary on risks, mitigations and alternative measures (as appropriate) reported to Executive Committees.

7. Equalities impact

7.1 While there is no direct additional impact of the report's contents, all budget proposals are now subject to an initial relevance and proportionality assessment and, where appropriate, a formal Equalities and Rights Impact Assessment is then undertaken. The equalities and rights impacts of any substitute measures identified to address savings shortfalls are similarly assessed.

8. Sustainability impact

8.1 While there is no direct additional impact of the report's contents, the Council's revenue budget includes expenditure impacting upon carbon, adaptation to climate change and contributing to sustainable development. In addition, all budget proposals are now subject to an upfront assessment across these areas.

9. Consultation and engagement

9.1 As in previous years, an extensive programme of engagement on the specific proposals and wider themes comprising the 2018/23 budget framework is being undertaken. A separate report on the key findings emerging from this year's engagement process will be reported to the Finance and Resources Committee on 23 January 2018.

Stephen S. Moir

Executive Director of Resources

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10. Background reading/external references

Capital Coalition Budget Motion, City of Edinburgh Council, 9 February 2017

Revenue and Capital Budget Framework 2018/23 – progress update, Finance and Resources Committee, 5 September 2017

Revenue Budget Monitoring 2017/18 – Update, Finance and Resources Committee, 28 September 2017

City of Edinburgh Council 2016/17 Annual Audit Report to the Council and the Controller of Audit – referral from the Governance, Risk and Best Value Committee, Finance and Resources Committee, 28 September 2017

Revenue Budget Framework 2018/23: mid-year review, Finance and Resources Committee, 7 November 2017

Fraser of Allander Institute – Scotland's Budget Report 2017, University of Strathclyde Business School, September 2017

11. Appendices

Appendix 1 - Accounts Commission: Local Government in Scotland – Financial Overview 2016/17

Local government in Scotland

Financial overview 2016/17

ACCOUNTS COMMISSION

Prepared by Audit Scotland
November 2017

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Links

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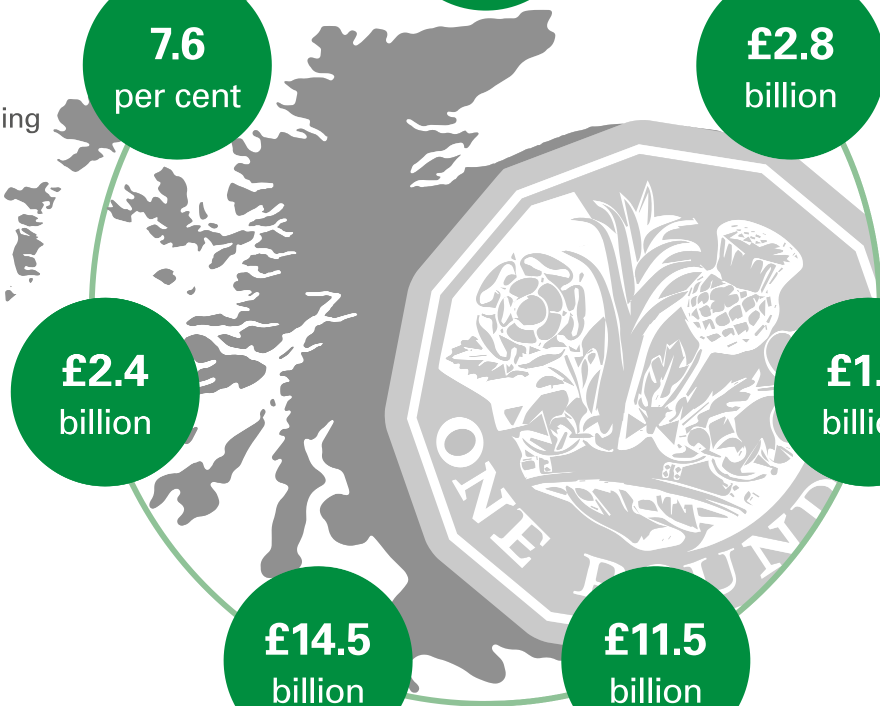
These question mark icons appear throughout this report and represent sample questions for councillors (paragraph 7).

Key facts



- Council income: **£15.2 billion**
- Council capital spending in 2016/17: **£2.8 billion**
- Councils' usable reserves (excluding Orkney and Shetland) at 31 March 2017: **£1.9 billion**
- Councils' pension liabilities at 31 March 2017: **£11.5 billion**
- Councils' net debt (excluding Orkney and Shetland) in 2016/17: **£14.5 billion**
- Council budgets delegated to IJBs in 2016/17: **£2.4 billion**
- Real-terms reduction in Scottish Government revenue funding since 2010/11: **7.6 per cent**

Chair’s introduction

Welcome to the Accounts Commission's 2017 financial overview report for local government.

Last year was the first time that we published a separate financial overview report. In view of the very positive feedback we received from our stakeholders, we have decided to continue publishing two overview reports each year: this one focuses on financial matters, and the other on councils' performance and outcomes, which we plan to publish in April 2018.

Generally, councils face increasing challenges which require flexible responses that balance immediate needs, sound long term planning and limited financial resources. This task is a demanding one for elected members – not least for newly elected members – and I would hope that this overview report and its associated material, including the examples of questions we provide to support scrutiny by councillors, is a useful source of information and guidance.

We live in a rapidly changing public sector landscape, where external issues such as the transfer of further powers to Scotland and the decision to withdraw from the European Union add to an already complex domestic environment. Against this general backdrop the Commission is very aware of the importance of understanding the individual context faced by each council in terms of demand for services and resources available to sustain or develop them.

A major element of this operating environment for councils is the continuing pressure on finances. There was a real terms reduction in councils’ main source of funding from the Scottish Government for 2016/17. This year has seen a further real terms funding reduction, with that trend forecast to continue into future years.

Councils tell us that they are finding the situation more serious than ever, with savings becoming increasingly difficult to identify and achieve. The Commission recognises this, but also recognises that some councils are in a better position to respond than others.

Effective leadership and financial management is becoming increasingly critical and medium-term financial strategies and well thought out savings plans are key to financial resilience and sustainability.

Elected members need to be clear about the potential impact of planned savings on achieving corporate objectives and the subsequent outcomes for citizens. The implications of community empowerment legislation heighten the importance of engaging effectively with communities around local priorities, and working together on options for the best future use of resources in service provision.

The Commission continues to emphasise the importance of Best Value as a comprehensive framework, based on the principle of continuous improvement that encompasses the key features of a high performing and effective council. It is especially relevant in times of tight finances, and we welcome the work being carried out by the Scottish Government, CoSLA, Solace and others, to refresh the Best Value statutory guidance so that it better reflects the current context for local government.

Finally, we welcome that once again the audits of annual accounts from all 32 councils were signed off with no qualifications. This is testament to the hard work amongst council staff, especially those within the finance function, and the good relationships developed by our auditors. There is of course, always room for improvement in financial management, such as in monitoring and reporting of financial matters to both councillors and the wider public. We will continue our interest in this.

Graham Sharp
Chair of Accounts Commission

Summary

Key messages

1 Councils' financial challenges continue to grow. Funding reductions are compounded by increasing costs and demands on services. In response, councils have needed to achieve ambitious savings plans, including around £524 million of savings for 2016/17.

2 Councils are showing signs of increasing financial stress. They are finding it increasingly difficult to identify and deliver savings and more have drawn on reserves than in previous years to fund change programmes and routine service delivery. Some councils risk running out of General Fund reserves within two to three years if they continue to use them at levels planned for 2017/18.

3 Debt increased by £836 million in 2016/17 as councils took advantage of low interest rates to borrow more to invest in larger capital programmes. Councils' debt levels are not currently problematic, but some are becoming concerned about affordability of costs associated with debt within future budgets.

4 Councils' budget-setting processes for 2016/17 were complicated by late confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care. Councils' expenditure and use of reserves often differed noticeably from that originally planned, indicating the need for budget-setting to become more robust and reliable.

5 All councils received an unqualified audit opinion on their 2016/17 accounts but auditors found that in several councils financial management could be improved. Councils can use their accounts to more clearly explain their financial performance over the whole year to support better scrutiny.

6 The financial outlook for councils continues to be challenging, with the need to deliver savings being increasingly critical to their financial sustainability. As such, robust medium-term financial strategies and effective leadership to deliver them are of increasing importance.

councils are showing signs of increasing financial stress

About this report

1. This report provides a high-level independent analysis of the financial performance of councils during, and their financial position at the end of, 2016/17. It also looks ahead and comments on the financial outlook for councils. It is one of two overview reports that the Accounts Commission publishes each year, complementing a report on councils' performance and outcomes that will be published at the start of the next financial year in April 2018.

2. The report is intended to inform the public and its representatives. It is particularly aimed at councillors and senior council officers, and will be of significant interest to elected members who joined councils for the first time following the May 2017 elections. While the focus of the report is on councils, we also provide some early information about Integration Joint Boards (IJBs), which are also local government bodies, following their first full year of operation in supporting health and social integration. A programme of audit work looking in more detail at health and social care integration and IJBs is under way.[1]

3. The report is in three parts:

- Part 1 (page 10) comments on councils' income and budgets for 2016/17.
- Part 2 (page 20) looks at councils' financial performance during, and position at the end of, 2016/17.
- Part 3 (page 33) looks at councils' 2017/18 finances and the challenges faced going forward.

4. Our primary sources of information are councils' 2016/17 audited accounts (including management commentaries) and their 2016/17 external annual audit reports. We have supplemented this with data submitted by councils to the Scottish Government through local finance returns (LFRs) and Provisional Outturn and Budget Estimates (POBE). LFRs present spending information for councils on a different basis from the spending information that councils record in their annual accounts. We do not audit data contained in LFRs.

5. UK-wide changes to the format of council financial statements in 2016/17 mean that we are no longer able to compare spending on services across councils using the annual accounts. This includes changes that make it difficult to establish the true service income and expenditure totals. We will include further analysis of these areas in our local government overview report in April 2018, using Scottish Government LFR data.

6. We refer to 'real-terms' changes in this report. This means we are showing financial information from past and future years at 2016/17 prices, adjusted for inflation, so that they are comparable to information from councils' 2016/17 accounts. We also refer to figures in 'cash terms'. This means we are showing the actual cash or money paid or received.

7. Throughout the report, we identify examples of questions that councillors may wish to consider to help them better understand their council's financial position and to scrutinise financial performance. The questions are also available on our website in *Supplement 1: Scrutiny tool for councillors*.

8. Accompanying this report, and to facilitate insight and comparisons across the sector, we have provided additional financial information on our website. The information is based on councils' audited accounts. We hope this will be useful for senior council finance officers, their staff and other interested stakeholders. We have also produced a separate supplement on councils' Housing Revenue Account (HRA) and the Local Government Pension Scheme (LGPS).

9. Throughout this report Orkney and Shetland have been excluded from exhibits that show usable reserves and debt. This is because the levels they hold mean inclusion would make it difficult to see relative positions of other councils. Most councils hold usable reserves of between five and 35 per cent of their annual income, whereas Shetland's reserves were 250 per cent of its annual income and Orkney's 300 per cent of its annual income. These large reserves relate to oil, gas and harbour related activities. As a result, both Orkney and Shetland also have more investments than borrowing unlike other councils.

Part 1

Councils' income and budgets for 2016/17

Key messages

1 2016/17 was a challenging year for councils with a real-terms reduction in revenue funding, a continuation of the council tax freeze, inflationary pressures and the cost of new UK and Scottish Government policy commitments.

2 Councils depend on Scottish Government funding for the majority of their income. The largest element of Scottish Government funding, relating to Grant Aided Expenditure, has remained largely unchanged since 2008/09, with additional funding linked to supporting national policies. The Scottish Government and COSLA should assure themselves that the funding formula remains fit for purpose in a changing landscape for local government. It is important that it is suited to improving outcomes for local communities and sensitive to priorities such as reducing inequality within and across council areas.

3 In response to funding reductions, councils approved about £524 million of savings and the use of £79 million of their reserves when setting budgets for 2016/17. Councils' savings plans have focused on reducing staff numbers, rationalising surplus property and improving procurement of goods and services. Councils were not always clear in their budget-setting reports about the risks associated with savings and their potential impact on levels of service.

4 Councils' budget-setting processes for 2016/17 were complicated by later confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care.

5 Councils set larger capital budgets in 2016/17 than in 2015/16. The Scottish Government capital grant fell and councils planned to fund expenditure through increased borrowing.

2016/17 was a challenging year for councils

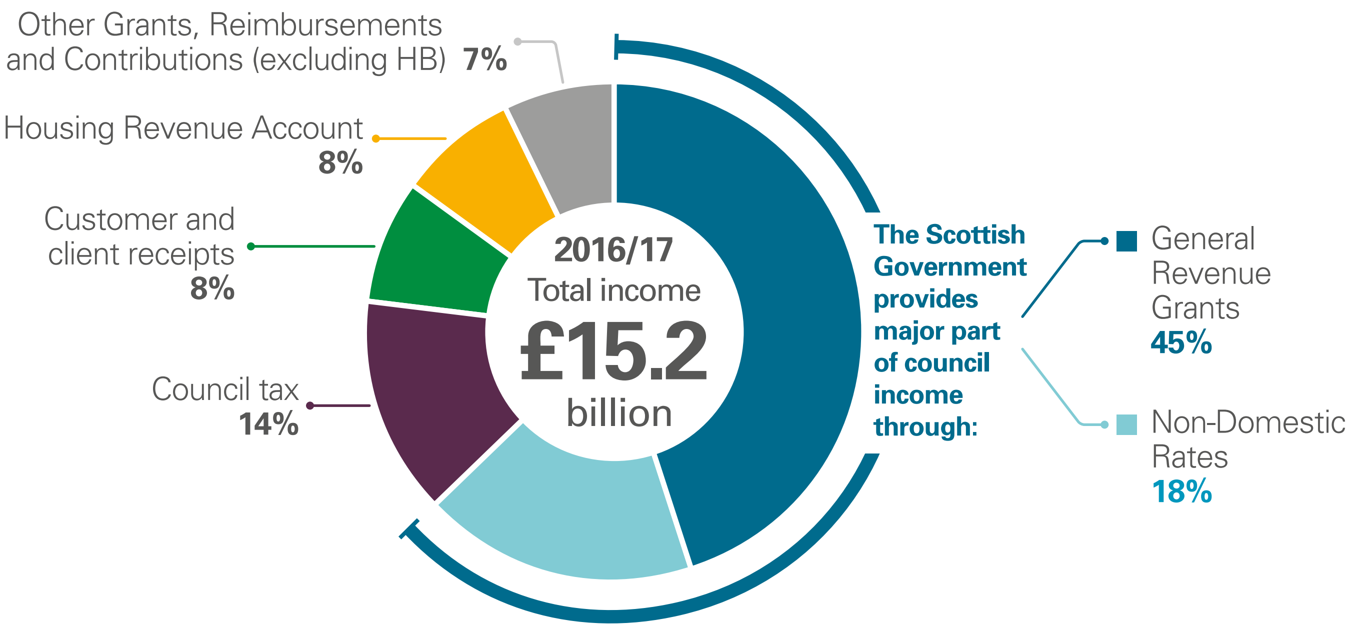
Councils faced a major challenge from the significant fall in revenue funding for 2016/17

10. The Scottish Government provides almost two-thirds of councils' income through general revenue grant, non-domestic rates (NDR) and specific grants for things like community justice (Exhibit 1, page 11). In comparison, council tax accounts for 14 per cent of councils' income, and fees and charges about eight per cent of their income.[2]

Exhibit 1

Sources of council revenue income, 2016/17

Councils are dependent on the Scottish Government for the majority of their income.



Notes:
1. Does not include all income collected for services delivered through council arm's-length external organisations (ALEOs) and Integration Joint Boards (IJBs).
2. Income excludes housing benefit.
3. Customer and client receipts are 2015/16 totals at 2016/17 prices.

Source: Annual accounts 2016/17 and Scottish Local Government Finance Statistics 2015-16

11. Scottish Government revenue funding for councils in 2016/17 fell by 5.2 per cent in real terms (Exhibit 2). Councils' revenue funding from the Scottish Government has fallen in real terms by 7.6 per cent since 2010/11. The size of the reduction in 2016/17 presented councils with a major challenge in delivering services and required most to identify significant savings.

Exhibit 2

Scottish Government revenue funding to councils

Revenue funding fell both in cash and real terms in 2016/17 compared to 2015/16.

	2016/17 £'000	Change on 2015/16 Cash %	Real %
NDR	2,769	-0.7 ▼	-2.7 ▼
Revenue Grant	6,939	-4.3 ▼	-6.2 ▼
Total revenue funding	**9,708**	**-3.3** ▼	**-5.2** ▼
Additional resource via IJBs	250		
	9,958	**-0.8** ▼	**-2.8** ▼

Source: Local Government Finance Circular 1/2017, Scottish Government

12. In 2016/17, the Scottish Government transferred an additional £250 million from the health budget to support health and social care integration. Even taking this into account, total revenue funding for councils fell in 2016/17.

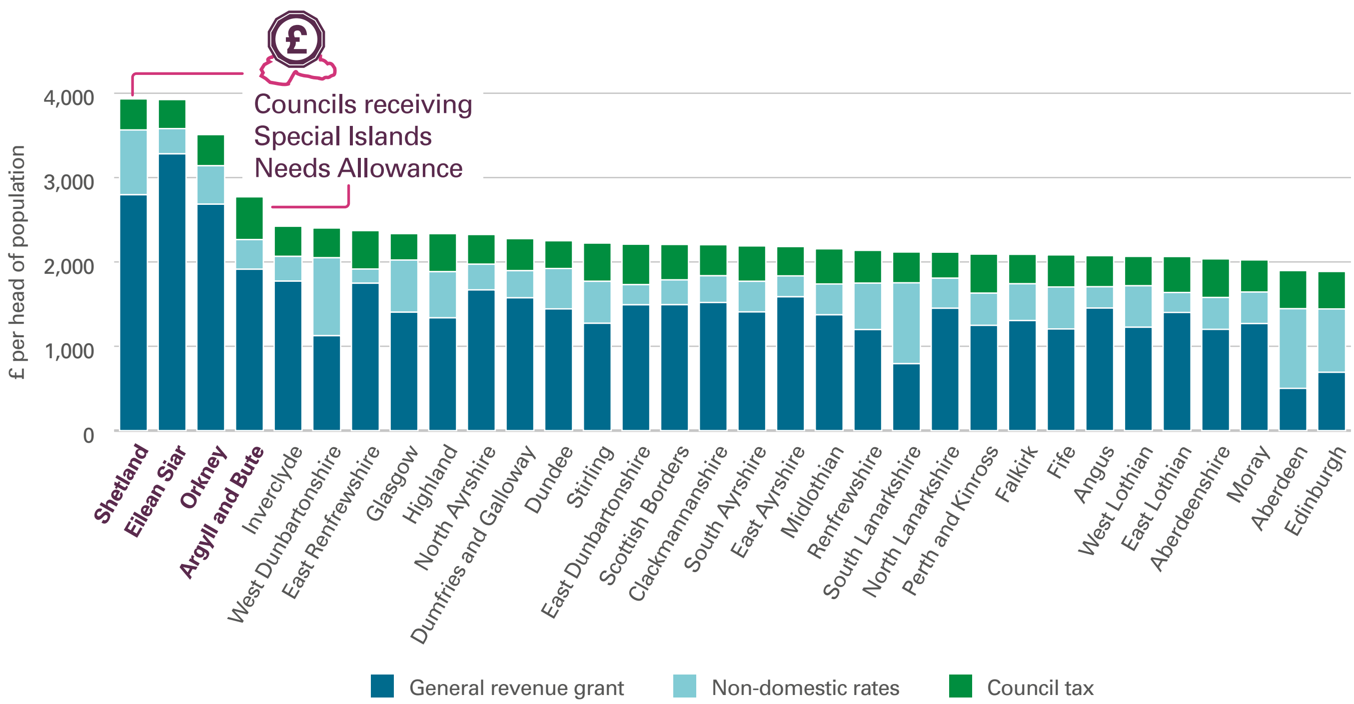
13. Council tax is a key source of income for local government. Councils have typically set council tax rates to reflect local policy choices. Between 2008/09 and 2016/17, councils agreed with the Scottish Government to freeze council tax rates. To compensate them, the Scottish Government provided local government with an additional £70 million in each year of the freeze. In 2008/09, £70 million represented just over three per cent of council tax income and councils each received a share in line with their tax base. Councils that may not have increased their council tax by this amount each year will have benefited from additional funding as a result of the freeze. Councils did, however, lose the option of raising council tax to generate additional revenue. Although the council tax freeze was lifted in 2017/18, councils were constrained to increases of three per cent.

14. The revenue funding that councils received from the Scottish Government and council tax income varied between £2,000 and £2,400 per head of population for most councils in 2016/17 (Exhibit 3). This impacts on the income they have available and on the decisions they need to make about delivering services. The income per head of population in Argyll and Bute, Eilean Siar, Orkney and Shetland is higher than in other councils because they receive extra funding for their island populations, in recognition of the additional costs they face when providing services.

Exhibit 3

Income from General Revenue Grant, Non-Domestic Rates and council tax per head of population, 2016/17

Most councils received between £2,000 and £2,400 per head of population.



Source: Annual accounts 2016/17; and National Records of Scotland mid-year population estimate for 2015

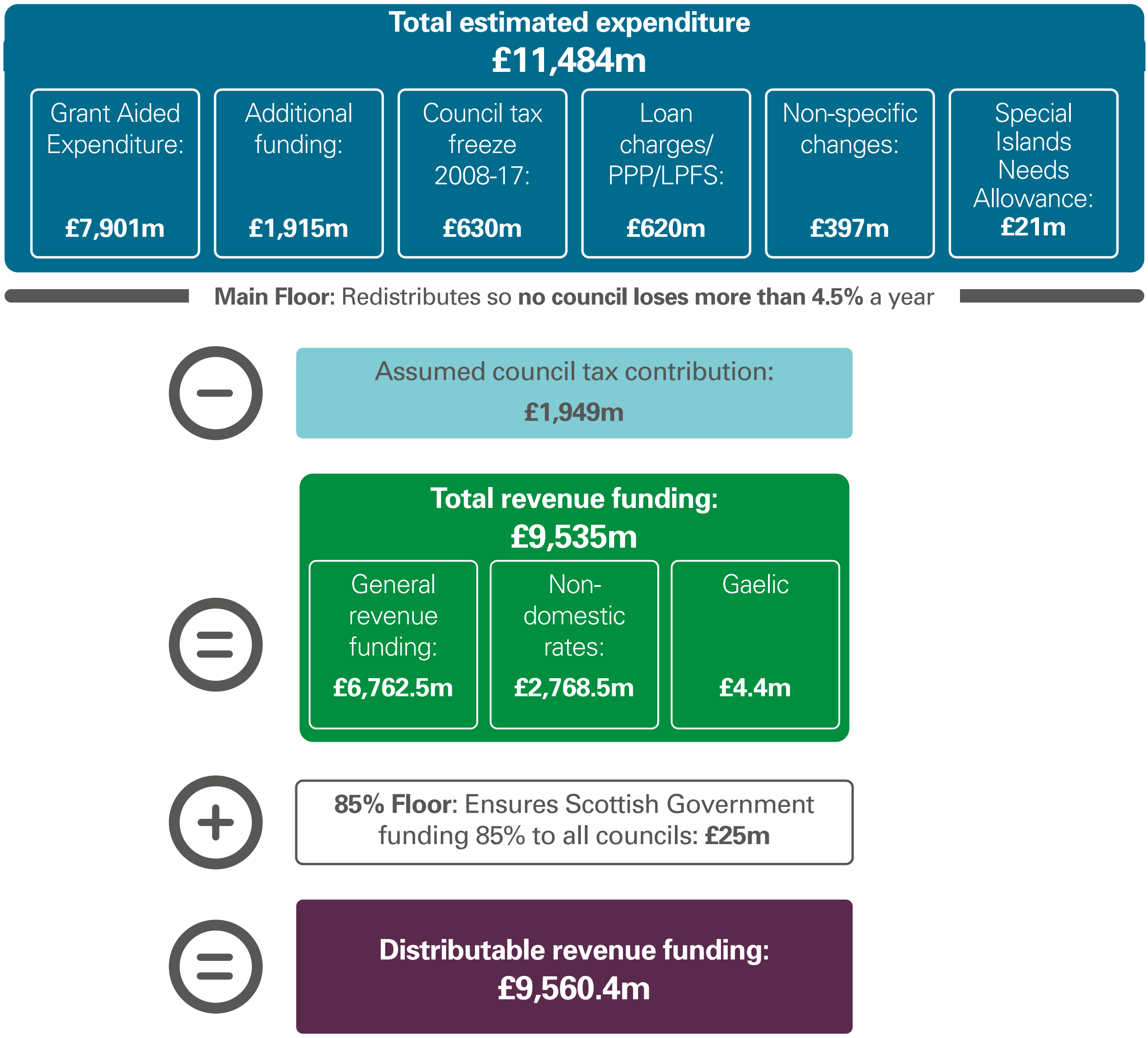
Additional Scottish Government funding has been linked to supporting national policies

15. The Scottish Government funding mechanism is the main determinant of a council's overall funding. It is designed to reflect differences between councils in terms of population and other factors, such as geography and deprivation. The funding mechanism is based on a large number of elements as illustrated in Exhibit 4 (page 14). The Fraser of Allander Institute has provided a useful outline summary of how funds are allocated:

> 'The Scottish Government allocates grants to local authorities taking into account both the relative spending need of each authority, and the revenues raised from council tax and non-domestic rates income.
>
> The grant allocation system first calculates the 'total estimated expenditure' (TEE) that each local authority is likely to need to meet its various commitments. The elements of TEE are:
>
> - an assessment of spending needs, based on the Grant Aided Expenditure (GAE) assessments combined with a Special Islands Needs Allowance (SINA)
> - a series of additional revenue grants – such as the funding used in the past to support the council tax freeze – the allocation of which is determined on a case-by-case basis
> - a series of further non-specific changes to grant allocations, the allocation of which is based on local authorities' shares of GAE + SINA
> - local authorities' commitments in respect of certain historic loan charges
> - the sum of these elements is then adjusted by a 'floor' to ensure that no local authority experiences particularly large swings in support from one year to the next.
>
> Having calculated TEE, an adjustment is then made based upon an estimate of what each local authority is expected to raise from council tax, the revenues that each local authority is forecast to raise from non-domestic rates, and their allocation of ring-fenced Gaelic funding. A further 'floor' calculation is applied to ensure that no local authority receives less than 85 per cent of the Scottish average on a per capita basis.'[3]

16. Within the Scottish Government's estimate of councils' TEE in any year, the largest element is Grant Aided Expenditure (GAE). GAE totals have remained broadly the same since 2008/09, with the exception of funding for police, fire and district courts having been removed. In 2016/17, GAE was £7.9 billion of a total estimated expenditure of £11.5 billion. GAE is distributed between councils based on an estimate of their relative spending needs across 89 elements, with reference to one or more indicators. For example, the GAE for primary education is allocated with reference to its share of primary school aged pupils. A small adjustment is made based on a secondary indicator of the percentage of pupils in small schools. The variations between councils in each of the elements are mostly determined by population profiles, although other factors to reflect rurality and deprivation are also used when appropriate.

Exhibit 4
Local Government funding mechanism, 2016/17
The formula contains many elements.



Notes: On top of distributable revenue funding, councils also received £133 million from other grants and payments such as the Teacher Induction Scheme and Discretionary Housing Payments.
In 2016/17, the 85 per cent floor was applied to funding for Aberdeen City and City of Edinburgh Councils.

Source: Audit Scotland and Fraser of Allander Institute

17. New funding for councils since 2008/09, for example funding to expand early years' childcare, has come as 'additional funding' and 'non-specific changes' and is funding specifically directed at delivering particular national policies. The proportion of council funding directed towards national policies is increasing, a trend that will continue with Scottish Government proposals for fairer funding for equity and excellence in education. This shift increasingly restricts the flexibility councils have in managing their budgets across their full range of services. The Scottish Government and COSLA should assure themselves that the funding formula remains fit for purpose in a changing landscape for local government. It is important that it is suited to improving outcomes for local communities and sensitive to priorities such as reducing inequality within and across council areas.

Councils faced increased budgetary pressures in 2016/17

18. Councils faced a growing range of budgetary pressures in 2016/17 from the real-terms reduction in Scottish Government funding, the continuation of the council tax freeze and cost inflation. They also faced additional pressures in meeting new UK and Scottish Government policy commitments. Many of the budgetary pressures that councils faced were associated with staff. As councils' largest area of expenditure, additional staff-related costs have a very significant impact on their budgets (Exhibit 5).

Exhibit 5
Significant budgetary pressures on councils in 2016/17
UK and Scottish Government policy commitments had sizeable cost implications for councils.

The **move to the single state pension at UK level.** This ended the employer NI rebate in relation to staff in contracted-out pension schemes (such as the LGPS and Teachers schemes).

3.4 per cent increase in NI costs affected employees from 1 April 2016.

The cost of introducing the **living wage for social care workers** from 1 October 2016.

Estimated cost of £100 million.

The undertaking to **maintain teacher numbers in Scotland** and the **Teacher Induction Scheme**.

Councils spend around £2.4 billion on teachers. By not cutting teacher numbers they receive a share of £88 million extra funding.

Annual increases in staff costs.

Estimated cost of one per cent pay rise about £70 million. Costs also increase as staff move up pay scales.

The **full year effect of increased pension contributions for teachers** (increased from 14.9 per cent to 17.2 per cent from September 2015).

The estimated impact was around £20 million in 2016/17.

Source: Audit Scotland

19. In addition to the costs of meeting government policies and inflationary pressures, councils also had to deal with ongoing demand pressures. Some demand pressures such as those associated with an ageing population and placements for looked-after children, are often not easy to forecast and budget for. This highlights the need for adequate budget contingency and robust arrangements for identifying and responding to changes in demand for services.

20. Rent arrears can also create budgetary pressures for councils' Housing Revenue Accounts. The Department for Work and Pensions (DWP) began a roll-out of Universal Credit (UC) in Scotland in March 2016. By March 2017, UC had rolled out across five councils.[4] Rent arrears across these councils increased in 2016/17 by an average of 14 per cent, compared with an average of 4 per cent across the remaining councils. Our *Housing Benefit Performance Audit: Annual update 2016/17* highlighted that councils are finding that the roll-out of UC is having a detrimental effect on their collection of housing rental income.

Some service areas saw larger reductions to budgets in 2016/17

21. In responding to the range of pressures they face, councils approved about £524 million of savings and budgeted to use about £79 million of reserves in their budgets for 2016/17. Savings plans continued to focus on their main areas of spend, reducing staff numbers, rationalising surplus property and improving procurement of goods and services. It was not always clear from budget-setting reports how savings aligned with the council's corporate and financial plans or how they would impact on service delivery.

22. In 2016/17, budgets for education increased, mainly as a result of the policy commitment to maintain teacher numbers and the inflationary pressures around pay and pension costs. Despite demand pressures in social work, overall budgets reduced – but not by as much in percentage terms as in other areas of service. Remaining service areas have seen larger reductions to their budgets. In some cases, increases in fees and charges may have reduced the amount of budgeted expenditure. This pattern of larger reductions to relatively smaller service areas has been recurrent in recent years and is something that has continued into 2017/18. While it is right that resources should be aligned with policy priorities, the impact on other services and their outcomes should be carefully assessed (Exhibit 6, page 17).

Councils have been seeking to maximise the income available to them from charging for services

23. Councils generate about eight per cent of their total income from charging for services (excluding housing rents). This includes income from charges to service users, rental income (excluding council houses) as well as 'other' charges. It is difficult to establish from the data available the full extent of income councils receive. Some income from services provided via arm's-length external organisations (ALEOs) and IJBs is not shown in council totals.[5]

24. Councils have been seeking to maximise their income through increasing charges and by introducing new charges for services, for example introducing charges for garden waste. Councils have also sought to collect more of the income that is due to them. Charges for social care which are subject to regulation, represented the largest area of income from charging services in 2015/16 (Exhibit 7, page 18).

Does your council have a charging policy? Is this in line with corporate plans and objectives? When was this last reviewed?

What information do you need to be able to explain increases in fees and charges to your constituents?

25. The Scottish Parliament's Information Centre (SPICe) has published a detailed briefing on some fees and charges. The Accounts Commission also considered fees and charges for services in its 2013 report, *Charging for services: are you getting it right?*

26. Although councils generate a relatively small proportion of their overall income from fees and charges, increases can make a difference to council finances over time. However, councils face difficult decisions in balancing their need to maximise income while also ensuring their charging policy is consistent with corporate objectives, such as providing access to services and addressing inequality. Increasing prices can be unpopular with the public, but effective leadership, sensitive management, good communications and community engagement can assist with this.

Exhibit 6

Trend in council expenditure on main services, in real terms

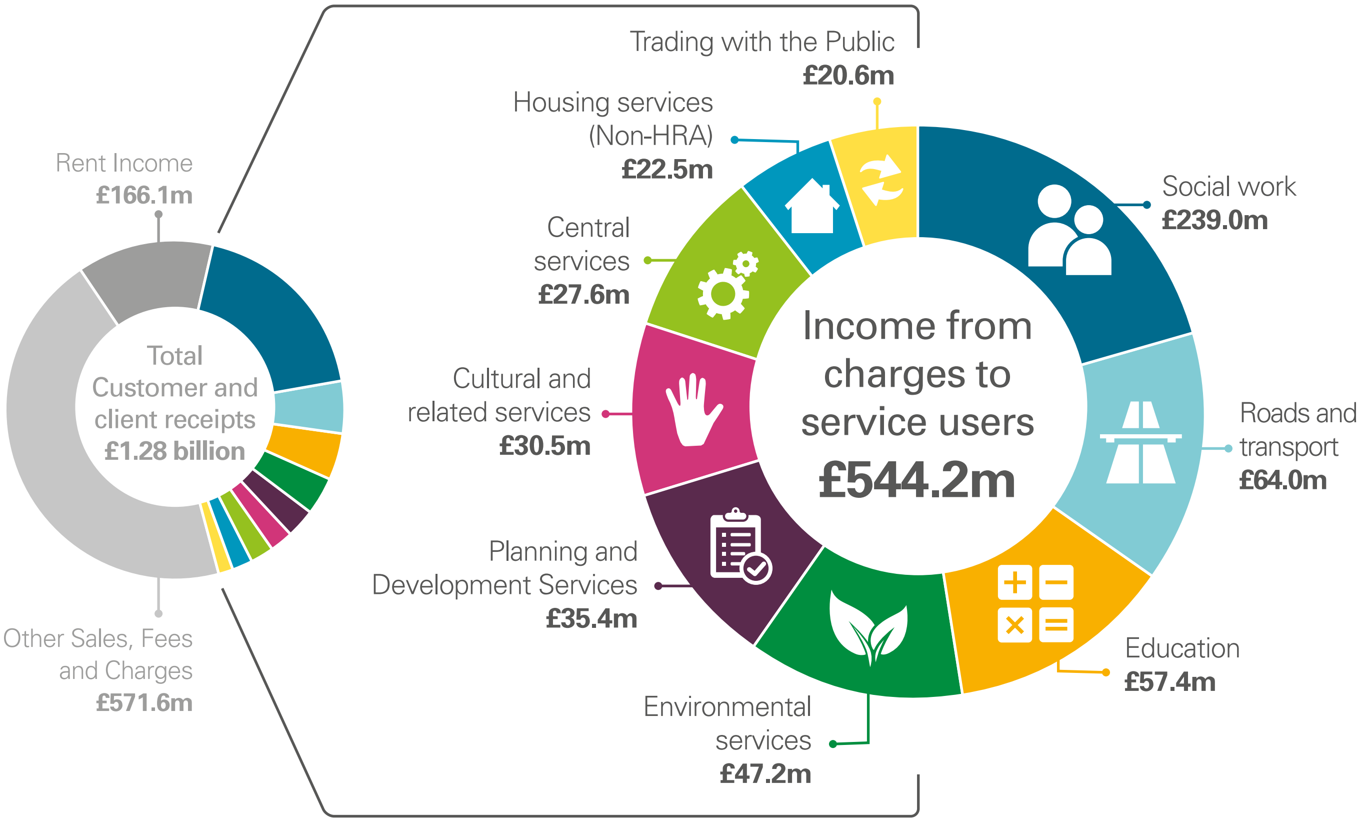
There was significant variation in budget changes across council services.

	2013/14 £million	2014/15 £million	2015/16 £million	16/17 Budget £million	Change over period
Education	4,771	4,736	4,830	4,826	1%
Cultural and related services	639	661	610	560	-12%
Social work	3,158	3,194	3,233	3,086	-2%
Roads and transport	454	431	427	419	-8%
Environmental services	686	684	698	668	-3%
Planning and development services	291	286	248	251	-14%
Other services	839	802	778	687	-18%
Total (excludes trading services and interest payments)	**10,840**	**10,793**	**10,823**	**10,496**	-3%

Note: 'Other services' combines Central Services and non-HRA housing.

Source: Scottish Local Government Finance Statistics 2015-16; and Scottish Government Provisional Outturn Budget Estimate returns 2016

Exhibit 7
Charges to service users
Charges to service users account for over £500 million of councils income.



Note: Does not include all income collected for services delivered through council ALEOs and IJBs.
Source: Scottish Local Government Finance Statistics 2015-16

Integration Joint Boards added further complexity to budget setting

27. For the majority of councils, 2016/17 was the first operational year for Integration Joint Boards (IJBs). IJBs were established as a result of the Public Bodies (Joint Working) (Scotland) Act 2014. They are partnerships between NHS boards and councils and are responsible for the delivery of adult health and social care, and in some council areas, for other services, such as children's services. The partnerships are the subject of 'integration schemes' which are written agreements about how they will operate, including responsibilities for any budget underspends and overspends.

28. Councils delegated £2.4 billion of social care expenditure to IJB budgets for 2016/17 and NHS boards contributed £5.6 billion. The introduction of IJBs has complicated budget-setting, due to differences in both the approach and timing of budget-setting between councils and NHS boards. The establishment and development of IJBs has been a complex exercise and will take time to mature. Their operation will be the focus of further performance audit work we have planned in 2018.

Councils set larger capital programmes for 2016/17, with plans to increase borrowing

29. In addition to their day-to-day revenue spending on goods and services, councils also incur capital expenditure on the assets that support those services, including schools, houses and equipment such as vehicles. In 2015/16, councils spent about £2.4 billion on capital projects. Budgets for 2016/17 were much higher at over £3.3 billion.

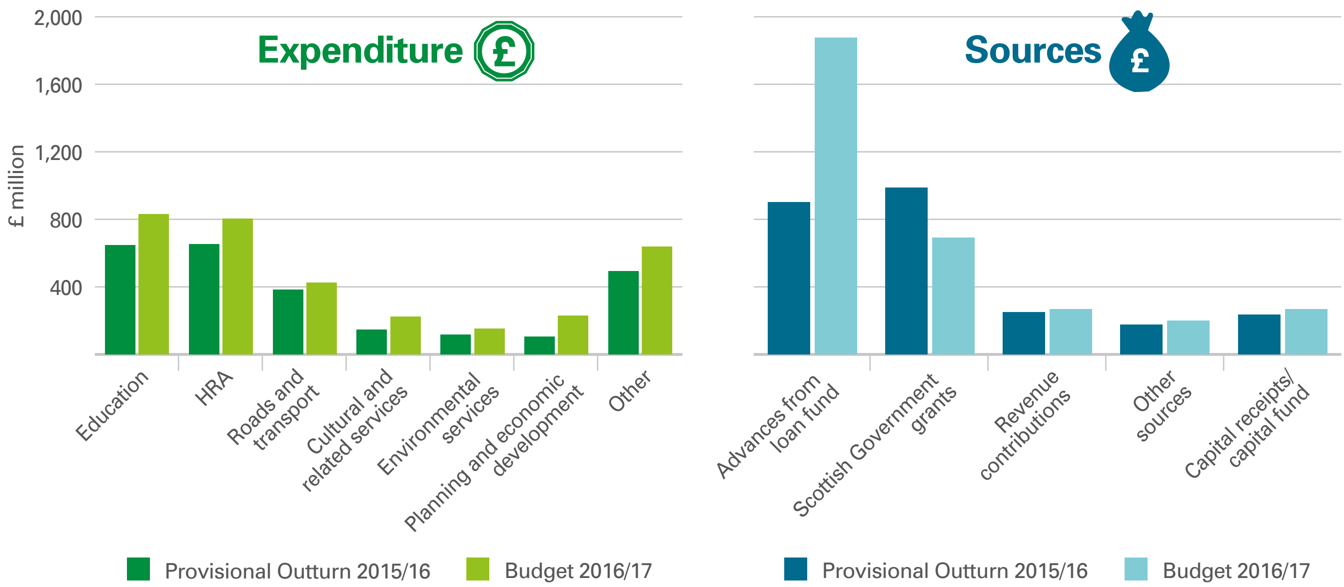
30. Councils finance their capital expenditure from a number of sources, including Scottish Government capital grants and borrowing. Scottish Government grants fell from £834 million in 2015/16 to £591 million in 2016/17, returning to a more usual level following re-profiling in earlier years. Exhibit 8 shows where councils were planning to spend their capital and how they planned to finance it.

31. Councils are required to consider the affordability of their capital programmes. This includes the cost of any borrowing along with the impact on day-to-day running costs. However, they are free to determine what they consider prudent and with interest rates remaining low in 2016/17, councils assessed increased borrowing to be affordable. The delivery of capital programmes and the affordability of debt are considered further in Part 2 and Part 3.

Exhibit 8

Capital programmes and sources of finance, 2015/16 and 2016/17

Councils planned to borrow more in 2016/17 to meet the cost of larger capital programmes.



Notes:
1. Excludes regional transport partnerships and Joint Valuation Boards.
2. Other budgeted use of capital includes Social Work, Central Services, Trading Services, etc.
3. Other sources of capital finance for the General Fund are grants (excluding those received from the Sottish Government).
4. For HRA this includes capital from other sources, such as developer contributions.

Source: Scottish Government Capital Provisional Outturn Budget Estimate 2015-16

Part 2

2016/17 financial performance

Key messages

1. All councils received an unqualified audit opinion on their 2016/17 accounts but the accounts could more clearly explain their financial performance.

2. Councils are showing signs of increasing financial stress with 20 councils drawing on their usable reserves in 2016/17.

3. Councils' actual use of reserves was often quite different from that originally planned. The reasons why are not always clear.

4. Auditors found that budget-setting needed to be more robust and that financial management could be improved in several councils.

5. Levels of net debt increased by £836 million in 2016/17. On average councils spent almost ten per cent of their revenue budgets servicing this debt. Some councils are concerned about the ongoing affordability of servicing their debt as resources decrease.

6. Councils that have been proactive in making difficult decisions will be better placed to deal with future financial pressures.

Twenty councils drew on reserves in 2016/17 – actual use of reserves was often quite different from original plans

All councils received an unqualified audit opinion on their 2016/17 accounts but the accounts could more clearly explain their financial performance to readers

32. In 2016/17, for the sixth consecutive year, auditors issued a 'true and fair' unqualified audit opinion on the accounts of all 32 councils. An unqualified opinion means auditors have judged that all council's financial records and statements are fairly and appropriately presented, that the council's financial statements are sound and free from material misstatements or errors.

33. For the last three years, councils have had to produce a management commentary to accompany their annual accounts. These commentaries play an important role in public accountability and helping interested parties to better understand the accounts of each council and its financial performance and position. As such, they should include explanations of amounts included in the accounts as well as:

- a description of the council's strategy and business model
- a review of the council's business
- a review of principal risks and uncertainties facing the council
- an outline of the main trends and factors likely to affect the future development, financial performance and financial position of the council.

34. Each management commentary should concisely present the financial 'story' of a council in an understandable format for a wide audience. Auditors express an opinion on whether the management commentary is consistent with the audited financial statements and is in line with Scottish Government guidance.

35. Management commentaries for 2016/17 vary in how clearly councils and IJBs explain their financial and general performance. Overall there remains scope for improvement. It is the Accounts Commission's view that councillors have an important role in ensuring that the management commentary effectively tells a clear story of financial performance and can be understood and scrutinised by a wide audience. The story at the end of the year should be produced from regular reports provided to councillors throughout the year.

Do management commentaries clearly explain council performance and any changes to plans?

Councils are showing increasing signs of financial stress

Twenty councils drew on their usable reserves in 2016/17

36. In 2016/17, 20 councils drew on their usable revenue and capital reserves. Nineteen councils drew on their revenue reserves in 2016/17, an increase from the eight councils that did so in 2015/16. Council revenue reserves fell by £32 million in 2016/17. (Exhibit 9, page 22). Overall council usable reserves (capital and revenue) fell by about £33 million.

37. The Chartered Institute of Public Finance and Accountancy (CIPFA) has identified the rapid decline of usable reserves as one of the symptoms exhibited by councils under financial stress.[6] Councils with good financial management demonstrate well-planned and managed use of reserves, in accordance with carefully thought out council policies.

38. In some cases, councils have used reserves to support service delivery. Councils have used reserves to invest in their change programmes, such as meeting the additional costs of staff severance. In 2016/17, councils continued to focus on reducing staffing levels. They reduced their workforces by almost 2,200 staff (almost one per cent of the total workforce), at a cost of £78 million (Exhibit 10, page 23). Councils' policies around voluntary severance and redundancy typically require payback of the costs over two to three years.

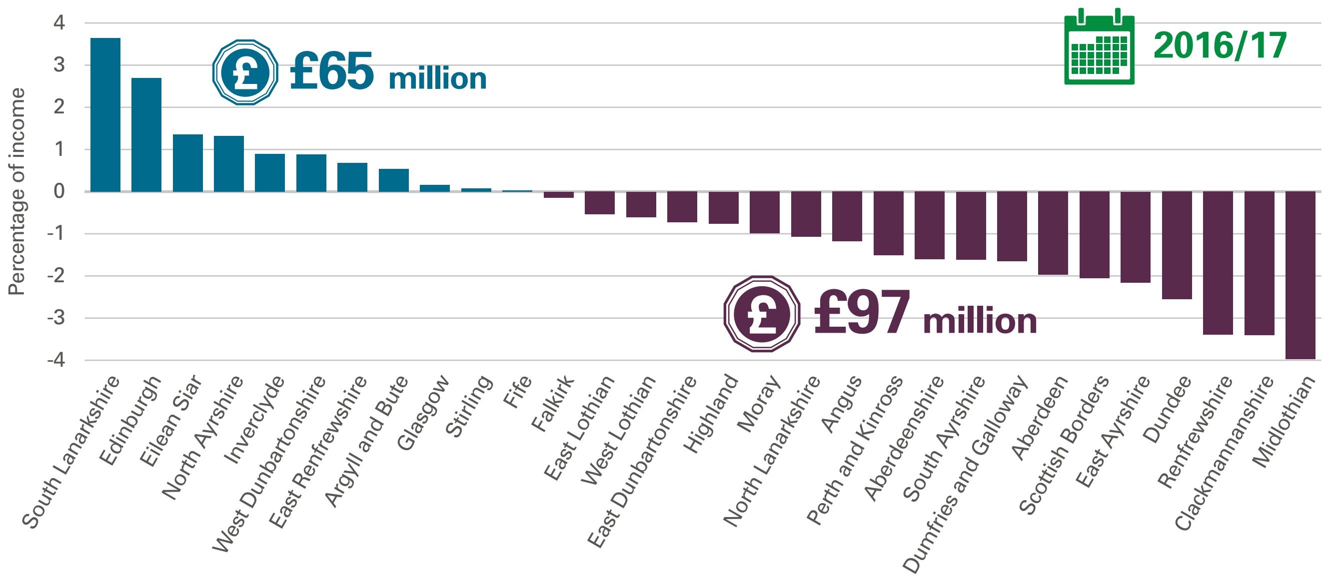
Are staff severances in line with the council's workforce plan?

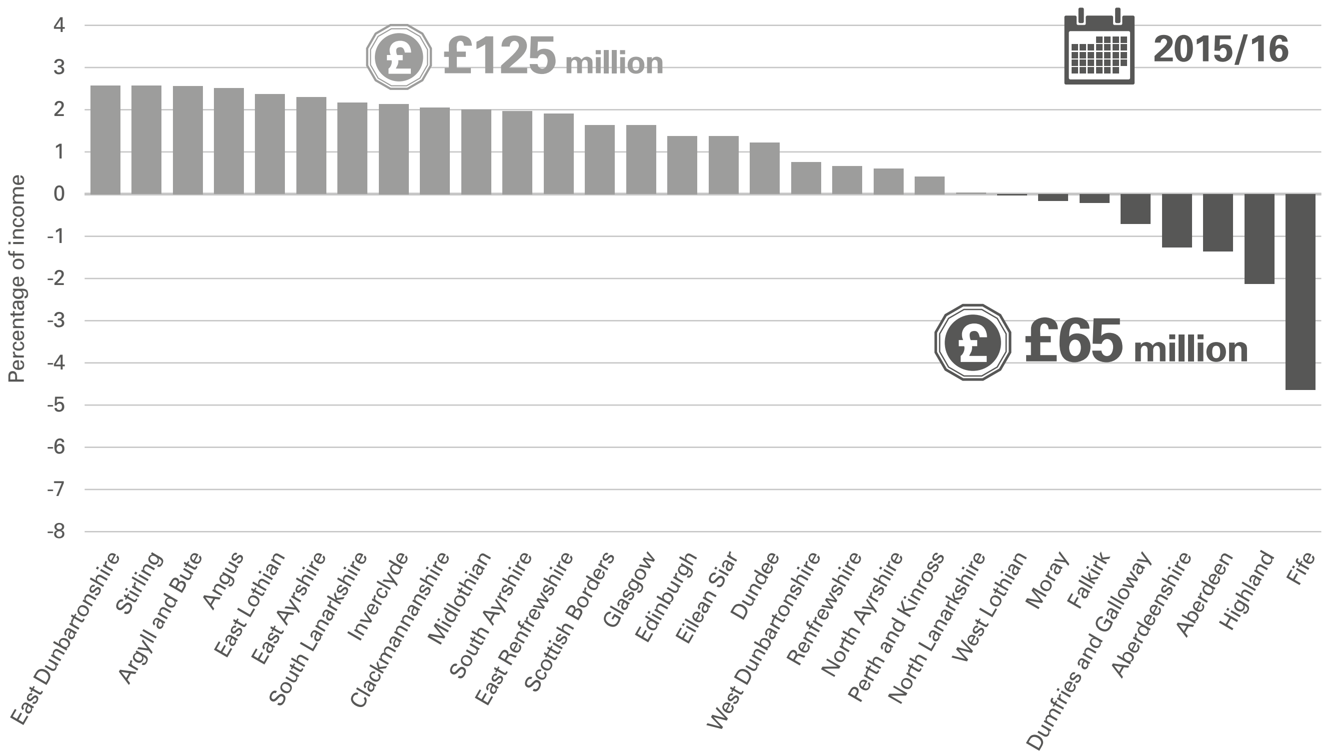
39. In future, severance schemes could become less attractive for staff under Scottish Government proposals to limit payments. Conversely, severance packages for staff with retirement dates after April 2020 will become more expensive for councils following changes to pension protection.

Exhibit 9

Changes in revenue reserves (excluding HRA), 2015/16 and 2016/17

Many more councils drew on revenue reserves in 2016/17 compared with 2015/16.





Notes:
1. Due to issues with the scale on this exhibit Orkney and Shetland are excluded (paragraph 9).
2. In 2016/17, Renfrewshire moved money from revenue to capital reserves.

Source: Audited accounts 2015/16 and 2016/17

Exhibit 10
Exit packages, 2011/12 to 2016/17
The number and average cost of exit packages both fell in 2016/17.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Total number of packages	4,070	2,407	2,373	1,933	2,660	2,195	**15,642**
Total cost of packages Cash terms £000	148,750	109,068	92,640	74,935	97,231	78,125	**600,750**
Total cost of packages Real terms £000	160,868	115,528	96,535	76,955	99,172	78,125	**627,184**
Average cost per package Real terms £	39,525	47,997	40,681	39,811	37,227	35,592	**40,096**

Note: Real terms comparisons are based on 2016/17 prices.

Source: Annual accounts 2016/17

Councils use of reserves and service expenditure was often quite different from that originally planned

40. In 2016/17, as many councils used more reserves than they had originally planned as used less (Exhibit 11, page 24). It is not always clear from management commentaries why the actual use of reserves differed from that planned.

41. There can be a range of reasons why councils need to draw more heavily on their reserves than planned. It can be the result of poor budget-setting and/or budgetary control. For example, councils may need to use reserves to balance budgets where savings have not been achieved. The failure to deliver savings might be due to councils underestimating the time required for change programmes to deliver benefits. As budgets come under greater pressure from funding reductions, cost pressures and increasing demand, it is critical that councils understand the risks of using reserves in an unplanned way in relation to future savings and long-term financial sustainability.

42. Auditors identified that some councils failed to deliver their savings plans in 2016/17. Auditors also highlighted that some budgets did not properly reflect patterns of previous actual expenditure and that councils should consider rebasing their budgets where they consistently underspend. One such area is underspending on financing costs, where slippage on capital programmes leads to less borrowing and lower interest payments. Built-in budget contingencies partly explain budget underspends but councils need to explain this more clearly.

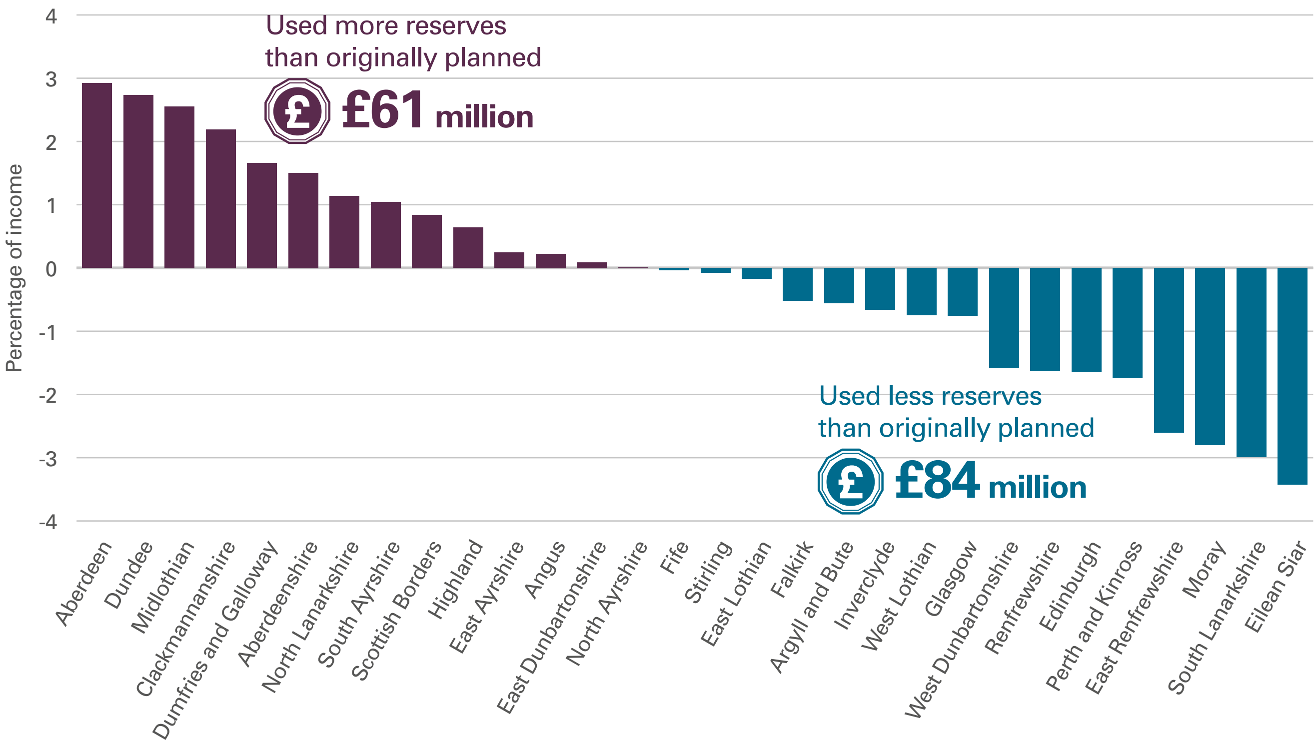
How does the council ensure that council staff have the capacity to delivery transformational change?

What have reserves been used for in recent years? Supporting services and bridging the funding gap or transforming services?

Exhibit 11

Difference between planned and actual use of General Fund reserves as a proportion of income, 2016/17

The difference between planned and actual use of reserves for some councils was more than two per cent of their total income from general revenue grants and taxation.



Note: Due to issues with the scale on this exhibit Orkney and Shetland are excluded (paragraph 9).

Source: Audited accounts 2016/17 and auditor returns

43. Reasons often cited by councils for under and overspends against final budgets are included in Exhibit 12 (page 25).

44. Management commentaries in councils' accounts tend to only identify the main reasons for over or underspends against final budgets and not why plans or budgets changed during the year. This represents an area of weakness in financial reporting that councils need to address to support more effective financial scrutiny. If significant changes are made to original budgets the reasons should be clearly reported to councillors throughout the year, as well as featuring in the management commentary accompanying the accounts at the end of the year.

Do budget monitoring reports clearly explain performance against plans and any changes to plans?

Exhibit 12

Commonly reported reasons for budget variances, 2016/17

Demand pressures primarily drove overspends – with financing costs a key driver of underspends.

Overspend

Health and social care
Increased demand for services

Early retirement
Severance schemes

Welfare reforms
Generated higher than expected demand

Education and children's services
- Out of school placements
- Residential placements
- Fostering and adoption

Underspend

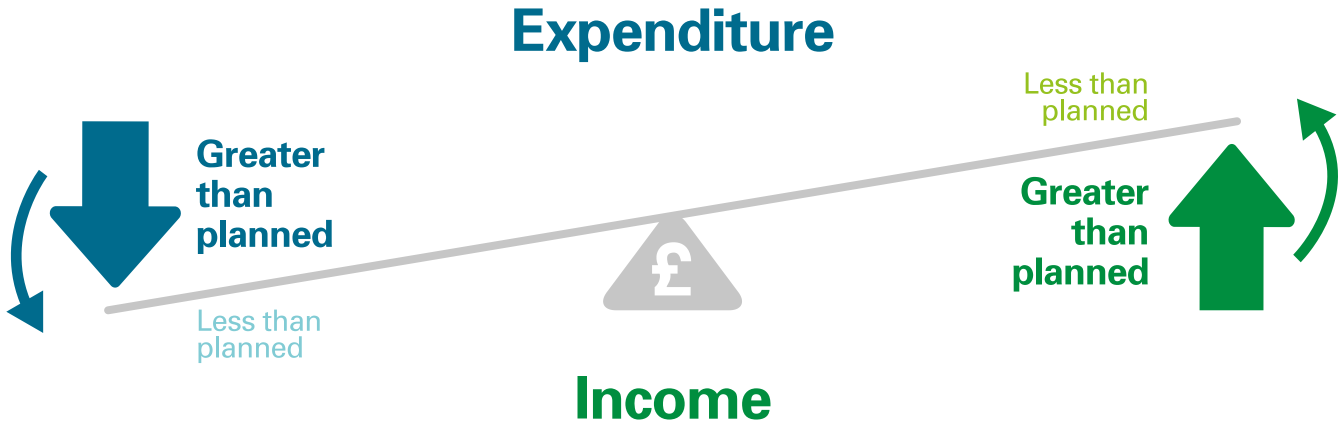
Loan charges/ financing
Deferred borrowing and low interest rates

General costs
Lower than predicted inflation

Utility/Premises costs
Reduced insurance and utility costs

Staffing
Staff vacancies

Winter maintenance
Spend less than planned due to weather



Planning and building control income less than planned

Trading operations not generating expected income

Council tax income greater than planned

Council tax reduction scheme income greater than planned

Source: Audit Scotland review of management commentaries

Levels of usable reserves vary widely and it is important that councils have clear reserves policies

45. The levels of usable reserves held by councils vary widely, as do policies on the minimum level of reserves they should hold. The General Fund reserve is the main revenue reserve available to support general council services. By the end of 2016/17, General Fund reserves, excluding Orkney and Shetland, totaled £1.1 billion. However, councils hold a number of other reserves and total usable reserves held amounted to £1.9 billion (excluding Orkney and Shetland, paragraph 9), (Exhibit 13, page 26).

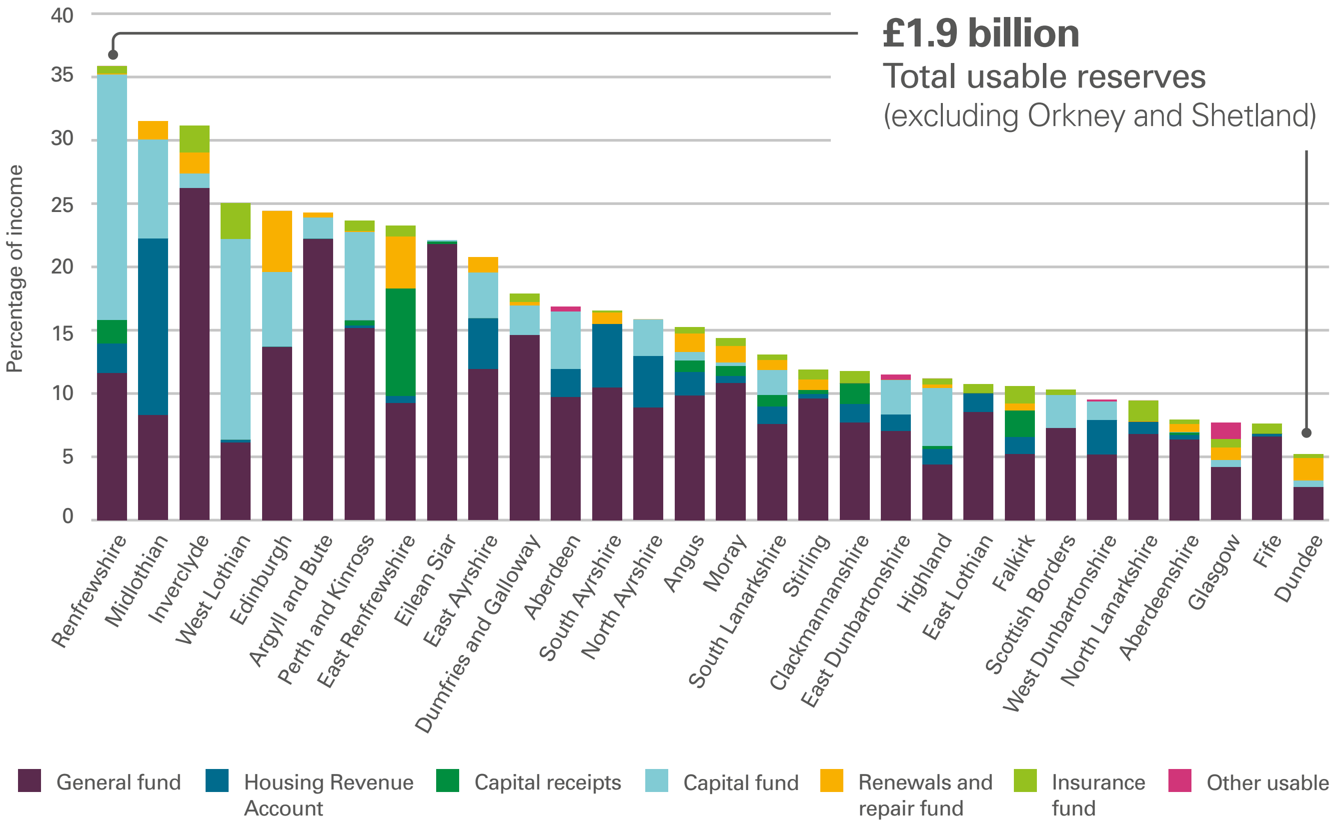
46. There is no prescribed minimal level of usable reserves. Typically councils' policies are to have a minimum uncommitted General Fund balance of between two and four per cent. Councils need to be clear about the reasons for the levels of reserves they hold to mitigate risks and support medium-term financial plans.

What is your councils reserves policy?

Exhibit 13

Council usable reserves at 31 March 2017

There are wide variations in the level of reserves as a proportion of income from general revenue grant, taxation and housing rents.



Note: Orkney and Shetland councils have reserves far in excess of those held by other councils and are excluded. We explain why this is the case in paragraph 9.

Source: Annual accounts 2016/17

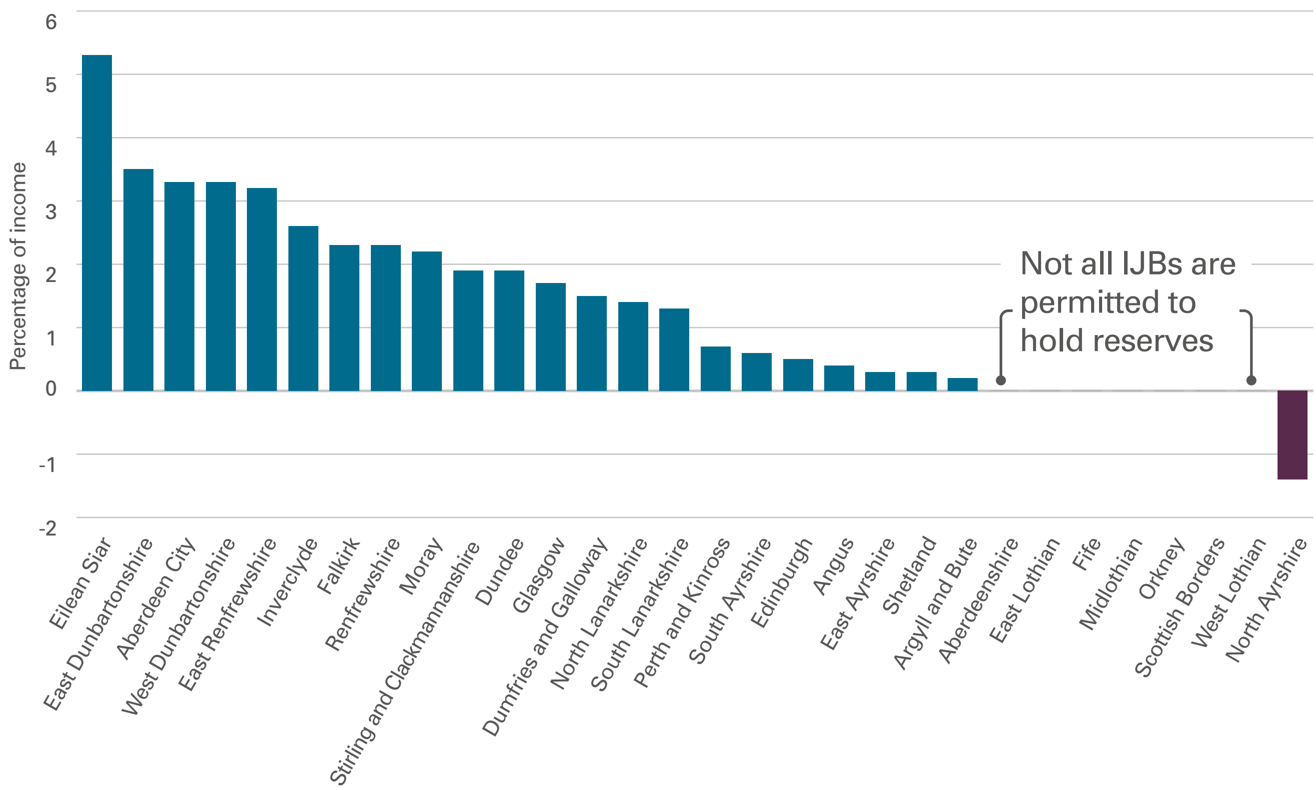
47. At the end of their first full operational year, IJBs held usable reserves of £96 million, representing about 1.2 per cent of their total income of £8 billion in 2016/17. Reserves vary across IJBs. Not all integration schemes permit IJBs to hold reserves. Only North Ayrshire Council recorded an overspend. This was largely due to spending on social care services (Exhibit 14, page 27).

48. It is not clear from the accounts of IJBs to what extent reserves have been built up in a planned way, have arisen as a result of underspends on IJB activities or have been earmarked for transformation activity. There is a lot of pressure on the budgets of IJBs and reserves at the end of 2016/17 are not forecast to continue in future years. Further analysis of IJB accounts will help inform specific audit work on IJBs being carried out in 2018.

What are the different types of reserves your council holds? Do you know what these can be spent on?

Exhibit 14
IJB usable reserves as a proportion of 2016/17 income

Reserves vary across IJBs.



Note: Stirling Council and Clackmannanshire Council are members of the same IJB.

Source: Annual accounts 2016/17

Levels of debt have increased and some councils are concerned about future affordability

49. Following two years of reducing debt, councils' net debt increased in 2016/17 from £13.7 billion to £14.5 billion (excluding Orkney and Shetland). The increase in borrowing was lower than that originally planned when capital programmes were approved. This was primarily due to slippage in delivering capital programmes.

50. As with reserves, levels of debt vary widely across councils (Exhibit 15, page 28). 2016/17 saw an increase in the HRA borrowing requirement of about £140 million, with the 26 councils who provide social housing being actively involved in new council housing development. Collectively they plan to deliver about 13,000 homes by 2020/21. The cost of servicing additional HRA debt will be met from rental income.

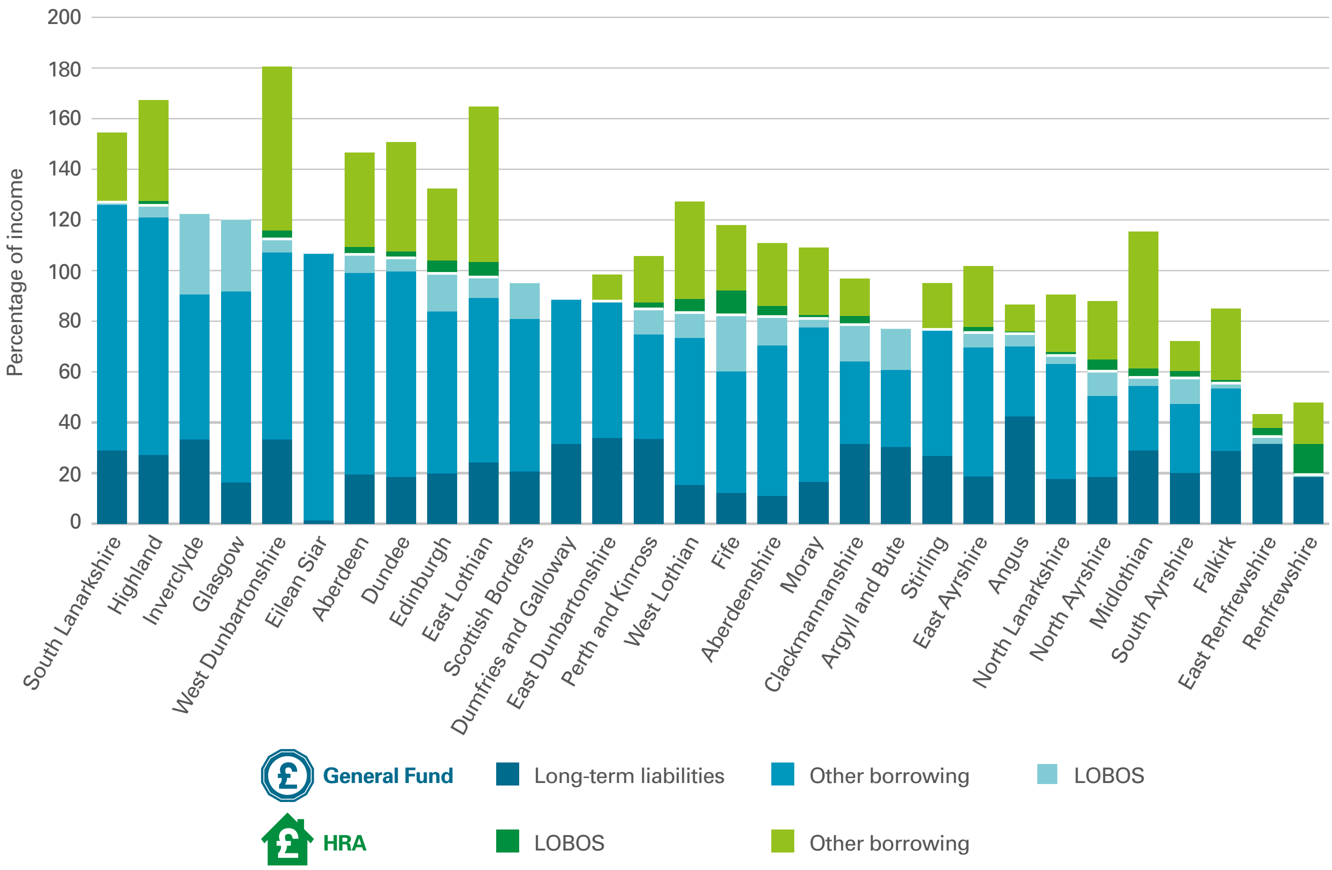
51. The ongoing costs associated with debt reduces the amount councils have available for day-to-day service expenditure. It is therefore important that assets are effectively supporting service delivery and strategic priorities. Higher levels of debt often result in higher costs for councils but actual interest and repayment costs will depend on the type of debt councils hold and the period over which it has to be repaid.

What are the levels of reserves held by your council's IJB? Are these in line with the IJB's reserve policy?

Exhibit 15

Council net external debt at 31 March 2017

Levels of debt held vary across councils as a proportion of income from general revenue grant, taxation and housing rents.



Note: Council debt has been allocated to General Fund and HRA in proportion to capital financing requirements.

Source: Annual accounts 2016/17

52. Despite debt increasing, the ongoing cost of servicing it, through the interest and repayment costs, reduced slightly in 2016/17. This in part reflects the lower interest rates available on new borrowing. It also reflects councils choosing to make lower voluntary debt repayments. On average, councils spent almost ten per cent of their income on interest and debt repayment (Exhibit 16, page 29).

What share of your council's budget is taken up with interest payments and debt repayment?

53. Councils are required by regulation to consider the revenue impact of borrowing, ie its ongoing affordability. A large part of council debt has fixed interest rates which gives councils certainty about costs. However, this type of debt makes councils' assessment of longer term affordability more complex, requiring more detailed assumptions of future inflation and interest rates:

- 'Lender option borrower option' loans (LOBOs) include options for the lender to increase interest rates. LOBOs account for about 11 per cent of council debt.

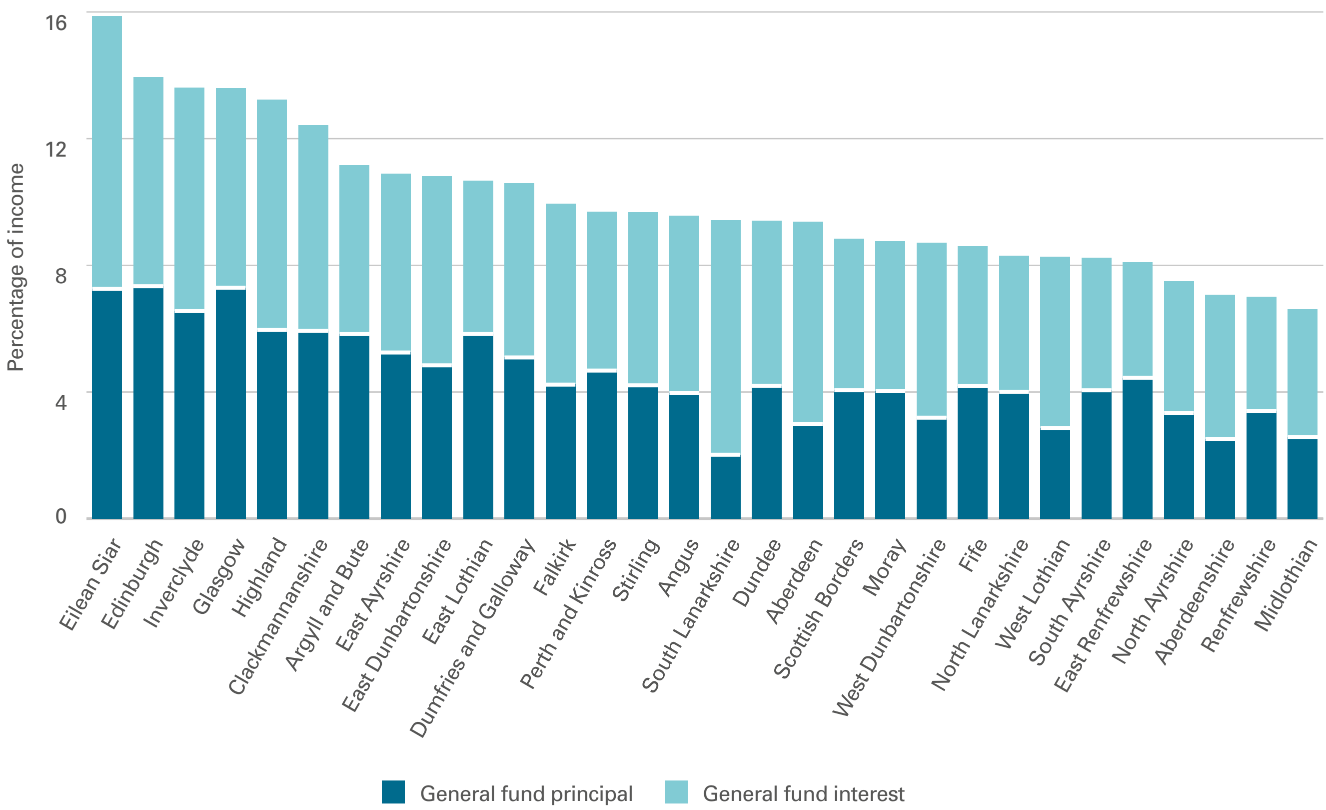
- PPP/PFI and indexed linked bonds include charges that increase with inflation. Projects financed using the Scottish Government's Non-Profit Distributing (NPD) programme (which replaced the previous long standing PPP/PFI programmes) also include an element of indexation but typically at lower levels. The value for money of newer NPD projects will be examined in detail in a joint report by the Auditor General and the Accounts Commission in 2019/20.

What proportion of your council's debt is linked to inflation (ie, subject to indexation)? What does that mean for longer term affordability?

Exhibit 16

Revenue cost of General Fund borrowing, 2016/17

Costs associated with debt vary across councils as a proportion of income from general revenue grants and taxation.



Source: Annual accounts 2016/17

54. Levels of debt and associated costs are set to rise in future. This is because councils have invested usable reserves in their capital programmes, something referred to as 'internal borrowing'. At the end of 2016/17 the amount of 'internal borrowing' was about £0.5 billion. Internal borrowing is usual treasury management practice for councils during periods when they would make a lower return from investing their usable reserves than it would cost them to borrow money. However, as councils increasingly rely on reserves to fund services they will need to replace internal borrowing with external borrowing, increasing their costs.

Councils continue to report significant slippage in delivering capital programmes

55. Councils spent £2.8 billion on capital projects in 2016/17, 84 per cent of their planned expenditure of £3.3 billion. Twenty-four out of 32 councils underspent against their capital budgets in both 2015/16 and 2016/17.

56. The reasons for slippage in delivering capital programmes are unclear. Management commentaries for the councils recording the largest slippage give reasons such as changes to project start dates, and one council identified weaknesses in the forward planning process. However, the consistent levels of capital slippage across the country suggest that councils are setting unrealistic budgets.

Has non delivery of the capital programme (ie, slippage) been significant at your council in recent years? Why?

57. In our 2013 report *Major capital investments in councils* we noted 'that for most major projects completed within the previous three years, councils' early estimates of the expected costs and timetable were inaccurate, and recommended that better information was made publicly available'.[7] Our follow-up report in 2016 suggested councils had made limited progress on this recommendation.[8] Data for 2016/17 shows that councils still need to improve in this area.

Net pension liabilities increased for councils despite large increases in pension fund assets

58. Overall, net pension liabilities on council balance sheets were approximately £11.5 billion at the end of 2016/17, an increase of 51 per cent on the previous year. This increase was mainly due to a change in actuarial assumptions used to value future liabilities. It was a good year for Local Government Pension Scheme (LGPS) investments, which increased by almost 22 per cent.

59. Not all council pension liabilities are the responsibility of the LGPS fund. Where councils have awarded added-year pension benefits as part of severance arrangements, for both teachers and other staff, they have to meet the ongoing cost of pensions themselves. This also helps explain why the increase in council liabilities outstripped investment returns. These liabilities are not matched with any pension fund assets.

Do you know the implications of your council's pension liabilities of staff retiring early?

60. Public service pension scheme benefits have been reduced on a number of occasions to make the schemes more affordable. However, pension contributions have been a significant cost pressure for councils in recent years. The need for any increase in employer contributions will be determined through the results of the 2017 triennial funding valuation. The LGPS 2015 includes a cost-sharing mechanism that will limit any future increase for employers. A supplement on the Local Government Pension Scheme is available on our website.

Provisions and contingent liabilities can be difficult to quantify and should be kept under review

61. Where councils have a known obligation and they can quantify the cost, they are required to make a provision in their accounts. Councils held provisions of £132 million at the end of 2016/17 covering areas such as equal pay compensation claims, teachers' maternity pay, holiday pay, insurance claims and landfill site reinstatement.[9]

62. Councils are also required to disclose potential liabilities that are still contingent on future events or which cannot be quantified reliably. Fourteen councils are disclosing contingent liabilities for equal pay claims that they are defending. Other contingent liabilities identified by a number of councils include those relating to holiday pay claims and potential claims arising as a result of changes to the legislation around historic child abuse.

Councils that have been proactive in making difficult decisions will be better placed to deal with future financial pressures

63. Councils have had to make difficult decisions in recent years in the light of falling resources and increasing demand for services. Councils that have a track record of effective leadership, self-evaluation, robustly addressing the financial challenges, and are implementing effective medium to long-term strategies and plans, will be in a better place than those that have avoided difficult decisions or not applied sufficient pace to making changes. That is not to say that the challenges faced by councils have necessarily been uniform. Differences in the resources available to them, the demand for services and the costs councils face as a result of their size and remoteness can also impact on their financial position (Exhibit 17, page 32).

64. The effectiveness of council leadership will be tested further in the years ahead given the increasing demand for services and likely funding scenarios that the public sector faces. Decisions made as part of budget-setting for 2017/18 together with the financial outlook are considered in Part 1 (page 10).

Exhibit 17
Main determinants of a council's financial position
There are number of factors that affect a councils financial position.

Source: Audit Scotland

Part 3

Financial outlook

Key messages

1 The financial outlook for councils remains challenging with further real-terms reductions in funding and a range of cost and demand pressures on budgets.

2 In total councils approved £317 million of savings and the use of £105 million of reserves when setting budgets for 2017/18.

3 Some councils relying heavily on the use of reserves to fund services will need to take remedial action or they will run out of General Fund reserves within two to three years.

4 Robust medium-term financial strategies and savings plans are increasingly critical to the financial sustainability of councils.

5 Strong leadership is increasingly important and it is essential that councillors work effectively with officers, their partners and other stakeholders to identify and deliver necessary savings. It is important that councils engage with local communities when planning and delivering services and identifying savings.

the financial outlook for councils remains challenging

Council funding continues to fall as cost pressures increase

Scottish Government funding fell again in real terms for 2017/18

65. Councils received a further real-terms reduction of 2.3 per cent in their funding from the Scottish Government for 2017/18, reflecting the overall trend and direction of travel (Exhibit 18, page 34).

66. Councils' funding continues to include money targeted at delivering national policy commitments that restricts the overall flexibility in their budget setting. In 2017/18, this included £120 million provided for the school attainment fund and £88 million for maintaining pupil teacher ratios and for the teachers' induction scheme.

?

How is your council preparing for any further real terms reduction in Scottish Government funding?

Exhibit 18
Scottish Government revenue funding to councils
Local government funding fell in real terms in 2017/18 compared to 2016/17.

	2017-18 £000	Change on 2016-17 %
Cash terms		
NDR	2,666	-3.7 ▼
Revenue Grant	6,974	0.5
Total revenue funding	**9,639**	**-0.7 ▼**
Additional resource via IJBs	357	
	9,996	**0.4 ▼**
Real terms – 2016/17 prices		
NDR	2,623	-5.3 ▼
Revenue Grant	6,862	-1.1 ▼
Total revenue funding	**9,485**	**-2.3 ▼**
Additional resource via IJBs	351	
	9,836	**-1.2 ▼**

Source: Scottish Government Finance Circular 1/2017

Reductions in Scottish Government funding were only partly offset by the end of the council tax freeze

67. The council tax freeze ended in 2017/18. Twenty-four councils chose to increase council tax, with 21 approving the maximum three per cent permitted. Fourteen councils chose to remove the ten per cent discount on second homes, another option for increasing revenue. For some councils, additional income from second homes is not significant.

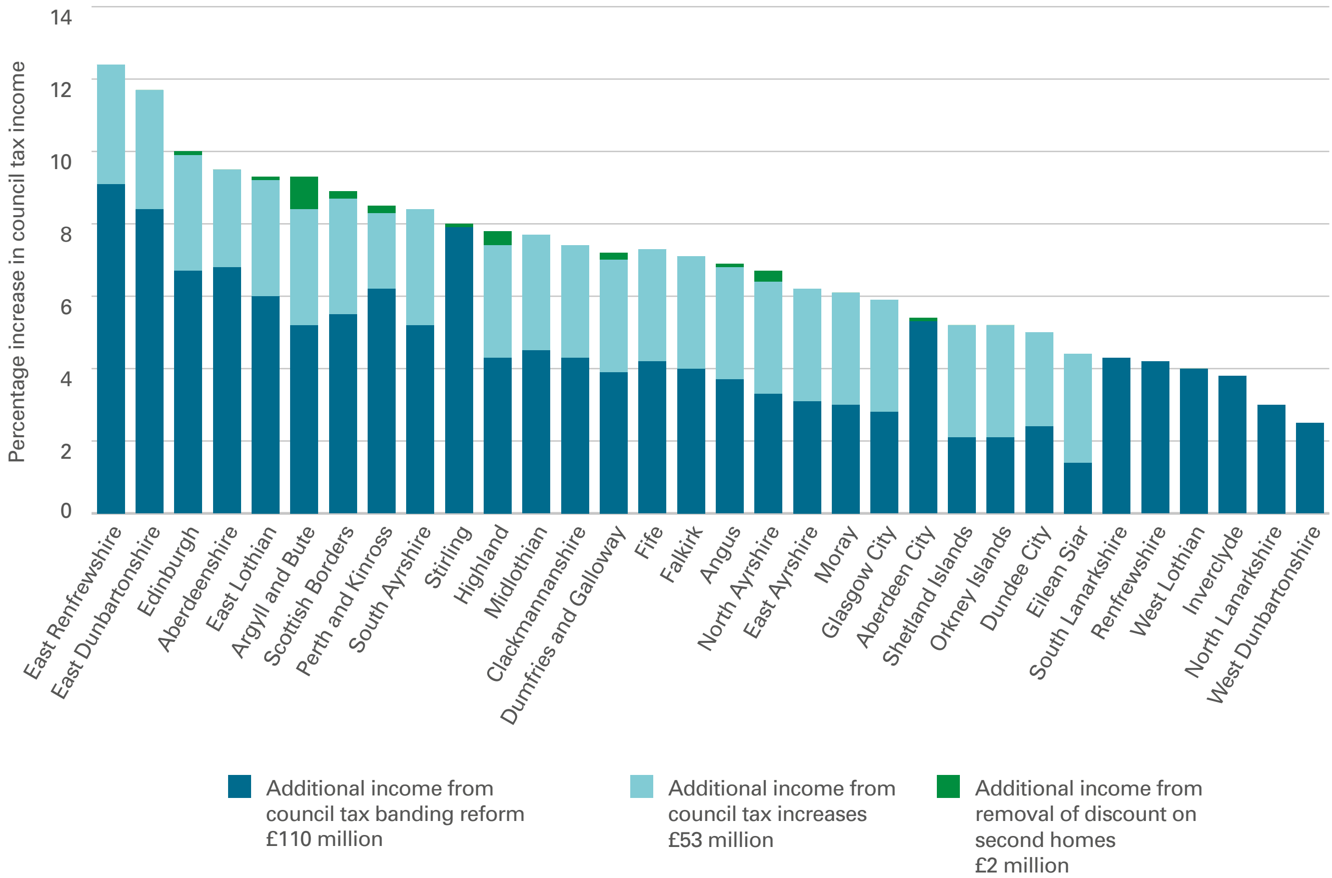
68. There were reforms to council tax banding multipliers for 2017/18 that resulted in a further £110 million of council tax due across the 32 councils. This will be available in full as additional income to be spent in the local authority area it is collected. Exhibit 19 (page 35) shows the additional income councils are due from council tax in 2017/18.

If your council plans to raise council tax, do you know how much it will raise? How will you communicate and explain the reasons for the rise to constituents?

Exhibit 19

Increase in council tax by council, 2017/18

Council tax in 2017/18 has risen as a result of reforms and the end of the council tax freeze.



Note: Council tax due before any discounts are applied.

Source: Scottish Government Finance Circular 1/2017, Council tax banding information and SPICe

Delivering savings is critical for councils' financial sustainability

Councils approved savings of £317 million and the use of £105 million of reserves when setting budgets for 2017/18

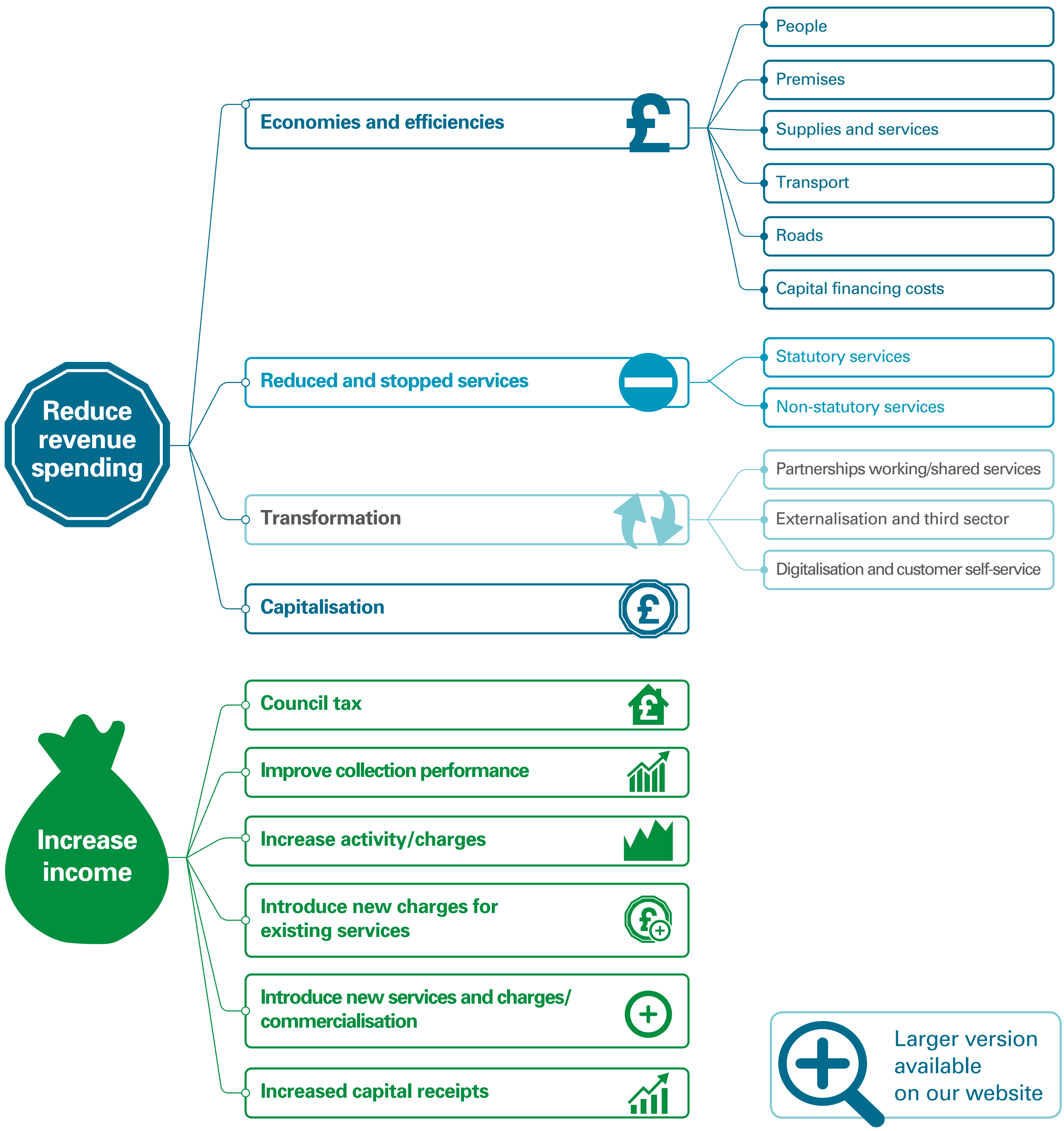
69. When setting budgets for 2017/18, councils had to take into account a number of new cost pressures, including:

- the introduction of the apprenticeship levy of 0.5 per cent of pay bills above £3 million
- the requirement to meet the first full year effect of the living wage
- meeting HMRC guidelines on paying the national minimum wage for care workers when sleeping over
- non-domestic rates (NDR) revaluation.

70. In balancing funding reductions and cost pressures, councils' 2017/18 budgets included approved savings of £317 million and the use of £105 million of General Fund reserves. Common measures taken by councils to close their funding gaps in 2017/18 are set out in Exhibit 20. Not all initiatives to reduce expenditure are savings, some simply deferred expenditure by moving it from revenue to capital.

Does your council have a savings plan? What are the options to close future funding gaps?

Exhibit 20
Measures taken by councils to close their funding gaps in 2017/18



Larger version available on our website

Source: Audit Scotland, analysis of budget setting reports 2017/18

What is the likely use of reserves for 2017/18? How does this compare to forecast funding gaps?

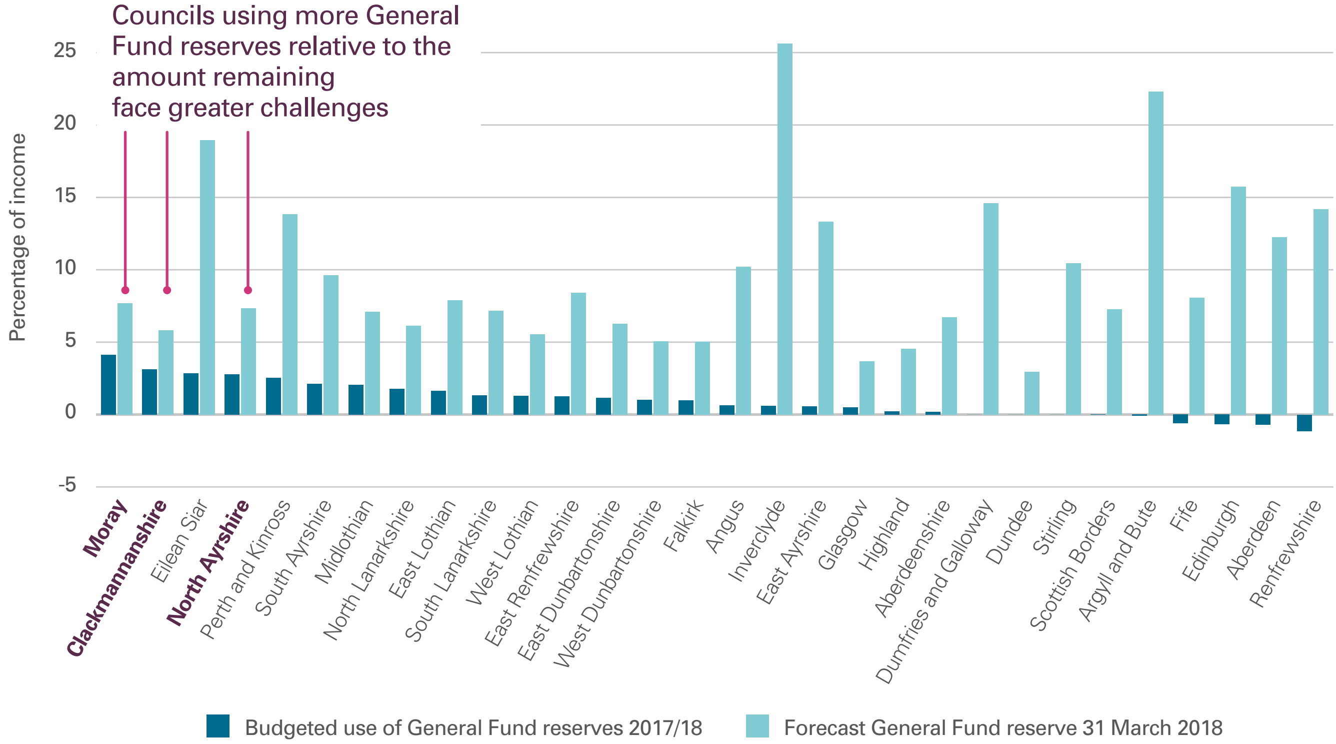
Some councils will need to take remedial action or they will run out of General Fund reserves within two to three years

71. Some councils' plans for 2017/18 have relied more heavily than others on using reserves to bridge funding gaps. A number of these councils could have relatively low levels of General Fund reserves remaining at the end of the year (Exhibit 21).

Exhibit 21

Budgeted use and remaining levels of General Fund reserves, 2017/18

Two-thirds of councils budgeted to use reserves in 2017/18.



Source: Annual accounts and auditor funding gap returns 2017

72. Councils using reserves to support services in 2017/18 will be faced with having to identify larger savings in 2018/19 or again using reserves. However, using General Fund reserves at the current rate is not an option for some councils – Clackmannanshire, Moray and North Ayrshire councils would run out of General Fund reserves within two to three years if they continued to use them at the level planned for 2017/18.

What is your council's financial position? What particular challenges does it face?

73. Forecasts made by councils when setting their budgets for 2017/18 indicated the overall local government funding gap would increase to about £350 million in 2018/19 and to about £650 million in 2019/20.[10]

74. Since setting 2017/18 budgets, councils will have changed their plans for the current year and updated their forecast funding gaps for 2018/19 and beyond. A number of factors have created further potential pressures and uncertainties, for example:

- ongoing demand pressures from people living longer and population growth
- ongoing cost pressures from general inflation

- increased staffing costs from staff moving up pay scales, proposals to end the public sector pay cap and potential increases in employers' pension contributions following the LGPS triennial funding valuation
- income and rent collection potentially becoming more difficult and costly as a result of increased charges and the continued roll-out of Universal Credit
- interest rate rises
- the potential impact from changes to NDR (as outlined in Exhibit 22)
- potential impacts from the process of withdrawal from the European Union.

Exhibit 22

Barclay review of non-domestic rates (NDR) 2017

The Barclay review recommended removing NDR relief for councils' ALEOs.

Councils collect NDR and pay this into a central pool, which is redistributed back to councils by the Scottish Government.

The Government established the Barclay review group in 2016 to make recommendations that would 'enhance and reform' NDR in Scotland. The review aimed to:

- better support business growth and long-term investment
- reflect changing marketplaces
- retain the same level of income (recommendations would be 'revenue neutral').

The review concluded that some form of NDR was still appropriate. The recommendations in the report focused on measures to support economic growth, improve how the system is administered and increase fairness in the system.

In seeking increased fairness, the review recommended that councils' NDR relief for ALEOs should be removed. The review recommended that legislation be changed to remove relief for ALEOs and, in the interim, that the Scottish Government should adjust its funding to recoup an estimated £45 million of ALEO funding from councils. The review recommended this is applied from April 2018.

The Scottish Government has accepted many of the points of the Barclay review, but the recommendation around ALEOs is still being considered. The Accounts Commission will examine ALEOs in more detail in a report to be published in May 2018.

Source: Report of the Barclay Review of Non-Domestic Rates, August 2017

75. Uncertainty means that councils need to prepare for a range of possible scenarios both in terms of costs and funding and different savings options available to them. For example, if councils were to apply a further three per cent increase in council tax in 2018/19 this would raise about £68 million in additional income. In contrast, applying a one per cent increase to staff salaries would cost about £70 million. Even a small proportional increase above this as a result of lifting the public sector pay cap would have further significant costs. Exhibit 23 shows the overall impact of various income and expenditure scenarios on the size of the total funding gap across councils for 2018/19.

Exhibit 23

Council funding gaps scenarios, 2018/19

In the absence of further savings, councils would use around £343 million in 2018/19 if expenditure were to increase by 0.5 per cent and income decrease by 1.5 per cent.

Forecast change to expenditure

Forecast change to income	0%	0.5% ▲	1% ▲	1.5% ▲	2% ▲	2.5% ▲	3.5% ▲
2.5% ▲	£192	£132	£72	£12	-£48	-£107	-£229
2% ▲	£133	£73	£13	-£47	-£107	-£167	-£288
1.5% ▲	£73	£13	-£46	-£106	-£166	-£226	-£348
1% ▲	£14	-£46	-£106	-£166	-£226	-£285	-£407
0.5% ▲	-£45	-£105	-£165	-£225	-£285	-£345	-£466
0%	-£105	-£165	-£225	-£284	-£344	-£404	-£526
-0.5% ▼	-£164	-£224	-£284	-£344	-£404	-£463	-£585
-1% ▼	-£223	-£283	-£343	-£403	-£463	-£523	-£644
-1.5% ▼	-£283	-£343	-£403	-£462	-£522	-£582	-£704
-2% ▼	-£3[illegible]	[illegible]	[illegible]	-£522	-£582	-£641	-£763
-2.5% ▼	-£4[illegible]	[illegible]	[illegible]	-£581	-£641	-£701	-£822

Funding gap – £million

1.5% reduction in income
+
0.5% increase in expenditure
=
increase funding gap to **£343m** in 2018/19

Source: Audit Scotland funding gap returns

Savings plans should be scrutinised and the impact assessed

76. CIPFA's report on building financial resilience and managing financial stress in local authorities highlighted the importance of planning for savings over at least a three-year period, and the need for robust challenging of plans as part of the scrutiny process.[11] In previous reports, the Accounts Commission has highlighted the need for councils to adopt this practice.

77. Regular updates on forecasts of funding gaps as savings are approved enable councillors to better understand the impact of the savings decisions they are making. However, currently only about half of councils routinely update their three-year financial forecasts as part of their annual budget-setting process.

78. To achieve effective financial management, long-term planning is essential. It is important that councils continue to consider likely funding scenarios and what this means for council services in the longer term as well as the medium term. For councils with lower levels of reserves, financial plans need to be increasingly detailed and robust. This will mean more work for officers and members in clearly identifying savings and assuring themselves that they have the capacity to deliver their intended plans.

79. It is important that savings plans are clear and that the impact on services is understood. Savings should be realistic and achievable. Where funding reductions are passed on to other bodies, such as ALEOs and IJBs, by reducing council contributions to them, it is equally important to assess the impact on service users and communities. Risks associated with income generation initiatives or arising from cuts to services should be explicit and considered by councillors as part of their scrutiny role.

80. Medium-term financial strategies should ensure that both revenue and capital budgets are aligned with corporate plans and that the revenue impact of capital expenditure is understood. Savings from service redesign and other initiatives need to be monitored effectively to ensure that plans and strategies continue to be relevant and accurate.

Does your council have a medium term financial strategy aligned with corporate objectives?

How does annual budget setting link to medium term financial planning?

What impact will savings have on the delivery of services? What are the potential risks?

Longer-term affordability of capital programmes should be kept under review

81. Council capital programmes for 2017/18 are broadly in line with those for 2016/17, with General Fund budgets at about £2.6 billion and HRA budgets at about £800 million.

82. Councils are required to consider the affordability of their capital programmes and any new borrowing before approving them each year. Assessments will include consideration of:

- existing debt levels and servicing costs and how these may increase
- capital reserves available
- impact on running costs, eg reduced overall running costs arising from invest to save initiatives
- additional income streams that can be used to service borrowing

How clearly does the council's capital programme link with the asset management plan and corporate objectives?

- additional funding available, eg Scottish Government funding for NPD projects, additional capital grants in respect of the City Deals (a recent initiative backed by UK and Scottish governments).

83. As revenue resources reduce, and the cost of some debt increases, it is becoming increasingly important for councils to keep the longer-term affordability of their borrowing under review. The need for robust business cases setting out how new capital expenditure will support corporate objectives is key. Capital finance and treasury management are areas covered by regulation and where councils also take professional advice. A key treasury management issue facing councils is the risk around interest rate rises, which makes decisions about the timing of borrowing important. If councils borrow in advance of their need they will incur additional interest costs in the short term. However, if the interest rates go up before councils borrow then they will be faced with paying higher interest rates for the term of any new borrowing. Recently a number of councils have been turning to short-term borrowing to keep their interest costs down but this strategy is not without risk and it is important that councils are clear about these in their plans and reports.

Effective leadership is increasingly important in maintaining financial sustainability

84. The Accounts Commission recognises that the financial challenges facing councils will inevitably mean councillors need to make difficult choices and take decisions that may not sit neatly with the manifestos they were elected on in May 2017. This requires effective political leadership and effective communications. It is essential that councillors work effectively with officers, council partners and other stakeholders to identify and deliver necessary savings. It is important that councils engage with local communities when planning and delivering services and identifying savings. We published a report *Roles and working relationships in councils – Are you still getting it right?* (November 2016) to support councillors in their difficult and challenging role.

What additional training would you like to receive to develop your knowledge and skills in financial scrutiny?

Addressing the underlying demand for services through transformation is key to longer-term sustainability

85. Given the scale of the challenge facing councils, we are of the view that the sustainability of some services will be increasingly dependent on the ability of councils and their partners to address the underlying demand for them. With health and social care integration, for example, much depends on the extent to which resources can be switched from treatment to prevention. Council transformation programmes need to identify and deliver changes of this nature over the longer term. It is important that councils give careful consideration to their capacity to support such change when making savings as part of budget setting.

What measures in the council's corporate and transformational plans are aimed at addressing the underlying demand for services?

86. The extent to which council transformation plans are delivering real changes to the way services are being delivered will be explored further in the second of our local government overview reports planned for publication in April 2018.

Endnotes

1 We published the first of three planned audits on health and social care integration in 2015: *Health and social care integration*, December 2015. Our next national audit in this area will be carried out in 2018/19. Annual audit plans and reports for each IJB are also published on Audit Scotland's website.

2 This excludes income received from arm's-length external organisation (ALEOs) providing services such as leisure services on behalf of the council.

3 *Fiscal issues facing Local Government in Scotland*, Fraser of Allander Institute, March 2017.

4 East Lothian Council, Highland Council (Inverness Jobcentre only), East Dunbartonshire, Midlothian Council and Inverclyde Council (no council stock – therefore no arrears).

5 ALEOs are separate bodies councils create to deliver services that they previously delivered in house.

6 *Building financial resilience: managing financial stress in local authorities*, CIPFA, June 2017.

7 *Major capital investment in councils*, Accounts Commission, March 2013.

8 *Major capital investment in councils: follow-up*, Accounts Commission, January 2016.

9 For more detail on councils' implementation of equal pay, see the Accounts Commission's *Equal pay in Scottish councils* report.

10 This forecast is based on the average of available forecasts.

11 *Building financial resilience: managing financial stress in local authorities*, CIPFA, June 2017.

Local government in Scotland

Financial overview 2016/17

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Finance and Resources Committee

2.00pm Thursday, 8 February 2018

Council Revenue Budget Framework (2018–2023) – Impact Assessments

Item number	5.5
Report number	
Executive/routine	
Wards	
Council Commitments:None	

Executive Summary

This report presents a summary of the main potential equality, rights and environmental impacts of proposals described within the draft Revenue Budget Framework 2018-23, and identifies recommendations for mitigating potential negative equality and rights impacts alongside an assessment of cumulative impacts.

Report

Council Revenue Budget Framework (2018 – 2023) Impact Assessments

1. Recommendations

1.1 It is recommended that the members of the Committee:

1.1.1 Pay due regard to the potential equality, rights and environmental impacts associated with the revenue budget 2018-23 proposals, and the recommendations to mitigate potential negative impacts;

1.1.2 Consider the cumulative equality, rights and environmental impacts across all revenue budget options; and

1.1.3 Refer this report for consideration at the Council budget-setting meeting on 22 February 2018.

1.1.4 Note that a summary of the principal findings emerging from all Integrated Impact Assessments undertaken will be reported to the Committee's next meeting on 27 March

2. Background

2.1 The Council's Draft Revenue Budget Framework 2018/23 sets out a series of savings proposals. This report presents a summary of equality, human rights, carbon, climate change and sustainable development impacts on these proposals, and of associated mitigating actions to address negative impacts, all of which should inform the budget decision on 22 February 2018.

2.2 Impact assessment should start as early as possible in the development of any proposal, policy or service. The depth of assessment should reflect the extent to which the proposal, policy or service has been developed. It should therefore be noted that the summary of findings in this report presents a snapshot at a moment in time and further impact assessment will be required for some of the proposals as they are further developed for implementation.

2.3 An initial assessment of the anticipated or potential impact of each individual proposal has been undertaken by relevant lead officers and signed off by relevant Heads of Service. These findings are published in each budget proposal template.

2.4 The Council continues to impact assess all major changes in policy and services. For context, the 'Equality, Diversity and Rights Framework 2017-2021', commits to develop a new integrated approach to impact assessment. This new approach, called an Integrated Impact Assessment (IIA), in addition to equality, diversity and rights assessments, includes an assessment of poverty, health inequality and environmental impacts. (Environmental impact is an all-encompassing term referring to carbon emissions, climate change adaptation and sustainable development). Integrating the equality, rights and environmental impacts into the assessment for budget proposals therefore aligns this process.

2.5 Due regard of such assessments should be given at Council Committees when major decisions are being made. Continual improvement of the budget proposal process, including impact assessment, is a key feature of the annual review.

2.6 As well as meeting the requirements of the Equality Act 2010, human and children's rights conventions, and the Climate Change (Scotland) Act 2009, Integrated Impact Assessments enable the Council to assess the positive and negative impacts on people with protected characteristics in the City. They also enable the development of mitigating actions to counteract negative impacts.

3. Main report

3.1 There are 44 budget proposals being considered for approval by Council on 22 February 2018. To comply with statutory obligations due regard must be given to the equality impact and environmental impact assessment of budget proposals. To this end budget proposal templates include a requirement to describe the potential equalities, human rights, carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions.

3.2 Many of the budget proposals for 2018-2023 have been considered as having no potential relevant impacts on equality and the environment. All those with identified material potential impacts will require an Integrated Impact Assessment to be completed by the lead officer developing the proposal, throughout the further development and implementation stages of the proposal. A number of these assessments have already been completed and it is anticipated that corresponding recommendations in respect of all relevant approved proposals will be reported to the Finance and Resources Committee on 27 March 2018.

3.3 Throughout this process, Finance co-ordinated the development of the budget proposals, with support and advice on equality and environmental impacts provided by the Strategy and Business Planning team where required.

3.4 The Council's Strategy and Business Planning team worked with the Insight and Engagement team to co-ordinate stakeholder engagement activities. Organisations, such as EaRN (Equality and Rights Network), working with people with protected characteristics and those with interest or expertise in equalities were encouraged to participate in these engagement activities. The information gathered from the budget engagement process has been analysed for relevance to the Council's Equality, Diversity and Rights Framework and used as evidence to inform the Integrated Impact Assessment analysis of the budget proposals.

3.5 **Summary of the main potential equalities, rights and environmental impacts, including proposed mitigating actions, highlighted in proposal templates**

3.5.1 Fleet Financing Model (proposal 2) –Procurement of newer vehicles (with increased green fuel potential) will have a positive impact on carbon emission reduction.

3.5.2 Reviewing grants and contract management (proposal 6) – There are no identified impacts anticipated, although these will be kept under review, working with each service area.

3.5.3 Improving occupational health and wellbeing support for staff (proposal 9)– There are potential equality benefits from procuring a more effective occupational health and employee assistance programme by ensuring that the Council is better placed to support the wellbeing of its workforce. These revised arrangements will enable more timely action to support people who become unwell and are unable to attend work, including individuals who may consider themselves to have a disability or long-term condition within the Council's employment. An Integrated Impact Assessment was undertaken as part of this tendering process

3.5.4 Reviewing customer service structures (proposal 11) – An equalities impact may need to be undertaken, subject to the actual posts that may be affected by the proposed employee reduction.

3.5.5 Automating major processes and transactions for citizens (proposal 12) – An impact assessment, building on earlier work undertaken as part of the Council's Customer Strategy, may need to be undertaken to ensure the potential implications upon the accessibility to Council services by citizens and any employee impact that may arise from these proposals will be considered and appropriate mitigations implemented.

3.5.6 Reviewing Early Years services to deliver efficiencies (proposal 13) – While further work will be undertaken, no material impacts of the proposals are anticipated.

3.5.7 Reviewing Disabilities Day Services realignment (proposal 14) - While further work will be undertaken, no material impacts of the proposals are anticipated.

3.5.8 Edinburgh Leisure (proposal 15) - While the precise impacts will be determined by the specific means of delivering the proposed saving, no material impacts are anticipated at this stage.

3.5.9 Home to School Transport (proposal 16) - More efficient route-planning and, where applicable, use of the Council's internal fleet is expected to contribute positively to carbon emission reductions.

3.5.10 Reviewing Communications Structures (proposal 20) - A formal equality impact assessment will be undertaken and will ensure that there is no negative impact. Formal consultation processes with the staff concerned and the relevant trade unions, with professional HR support, will also be undertaken.

3.5.11 Reviewing Night Team Delivery arrangements (proposal 23) - Residents would still receive a service, the only change would that Police Scotland would be responding to noise calls rather than the Council. An Integrated Impact Assessment has been completed.

3.5.12 Transport Policy Enforcement (proposal 24) - Impact seeks improved outcomes for sustainability, congestion and air quality reporting through enforcement leading to behavioural change.

3.5.13 Parking Permits and Pay and Display (proposal 29) - The Council charges permits based on emissions and engine size to try to effect a change to contribute to a reduction in emissions and improvement in air quality.

3.5.14 Reviewing Strategy and Insight Structures (proposal 32) - A formal equality impact assessment will be undertaken as part of the organisational review and will ensure that there is no negative impact. Formal consultation processes with the staff concerned and the relevant trade unions, with professional HR support, will also be undertaken.

3.5.15 Align Economic Development to new Strategy (proposal 33) - The Council's Economic Strategy is currently being reviewed. The strategy will lead to a rationalisation of the Council's approach to economic development. There will be a stronger focus on high impact outcomes particularly those supporting innovation in business development and promoting fairness and equality.

3.5.16 Reviewing Business Support and Shared Services (proposal 34) - An impact assessment of the proposals will be undertaken as these are developed.

3.5.17 Public Transport Initiatives (proposal 35) - Better alignment of public transport delivery will improve integration, carbon reduction performance and affordable public transport for low to middle income households.

3.5.18 Reviewing property and facilities management (proposal 38)- An equalities impact may need to be undertaken, subject to the actual posts that may be affected by the proposed employee reduction.

3.5.19 Reducing Interim Management expenditure (proposal 40) - The potential impact of these proposals will be assessed as they are further developed.

3.5.20 Reviewing Human Resources (proposal 42) - An equalities impact may need to be undertaken, subject to the actual posts that may be affected by the proposed employee reduction and there will be full engagement and consultation with trade unions about these proposals as they develop.

3.5.21 Reviewing Finance and Procurement Structures (proposal 43) - An equalities impact may need to be undertaken, subject to the actual posts that may be affected by the proposed employee reduction.

3.5.22 Reviewing Legal and Risk Structures (proposal 44) - An equalities impact may need to be undertaken, subject to the actual posts that may be affected by the proposed reduction.

Cumulative Impacts

3.6 A large number of this year's budget proposals with equalities, rights and environmental impacts are to review Council structures and/or processes. Five of these proposals were considered to have positive environmental impacts – mainly that of carbon emission reductions, while the remaining proposals concluded that neither positive or negative environmental impacts were foreseen.

3.7 However, a significant consideration is the cumulative impacts on people with protected characteristics as a result of revenue budget proposals, and associated changes to services. For example:

3.7.1 Particular demographics of employees may be more negatively affected overall from employee cost reductions across the Council. (e.g. National concerns have been raised regarding part-time/middle-aged female staff being most affected by recession and austerity). Therefore, some further analysis of who is most likely to be affected by staffing reductions is required and, if appropriate, action identified to mitigate impacts. (This issue would be particularly relevant to:

- Proposal 11 (Reviewing Customer Service structures),
- Proposal 32 (Reviewing Strategy and Insight structures)
- and Proposal 34 (Reviewing Business Support and Shared Services)

3.7.2 In carrying out the Cumulative Integrated Impact Assessment it was noted that more information from the Integrated Impact Assessments on the following 10 proposals will be required:

- Proposal 5: Roundabouts and Verge advertising
- Proposal 6: Reviewing grants and contract management
- Proposal 9: Improving occupational health and wellbeing support for staff
- Proposal 12: Automating major processes and transactions for citizens
- Proposal 14: Reviewing Disabilities Day Services realignment
- Proposal 16: Home to School Transport

- Proposal 20: Reviewing Communications structures
  Proposal 23: Reviewing Night Team delivery arrangements
- Proposal 15: Edinburgh Leisure (linked with Proposal 27)
- Proposal 27: Grounds Maintenance – Edinburgh Leisure (linked with Proposal 15)

3.8 In reviewing the proposals it was agreed that groups who may experience a cumulative impact from all the budget proposals going ahead are older people, people with disabilities, people experiencing poverty and potentially people for whom English is not their first language. However, disabled people could potentially be impacted more than any other group.

3.9 Lead officers have been asked to provide/share the IIAs ahead of the Finance and Resources Committee report on 27 March 2018. The Cumulative Impact Assessment will be reviewed in light of this information. For example, there could be concern about advertising on roundabouts and verges because drivers could be distracted or confused by additional signs. However, implementation of this proposal will include using the experience of other local authorities and undertaking separate safety audits for each location. This currently is not in the proposal template but would become transparent in an IIA.

3.10 In carrying out IIAs, lead officers are also obliged to consider mitigating actions to reduce any negative impact from proposals. These are included in 3.5. However, there are also national or strategic factors that could mitigate against some of the impacts.

3.11 The revenue budget framework update included elsewhere on today's agenda advises members of the availability of additional funding relative to current framework assumptions. Application of this funding has the potential to offset any potential negative, or accentuate positive, impacts of the proposals outlined within this report.

3.12 Lessons learned from this year's budget preparation will be reviewed and should be incorporated at the earliest opportunity into the budget proposal process for next year.

4. Measures of success

4.1 Due regard to the equality and rights impacts has been given to each of the savings, and additional income budget proposals.

4.2 The potential equality and rights impacts are taken into account when budget decisions are being made, and recommendations for mitigating negative impacts are implemented and reported on.

4.3 The potential carbon emissions, climate change adaptation and sustainable development impacts are taken into account when budget decisions are being made.

4.4 The potential cumulative (both annual and incremental) impacts are taken into account, and mitigating actions are identified when each year's budget decisions are being made.

4.5 Senior managers across all Service Areas take responsibility and ownership for compliance with Council systems put in place to ensure that statutory duties are met.

5. Financial impact

5.5 This report identifies the potential risks in relation to equality, rights and the environment. The Council could be the subject of a legal challenge if these risks are not considered and addressed. Other financial risks relate to savings derived from preventative services which may result in increased demand on other crisis intervention services.

6. Risk, policy, compliance and governance impact

6.1 The incorporation of equalities and rights, and carbon impact assessments as an integral part of the budget development process reflects both good practice and compliance with relevant legal duties. This activity enables the Council to highlight any unintended consequences of specific proposals on vulnerable service users, climate change and partnership and prevention activity, increasing the effectiveness of the mitigating actions.

6.2 The process is also aligned to wider council and Edinburgh Partnership strategies and plans, enabling more effective prioritising of available resources in a way that best supports the needs of vulnerable service users and groups.

7. Equalities impact

7.1 Undertaking equality and rights impact assessment is intended to ensure that any negative impacts, including cumulative impacts, for protected characteristic groups set by the Equality Act 2010 are reduced.

7.2 It also ensures that the Equality Act 2010 public sector equality duty is met with regard to (i) eliminating unlawful discrimination, victimisation and harassment; (ii) advancing equality of opportunity and (iii) fostering good relations, and that any infringements on human and children's rights are minimised.

8. Sustainability impact

8.1 Carbon impacts assessments have enabled consideration of the public body duties under the Climate Change (Scotland) Act 2009. The findings of these assessments will also help to achieve a sustainable Edinburgh with regard to progressing climate change, social justice and community wellbeing objectives.

9. Consultation and engagement

9.1 Lead officers are required to have utilised a range of evidence gathering, including public involvement where appropriate to draw up proposals and consider their impact.

9.2 A Council-wide budget engagement process has also taken place. This has included members of EaRN (The Equality and Rights Network). Feedback was then gathered as part of the budget engagement process.

9.3 The cumulative impact assessment is based on the information provided in the proposal templates and from the budget engagement feedback.

10. Background reading/external references

10.1 Equality, Diversity and Rights Framework 2017 - 2021

10.2 Public Bodies Climate Change Duties Reporting

10.3 Revenue Budget Framework 2018/23: Mid-Year Review, Finance and Resources Committee, 7 November 2017

Andrew Kerr

Chief Executive Officer

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11. Appendices

11.1 Appendix 1 - Integrated Impact Assessment on Cumulative Impact

Section 4 Integrated Impact Assessment

Summary Report Template

Audit Risk level

(Risk level will be added by Equalities Officer)

Each of the numbered sections below must be completed

Interim report	√	Final report	

(Tick as appropriate)

1. Title of plan, policy or strategy being assessed

The cumulative impact of the Budget Proposals 2018 – 2023

2. What will change as a result of this proposal?

The Revenue Savings proposals aim to provide efficiencies, savings and allow the Council to continue to meet its statutory responsibilities, thereby maximising the level of investment available for priority services.

3. Briefly describe public involvement in this proposal to date and planned

Lead officers are required to have utilised a range of evidence gathering, including public involvement where appropriate to draw up proposals and consider their impact.

A Council wide budget engagement process has also taken place. This has included members of EaRN (The Equality and Rights Network). Feedback was then gathered as part of the budget engagement process.

The cumulative impact assessment is based on the information provided in the proposal templates and from the budget engagement feedback.

4. Date of IIA 11.01.18

5. **Who was present at the IIA? Identify facilitator, Lead Officer, report writer and any partnership representative present and main stakeholder (e.g. NHS, Council)**

Name	**Job Title**	**Date of IIA training**	**Email**
Julia Sproul (Facilitator)	**Senior Strategy and Planning Officer**	**2017**	**Julia.sproul@edinburgh.gov.uk**
Jenny Fausset	**Lead Strategy and Planning Officer**	**2017**	**Jenny.fausset@edinburgh.gov.uk**
Fraser Rowson (Lead Officer)	**Principal Accountant – Corporate Accounts**		**Fraser.rowson@edinburgh.gov.uk**
Ruth Baxendale	**Senior Strategy and Planning Officer**	**2017**	**Ruth.baxendale@edinburgh.gov.uk**

6. **Evidence available at the time of the IIA**

Evidence	**Available?**	**Comments: what does the evidence tell you?**
Data on populations in need		
Data on service uptake/access		
Data on equality outcomes		
Research/literature evidence		

Evidence	**Available?**	**Comments: what does the evidence tell you?**
Public/patient/client experience information		
Evidence of inclusive engagement of service users and involvement findings	Yes – The Budget Engagement process	The funding of Edinburgh Leisure attracted comments. Amongst these were general concerns about the impact on public health as a result of withdrawing funding, and a fair amount of feedback that was specifically from and about older people. They felt that Edinburgh Leisure helped them to maintain active lifestyles. Proposals to charge for garden waste collection have led to some concerns where it seems likely that charging for garden waste collection would result in some reduction in recycling, some increase in landfill, and some contamination of other (non-garden waste) recycling.
Evidence of unmet need		
Good practice guidelines		
Environmental data		
Risk from cumulative impacts	Yes	Information on impacts for each proposal provided by respective Lead Officers have been used to undertake this cumulative impact assessment. This has highlighted the potential for adverse impacts on people with disabilities. Further work will be done by March 2018 to determine the level of cumulative impact across the full range of savings proposals.
Other (please specify)	Professional expertise	Groups that may experience a cumulative impact from all the budget proposals going ahead are older people, people with disabilities, people experiencing poverty and potentially people for whom English is not their

Evidence	Available?	Comments: what does the evidence tell you?
		first language
Additional evidence required	Yes	Integrated Impact Assessments are anticipated for some individual proposals. Namely: ▪ Proposal 5: Roundabouts and Verge advertising ▪ Proposal 6: Reviewing grants and contract management ▪ Proposal 9: Improving occupational health and wellbeing support for staff ▪ Proposal 12: Automating major processes and transactions for citizens ▪ Proposal 14: Reviewing Disabilities Day Services realignment ▪ Proposal 16: Home to School Transport ▪ Proposal 20: Reviewing Communications structures ▪ Proposal 23: Reviewing Night Team delivery arrangements ▪ Proposal 15: Edinburgh Leisure (linked with Proposal 27) ▪ Proposal 27: Grounds Maintenance – Edinburgh Leisure (linked with Proposal 15) This additional information will be used in the assessment of the cumulative impact of the proposals, noted above.

7. In summary, what impacts were identified and which groups will they affect?

Equality, Health and Wellbeing and Human Rights	Affected populations
Positive **Negative** There could potentially by an impact from automating transactions, changing home school transport and disability day services, reviewing grants and contract management and Edinburgh Leisure proposals. Further work will be done to assess the impact by the leads for the relevant service areas, who will also identify any mitigating actions.	Older People, People with disabilities, people experiencing poverty, people whose first language is not English.

Environment and Sustainability	Affected populations
Positive In general there is a positive or neutral impact on environmental and sustainability. This is primarily with respect to carbon emission reduction, improvement to air quality and promoting sustainable forms of transport. **Negative**	

Economic	Affected populations
Positive	

Negative	

8. Is any part of this policy/ service to be carried out wholly or partly by contractors and how will equality, human rights including children's rights , environmental and sustainability issues be addressed?

Some proposals will involve third parties e.g. Edinburgh Leisure. Third parties will be expected to carry out Integrated Impact Assessments where required.

9. Consider how you will communicate information about this policy/ service change to children and young people and those affected by hearing loss, speech impairment, low level literacy or numeracy, learning difficulties or English as a second language? Please provide a summary of the communications plan.

The Insight and Engagement team with the Communications team will be responsible for communicating the result of budget proposal decisions by elected members

10. Is the policy a qualifying Policy, Programme or Strategy as defined by The Environmental Impact Assessment (Scotland) Act 2005? (see Section 4)

No

11. Additional Information and Evidence Required

If further evidence is required, please note how it will be gathered. If appropriate, mark this report as interim and submit updated final report once further evidence has been gathered.

Lead officers have been asked to provide Integrated Impact Assessments for the following proposals:

- Proposal 5: Roundabouts and Verge advertising

- Proposal 6: Reviewing grants and contract management
- Proposal 9: Improving occupational health and wellbeing support for staff
- Proposal 12: Automating major processes and transactions for citizens
- Proposal 14: Reviewing Disabilities Day Services realignment
- Proposal 16: Home to School Transport
- Proposal 20: Reviewing Communications structures
- Proposal 23: Reviewing Night Team delivery arrangements

- Proposal 15: Edinburgh Leisure (linked with Proposal 27)
- Proposal 27: Grounds Maintenance – Edinburgh Leisure (linked with Proposal 15)

Strategy and Insight will use the full set of IIAs along with the identified mitigation actions, to determine the level of cumulative impact across the full range of savings proposals, as noted above.

12. Recommendations (these should be drawn from 6 – 11 above)

- Lead officers will be made aware of proposals where an Integrated Impact Assessment is anticipated.

- Lead officers responsible for developing the budget proposals should share the relevant respective integrated impact assessments to date and continue to refine them as the proposal develops through the planning and implementation process.

- When refining Integrated Impact Assessments particular consideration should be given to mitigating actions to reduce any negative impact on elderly people, disabled people, people experiencing poverty and people whose first language is not English.

13. Specific to this IIA only, what actions have been, or will be, undertaken and by when? Please complete:

Specific actions (as a result of the IIA which may include financial implications, mitigating actions and risks of cumulative impacts)	Who will take them forward (name and contact details)	Deadline for progressing	Review date
Ensure economic impact is recorded in budget proposal templates in future	Principal Accountant, Corporate	October 2018	February 2019

Specific actions (as a result of the IIA which may include financial implications, mitigating actions and risks of cumulative impacts)	Who will take them forward (name and contact details)	Deadline for progressing	Review date
	Accounts		
Integrated Impact Assessments for budget proposals are published and reviewed as appropriate as the proposals develop	Lead Officers	March 2018	October 2019
Co-ordination of Lead Officers to complete Integrated Impact Assessments	Principal Account, Corporate Accounts	March 2018	October 2019
Consider mitigating actions to reduce any negative impact on elderly people, disabled people, people experiencing poverty and people whose first language is not English.	Lead Officers developing respective proposals	October 2018	February 2019

14. How will you monitor how this policy, plan or strategy affects different groups, including people with protected characteristics?

Principal Accountant, Corporate Accounts, Resources will have oversight of the budget proposals and respective impact assessments. Strategy and Insight team will be called upon for advice and support where appropriate.

15. Sign off by Head of Service

Name Laurence Rockey

Date 1 February 2018

Finance and Resources Committee

10.00am, Thursday, 8 February 2018

Housing Revenue Account Budget Strategy 2018 – 2023

Item number	5.6
Report number	
Executive/routine	Executive
Wards	All
Council Commitments	1, 10, 41, and 44

Executive Summary

Following consultation with tenants, this report sets out the Housing Revenue Account (HRA) budget for 2018/19 and recommends that the report is referred to the Council budget meeting for approval on 22 February 2018.

The report sets out the long-term investment priorities underpinning the Council's strategy to reduce the cost of living for tenants and to provide good quality, well managed, affordable and low-cost housing for people on low to middle incomes. These priorities are:

- expand and accelerate the development of affordable and low-cost housing;
- continue to modernise existing Council homes and neighbourhoods; and
- transformation of front line services to tenants to tackle inequality and reduce their cost of living.

The report sets out the financial strategy to deliver over £700 million capital investment to support these priorities between 2018/19 and 2022/23.

Each year tenants' views are sought on the budget strategy. There continues to be strong support from tenants for the approach outlined in this report with four out of five tenants indicating support for the plan.

Report

Housing Revenue Account Budget Strategy 2018 - 2023

1. Recommendations

1.1 It is recommended that Finance and Resources Committee:

1.1.1 Agrees to refer the 2018/19 budget, draft five-year capital investment programme, and the rent levels for 2018/19 set out in Appendices 4 and 6 to the Council budget meeting for approval.

1.1.2 Notes the progress being made on delivery of Council commitments to tenants, particularly in the delivery of new affordable and low-cost homes.

2. Background

2.1 The Housing Revenue Account (HRA) sets out the income and expenditure for the Council's Housing Service. The Housing Service provides affordable homes and other services to around 19,000 tenants and 500 homeowners in the city. It is the sixth largest landlord in Scotland.

2.2 The Housing Service is entirely self-financing and receives no funding from the general Council budget. The views of customers, tenants, owners and prospective tenants form an integral part of the development of the Housing Service strategy and HRA budget.

2.3 The HRA budget is approved by Council each year following consultation with tenants. The budget is prepared following reviews of the 30 year HRA business plan, the ten-year investment strategy and the five-year capital investment programme. Officers are advised by a working group of the Tenant Panel and the Rent Matters Working Group. Appendix 1 sets out the annual business plan review and budget development process. Appendix 2 sets out the key assumptions underpinning the business plan.

2.4 On 9 February 2017, Council approved the 2017/18 Housing Revenue Account revenue budget and five-year capital investment programme. The budget set out plans to build more affordable homes, improve tenants' homes and help tenants reduce their cost of living.

2.5 On 24 August 2017, Council approved its five-year business plan. The plan sets out an objective to build 20,000 new affordable homes in the city over the next 10 years.

2.6 On 7 September 2017, Housing and Economy Committee considered a report on the HRA budget strategy and agreed to seek tenants' views on the HRA budget plan for 2018/19.

2.7 On 2 November 2017 Housing and Economy Committee approved the Strategic Housing Investment Plan (SHIP). The SHIP sets out how the Council and housing associations plan to deliver affordable and low-cost homes over the next five years.

3. Main report

Customer Strategy

3.1 This report sets out how the strategy underpinning the HRA Budget and the Council's Housing Service reflect customer priorities.

3.2 While homelessness in the city has declined significantly in the last few years, demand for Council and housing association homes is consistently high with over 160 households bidding for every social rented home available to let and around 1,900 households have registered their interests in the Council's MMR homes at any one time.

3.3 Current Council and housing association tenants face significant hardship and are particularly affected by low paid and insecure employment, disrupted benefits and rising living costs. Consultation feedback from tenants shows significant concerns about their ability to pay for food, energy, bills and clothing.

3.4 Over half of tenants have identified health needs, with many having secured a home after lengthy, and sometimes recurring periods, of homelessness and disruption in their lives.

3.5 The revised HRA Business Plan sets out three priorities to respond to these challenges:

3.5.1 expand and accelerate the development of affordable and low-cost housing;

3.5.2 continue to modernise existing Council homes and neighbourhoods; and

3.5.3 transform front line services to tenants to tackle inequality and reduce their cost of living.

New Homes

3.6 There are currently over 2,000 Council and housing association homes under construction on 32 sites across the city. The Council's house building programme continues to expand, with around 1,600 homes completed or under construction this year. A further 3,000 homes are in design development stage. Appendix 3 sets out the sites currently under construction.

3.7 The business plan sets out a ten-year investment strategy to deliver of up to 10,000 new affordable and low-cost homes. Discussions are ongoing with housing association partners to match the Council’s expanded housebuilding programme bringing the total ten-year programme to 20,000 homes.

3.8 All new build homes are built to an accessible standard but in recognition of the pressures facing health and social care services, the Council and partner housing associations have committed to working in partnership with NHS Lothian through the Integrated Joint Board for Health and Social Care to deliver 3,000 affordable and low-cost homes specifically for older people and people with complex health needs.

3.9 The retention of public sector land and acquisition of other sites, to meet public policy objectives, including affordable housing, is a key element of the strategy. Discussions are ongoing with public sector partners and through the Edinburgh Partnership to explore a more strategic approach to the use of publicly owned land in the city.

Better homes and neighbourhoods

3.10 Over the last five years almost half of all Council homes have benefited from the installation of new heating systems, insulation or other energy efficiency measures. In addition, over 8,000 tenants have had their heating systems modernised over the last five years. The business plan assumes that a further 6,500 tenants will benefit from new modern, efficient heating systems in the next five years.

3.11 By 2020 all homes will have benefited from internal modernisation programmes. The commitment to replace all kitchens and bathrooms over 20 years old by 2020 is on track to be delivered in 2019, a year ahead of schedule.

3.12 Around 4,500 Council homes have been adapted over the past five years to enable older people and people with disabilities to remain at home. The HRA adaptations budget is set each year based on trends from previous years, but is flexible to respond to demand.

3.13 The creation of mixed tenure neighbourhoods in the 1980s and 1990s, arising from the right to buy and a lack of adequate property management arrangements when properties were sold, has led to the visible deterioration of some buildings and estates.

3.14 Considering the scale of the housebuilding programme, there is a risk that investment in existing property and neighbourhoods is neglected. If not addressed this could lead to areas where new good quality homes are located alongside poorer quality homes and over time this could result in a requirement for further demolition. A key objective of the strategy is to ensure that all existing Council homes and estates are of the same standard and quality as new homes.

3.15 To address this risk the business plan assumes investment of around £20,000 per home over the next 15 years to ensure all existing homes are modernised and necessary improvements are made to the external fabric of buildings and estates. In the consultation tenants expressed support for this approach identifying maintenance, safety and security of common areas and investment in new facilities for young people as examples of the type of improvement they desire.

Service improvement and transformation

3.16 Recognising the financial hardship facing its customers the Housing Service has started a process of changing the way it works with tenants and the communities in which they live. These changes currently include:

3.16.1 **Patch based working:** Replacement of specialist teams with patch teams with generic housing officers working with an average of 200 tenants each;

3.16.2 **Integrated locality teams:** Co-location of property and housing management teams in localities;

3.16.3 **Good neighbour campaigns**: Establish an annual campaign to recognise and reward tenants and residents who support their neighbours and look after their communities;

3.16.4 **Low cost energy**: Partner with Our Power, a not-for-profit member owned energy company to provide low cost energy;

3.16.5 **Energy advisers:** Co-location of tenant energy advisers with locality teams; and

3.16.6 **Employment opportunities for tenants:** Expansion of modern apprenticeships in the Housing Service and targeted support for tenants and their families to find secure and long term employment.

3.17 In 2018/19 a further phase of service change will be taken forward. These changes will include:

3.17.1 **Tenant discount card:** Expansion of the tenant discount card scheme to include more outlets and promotion to tenants.

3.17.2 **Online repairs reporting:** One of the first major housing providers to introduce online repairs reporting. Phase one of this project operational in 2018.

3.17.3 **Flexible and accessible payment options for rent:** Development of new and more secure methods of rent payment.

3.17.4 **Broadband and digital access pilot for tenants:** Free digital access and digital skills development for tenants.

3.17.5 **Expansion of food growing and community gardens.**

Funding the strategy

3.18 The HRA Business Plan sets out planned investment of £709 million over the next five years. This investment is funded from capital receipts, prudential borrowing, capital funded from revenue and Scottish Government subsidy for new social rented homes. Over 10 years, planned investment rises to £1.750 billion in new affordable homes, improvements to existing homes and estates and service improvement. Appendix 4 sets out the draft five and ten-year capital investment programme.

3.19 Projections for income and expenditure over the 30 year business plan period are set out in Appendix 5. Maximising investment in current and new homes and delivering new services, means income and expenditure is more closely aligned. This is most visible in years eight to 11. Approximately £9 million is required from the Strategic Housing Investment Fund, built up from the surpluses in years one to seven, to ensure the HRA does not go into deficit in these years.

3.20 The business plan assumes that rent arrears will increase as a result of financial pressures on tenants. The plan estimates a loss of £9 million income to mitigate the impact of welfare reform on tenants. A ring-fenced contingency has been established to mitigate the impact of further decreases in income and/or unexpected increases in expenditure. The contingency reserve is set at £3 million in year one rising to 10% of annual income by year 10.

3.21 The business plan assumes a 2% annual increase in rents. This increase is below current inflation projections of between 3%-4%. The rent strategy seeks to strike the right balance between keeping rents affordable for tenants, ensuring homes are affordable to manage and building more affordable homes.

3.22 Around 80% of tenants receive some help with their rents through Housing Benefit and the housing element of Universal Credit. For most of those not receiving help, the proposed rent increase would mean an average increase of between £1.66 for a one bedroom flat and £2.43 for a four-bedroomed house in 2018/19. Any increase in rent should be offset by a reduction in the cost of living through investment in new services and investment in existing homes, for example, reducing energy costs.

3.23 Support is available to tenants who face difficulty paying rent. No tenant will be evicted as long as they engage with the Housing Service and develop realistic plans to manage arrears and late payments of rent.

3.24 The 2017 tenants survey reported that 86% of tenants who did not receive help with rent had no difficulty paying their rent. Previous consultation with tenants shows that four out of five tenants support the plan for a 2% rent increase to support the investment plan. Nearly one third of tenants were willing to pay more if improvement plans could be accelerated.

3.25 For the third year running the business plan assumes no increase in fees and charges to tenants. These include charges for stair cleaning, furnishing and heating. Not all of these charges are covered by housing benefit. Freezing these costs has a direct benefit to the majority of tenants.

4. Measures of success

4.1 Development of 10,000 new Council-led affordable and low-cost homes over the next ten years, which are energy efficient and economical to heat.

4.2 A significant reduction in the cost of living for tenants.

4.3 Investment in existing homes and estates.

4.4 Tenants continue to receive a good quality and well-valued Housing Service.

4.5 Greater visibility of the Housing Service locally for tenants.

4.6 Tenants continue to live in good quality, safe, homes in well managed neighbourhoods.

Financial impact

5.1 Appendix 6 sets out the Draft Housing Revenue Account Budget for 2018/19.

5.2 Projected expenditure on the HRA revenue account for 2018/19 is £99.8 million, including £9.3 million contribution to the Strategic Housing Investment Fund (SHIF). The SHIF is an amalgam of income from the HRA revenue and the Council Tax Discount Fund (CTDF). It is fully earmarked for the delivery of the business plan.

5.3 A high-level summary of the HRA's one and five-year budget and the impact on the housing investment fund is set out below.

Housing Revenue Account	1 Year £m (2018/19)	5 Year £m (2018/19 – 2022/23)
Revenue (See Appendix Two)		
Operating Income	£100	£529
Operating Expenditure and Debt Costs	£91	£487
Contribution to the Strategic Housing Investment Fund	£9	£42
Capital (See Appendix Four)		
Investment in homes, external fabric & estates and tenant services	£37	£170
Investment in New Homes	£41	£522
Staff Costs	£3	£17
Prudential borrowing	£16	£210
Other income and capital funded from Strategic Housing Investment Fund	£65	£499
Strategic Housing Investment Fund (Repairs and Renewals and Council Tax Discount Fund)		
Opening Strategic Housing Investment Fund (SHIF) balance	£65	£65
SHIF additions (include income from HRA revenue and CTDF)	£11	£53
SHIF draw downs	£34	£103
SHIF transferred to a ringfenced contingency reserve	£1	£7
Closing SHIF balance	£41	£8

5.4 The business plan assumes a significant drop in income during the full roll-out of Universal Credit to all tenants. In addition, a separate contingency reserve has been established to mitigate risks. This contingency reserve is set at £3 million in year one, building up to 10% of annual income by year 10. This is considered prudent given the risks to income collection, expansion of the capital programme and the need to have funds in reserve to deal with unforeseen events.

5.5 As a result of prudent treasury management and in year surpluses being used to offset capital borrowing in previous years, net debt levels are expected to increase by only £4.3 million at the end of 2017/18 compared 2012/13 levels, whilst at the same time delivering a £262.5 million capital investment programme during that period.

Risk, policy, compliance and governance impact

6.1 The three key strategic risks and mitigations to the delivery of the HRA Business Plan are:

6.1.1 **Tenants financial circumstances and welfare reform have an adverse impact on rental income**: The business plan takes account of the potential risks arising from welfare reform including under occupation, shared room rent, the four year Local Housing Allowance freeze, reduction in housing benefit backdating, universal credit and the removal of benefits to under 21 year olds. The business plan assumes a loss of £9 million income and creates a contingency fund of £3 million in year one rising to 10% of annual income (£15 million) in year ten of the business plan period.

6.1.2 **Changes in wider economy adversely affect the ability to deliver investment**: The business plan is reviewed annually as part of the budget development process.

6.1.3 **Mixed tenure challenges create ongoing obstacles to investment in properties and neighbourhoods**: The business plan assumes increased investment in external fabric of buildings and estates. Policy options for engaging other owners in mixed tenure improvement will be considered in 2018/19.

6.2 The Council has a statutory requirement to maintain homes to the Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing (EESSH).

6.3 The Council is required to set Council house rents annually. The Council is required to consult tenants on the rent strategy and inform them in advance of any rent increases prior to their implementation.

6.4 Housing and Economy Committee considered a report on the HRA budget strategy in September 2017 and approved it as a basis for consultation with tenants. The draft HRA Budget 2018/19 is submitted to Finance and Resources Committee for consideration prior to submission to full Council.

Equalities impact

7.1 Prioritising investment in services and improvements that reduce the cost of living for tenants will have a significant financial benefit for tenants who are under financial pressure.

7.2 Investing in existing homes and neighbourhoods means that all tenants benefit from improvements to their homes, regardless of where they live in the city.

7.3 Patch based working means Housing Officers are getting to know their tenants better. This should improve access to services for vulnerable tenants, as their needs will be more readily identified.

7.4 Investment in new homes and partnership working as part of Health and Social Care integration will help increase the supply of homes built specifically for older people or people with complex health needs.

7.5 The house-building programme ensures 10% of all new homes will be built to wheelchair accessible standards. 3,000 new homes will be built specifically for older people and people with complex health needs.

Sustainability impact

8.1 The Council led house-building programme seeks to maximise delivery of homes on brownfield sites, reducing pressure on Edinburgh's green belt. New homes are built to high standards in terms of energy efficiency and sustainability.

8.2 It is estimated the accelerated house-building programme will create 4,000 permanent new jobs.

8.3 Investing in improvements to Council homes will increase energy efficiency and lead to a reduction in carbon emissions.

8.4 There are positive impacts on adaptations, carbon emissions and sustainable development arising from this report.

8.5 The Council's partnership with Our Power will help ensure stable and affordable energy prices for tenants.

8.6 Improving employment options of tenants and their families.

9. Consultation and engagement

9.1 The Council has an extensive programme of consultation and engagement with tenants including an annual survey, focus groups, tenant panels, tenant led service inspections and resident and community meetings.

9.2 Each year the views of tenants are sought on the HRA budget strategy and the service improvements and rent levels arising from that. The approach to engaging tenants on the budget is reviewed annually by a working group of tenants and officers, the Rent Matters Working Group (RMWG). The RMWG is supported by Edinburgh Tenants Federation (ETF). The number of tenants engaging in the budget consultation has significantly increased since the formation of the RMWG.

9.3 Consultation on the 2018/19 budget took place in 2017. Appendix 7 summarises the results of the consultation. All tenants were sent information on the budget proposals, service improvements and rent levels. Individual responses were received from 1,236 tenants (out of around 19,000 tenants who were invited to provide views). This includes 1,001 tenants who took part in a detailed survey, commissioned by, but carried out independently of Council staff. Other responses were received on line and via social media, postcards, cut outs from newsletters and local events.

9.4 Over 30 tenant organisations received information packs and 230 individual Tenant Panel members received information either by email, text or letter. Four large events were held in the localities and tenants were encouraged to come and share their views face-to-face. The budget consultation was also discussed at the Tenants Conference held on 28 October 2017.

9.5 Tenants have consistently indicated strong support for building new homes, improving homes and services and stable and affordable rents.

9.6 In 2015 tenants indicated strong support for the budget strategy and identified building new affordable homes as their top priority for investment. Other significant priorities included reducing energy costs.

9.7 In 2016, 82% of tenants said they supported the 2% rent increase with one third of tenants supporting higher rent increases if delivery was accelerated.

9.8 In 2017, 80% of tenants expressed support for the investment proposals and rent strategy. Comments from those who responded included:

- *‘The plans are good and when completed will be great for everyone’*
- *‘Appears good. Keep up the good work’*
- *‘Really pleased with all the new houses’*
- *‘£2 is a fair amount, much has been accomplished’*

9.9 Tenants were also asked what costs they were increasingly having difficulty meeting.

- Energy 37%
- Food 32%
- Household bills 29%
- Clothes 24%
- Transport 24%
- Toiletries 21%
- Repaying debt 18%
- Rent 18%

9.10 In addition, one third of tenants with children said they were finding childcare more difficult to pay for.

9.11 The budget plan was also discussed at a meeting of the ETF on 13 November 2017. Officers presented the approach, key messages, consultation questions and results to date. ETF provided a formal response to the consultation commending the work of the RMWG in the development of the consultation. They were broadly supportive of the investment plan. They welcomed the below inflation increase, but continue to have concerns regarding long term affordability of rents.

10. Background reading/external references

Housing Avenue Account – Budget Strategy 2017-22, The City of Edinburgh Council, 9 February 2017

Housing Revenue Account (HRA) Budget Strategy, Housing and Economy Committee, 7 September 2017

City Housing Strategy 2018, Housing and Economy Committee, 2 November 2017

Strategic Housing Investment Plan (SHIP) 2018-23, Housing and Economy Committee, 2 November 2017

City Deal – Proposal for New Housing Partnership with Scottish Future Trust, Housing and Economy Committee, 2 November 2017

Housing Investment to Support Health and Social Care Priorities, Health, Social Care and Housing Committee, 19 April 2016

Integrated Housing, Health, Care and Support Services, Health, Social Care and Housing Committee, 15 November 2016

Paul Lawrence

Executive Director of Place

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11. Appendices

Appendix 1 – HRA Business Planning Process

Appendix 2 - Business Planning – High Level Assumptions

Appendix 3 – Citywide House-building Programme

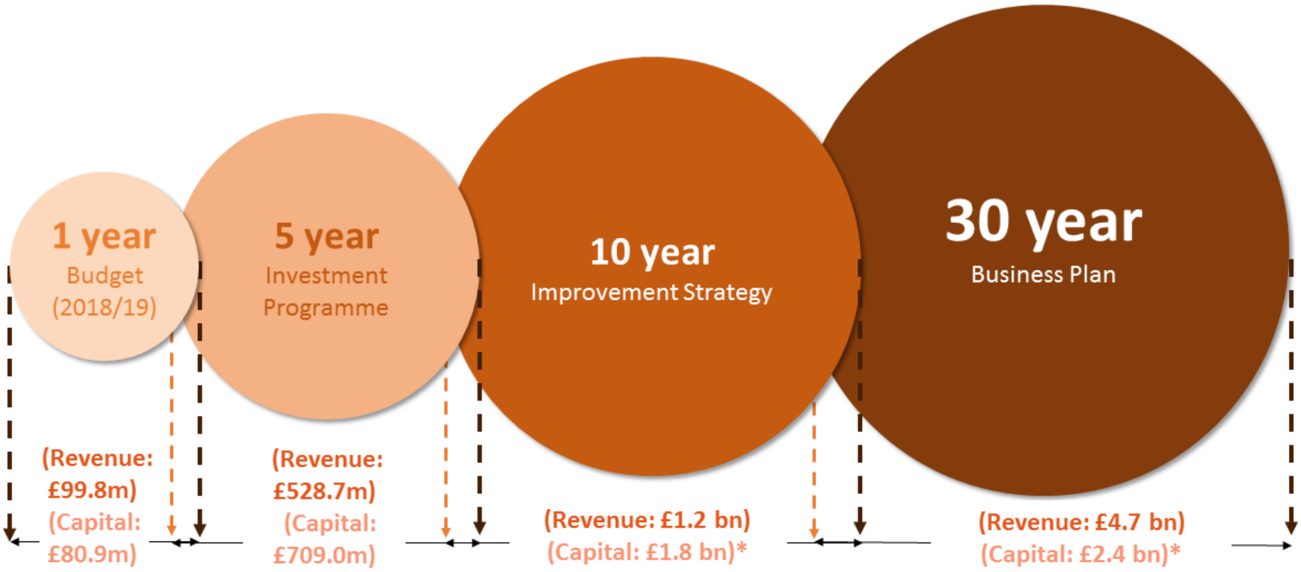
Appendix 4 – Draft 5 Year HRA Capital Investment Programme and 10 Year Investment Strategy

Appendix 5 – 30 Year HRA Business Plan Financial Analysis

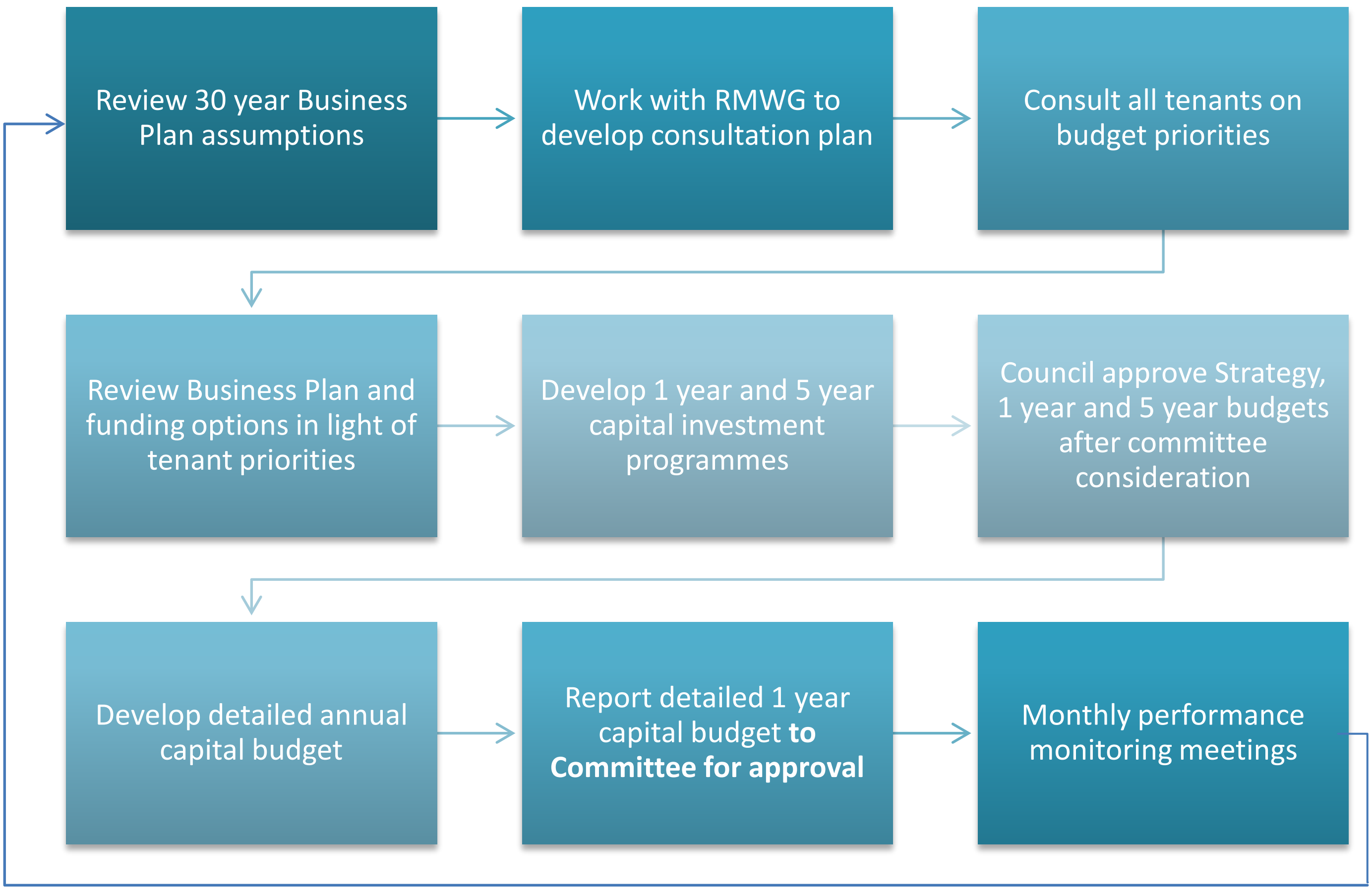
Appendix 6 – Housing Revenue Account Budget 2018/19 (Draft)

Appendix 7 – 2018/19 Budget Consultation Results

Appendix 1 – HRA Business Planning Process



** This includes £600m in the first 10 years and £740 million over 30 years for homes built on the HRA and purchased by the Council's LLP. This has no impact on the HRA as interest payments are deferred until the homes are purchased.*



Appendix 2 – Business Planning High Level Assumptions

Input	2018/19	Note
Inflation (Operating Costs)	2%	This assumption is below market projections, but is in line with the Bank of England inflation target. In order to deliver best value to tenants, management will attempt to limit the impact of inflation through efficiency measures.
Rent Increase	2%	Current market inflation projections range from 3%- 4%. Below inflation rent increases form part of the strategy to keep rents stable and affordable.
Net Rental income	97.53%	Total projected rental income, minus written off former tenant arrears and rent loss due to empty homes.
Former tenant arrears write off	1.89%	Any rental debt outstanding for over 3 months where there have been no payments received or there is no agreed repayment arrangement is written off annually. The projected write off at the end of 2017/18 is estimated to be £1.8m. This level of write off is maintained in 2018/19.
Rent lost on empty homes	0.58%	The Council remains one of the top performing Local Authorities in this area. Slight increase from 0.49% in 2017/18, to accurately reflect expected performance, with continued high proportion of lets to households with high levels of need.
Fees and charges increase	0%	Fees and charges for additional services provided with tenancies (e.g. stair cleaning, communal heating, furnished tenancies, etc) is frozen for the third year in a row.
Debt level (projected for March 2018)	£373m	Increased from £365m at 31 March 2017. This was due to increased borrowing requirement to support the accelerated capital investment programme in 2017/18.
Interest on debt (pool rate)	5.05%	Reduction of 0.05% from 2017/18. The Council does not borrow for specific projects, borrowing is pooled in a consolidated loans fund and the interest rate pooled across all projects.

Appendix 3 – City-wide house-building Programme *(December 2017)*

2,020 homes currently under construction on 32 sites

Reducing inequality through affordable housing

- Redeveloping brownfield land
- Public realm
- Mixed communities
- Employment and job opportunities
- Achieving wider health & Social Care objectives
- Homes for older people & those with complex needs

Appendix 4 – Draft HRA Five Year Capital Investment Programme & Ten Year Investment Strategy

The 2018/19 Draft Budget and business plan are based on the assumptions set out in Appendix 2. Below is the outline draft five-year Capital Investment Programme and summary 10-year investment strategy, which is based on tenant priorities, service performance and statutory investment requirements.

The funding strategy may be revised through the year as officers seek to make the best use of any existing and new resources and use the most appropriate funding to generate the best return to the HRA.

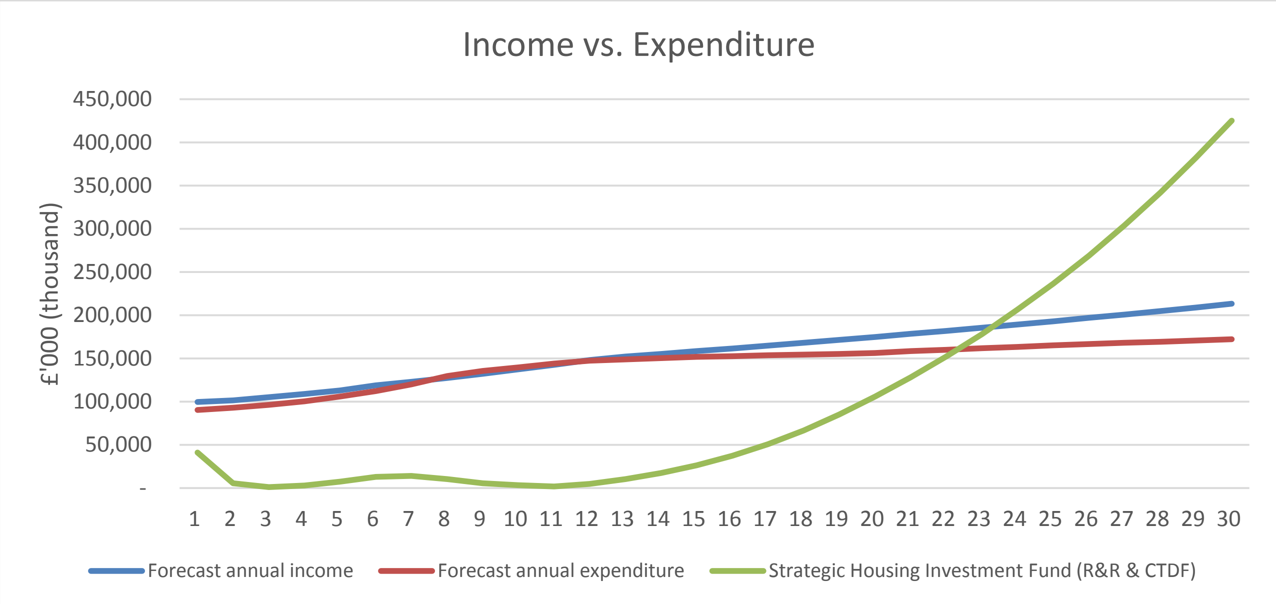
Programme Heading	1	2	3	4	5	*5 Year*	6 to 10	*10 Year*
	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	*Total*	2023/24 to 2027/2028 £m	*Total*
Programme Expenditure								
New Homes*	41.526	118.753	113.726	118.736	129.354	***522.094***	836.410	***1,358.504***
Tenant's Homes & Services	23.128	29.895	20.326	17.358	17.208	***107.915***	78.116	***186.032***
External Fabric and Estates	13.535	13.535	7.470	10.728	16.472	***61.741***	106.256	***167.997***
Staff Costs	2.745	3.095	3.445	3.795	4.145	***17.225***	20.725	***37.950***
Total Expenditure	**80.934**	**165.278**	**144.967**	**150.617**	**167.179**	**708.976**	**1,041.508**	***1,750.483***
Programme Resources								
Prudential Borrowing	16.256	74.596	50.416	44.927	24.100	***210.296***	467.561	***677.856***
Capital Funded From Revenue	33.898	45.000	14.000	7.200	3.200	***103.298***	11.000	***114.298***
Capital Receipts and Contributions	5.923	4.387	5.720	7.440	6.800	***30.270***	12.000	***42.270***
Receipts from LLPs*	13.508	26.378	59.462	77.603	117.879	***294.830***	415.264	***710.094***
Scottish Government Subsidy	11.349	14.917	15.369	13.447	15.200	***70.282***	135.683	***205.965***
Total Funding	**80.934**	**165.278**	**144.967**	**150.617**	**167.179**	**708.976**	**1,041.508**	***1,750.483***

**The budget for new build housing includes the upfront capital costs for the Council led development of all 10,000 affordable homes, including homes for mid market and affordable market that will be purchased by the Council's new LLPs. This has no impact on the HRA as interest payments are deferred until the homes are purchased. £110m of the £710m anticipated receipts from LLPs by year ten is for homes already under construction and due to complete in the next two years.*

Appendix 5 – 30 Year HRA Business Plan Financial Analysis

This appendix sets out the impact of delivering the investment strategy over the next 30 years. The plan seeks to deliver 10,000 new Council-led homes over the next 10 years, as well as, investing in improving the quality of existing homes and estates and developing innovative services aimed at reducing tenants living costs. It sets out an £99.8 million budget for 2018/19, as well as, a £709.0 million draft five-year capital investment plan and 10 year £1.8 billion investment strategy, funded from below inflationary rent increases of 2% a year.

Based on the outcome of this year's comprehensive tenant consultation the business plan assumes a 2% annual rent increase. Over 80% of tenants said they supported the investment plan funded by an annual 2% rent increase over the next 5 years. This 2% rent increase is below the 3% current inflation estimates and significantly below the projected average local authority rent increases in 2018/19.



Maximising investment in current and new homes and delivering new services, means income and expenditure is more closely aligned. This is most visible in years 8 to 11 due to the significant investment in the new house building programme and an increase in debt repayment due to historic debt coming to term. Approximately £9.3 million (or an average of £2.3 million a year) is required from the Strategic Housing Investment Fund to ensure the HRA does not go into deficit in these years.

The business plan assumes a loss of income of around £9 million as the result of the full roll out of Universal Credit. In addition, a ringfenced contingency reserve has been established to ensure that the investment programme can continue even with an unexpected reduction in income or increase in unplanned expenditure. This contingency reserve is set at £3 million in year one, building up to 10% of the annual income in year 10.

From year 11 onwards, once new homes are completed, the additional rental income does put the HRA back in a comfortable financial position and builds the Strategic Housing Investment Fund to 17% of annual operating costs by year 15. The business plan currently assumes no large-scale investment following the completion of 10,000 Council-led homes over 10 years and the estate-wide regeneration of existing homes over 15 years. The graph above therefore shows the capacity of the HRA to continue the investment on existing homes and estates and building more new homes after the current improvement plan has been delivered.

Appendix 6 – Housing Revenue Account Budget 2018/19 (Draft)

	Projected Outturn 2017/18* £m	Proposed Budget 2018/19 £m	Movement £m	Movement %	Note
Net Income	98.729	99.765	1.036	1.05%	1
Expenditure					
Housing Services	27.470	29.494	2.024	7.37%	2
Property Maintenance	21.832	21.477	-0.355	-1.63%	3
Debt Charges	37.851	39.544	1.693	4.47%	4
Strategic Housing Investment	11.576	9.250	-2.326	-20.09%	5
Total Expenditure	**98.729**	**99.765**	**1.036**	**1.05%**	

**Based on the reported month 8 position. Please note a £1.000m presentational adjustment has been made to Income and Services relating to the treatment of write off of bad debt and arrears. A provision for former tenant arrears was previously contained within Housing Services expenditure budget. This is now a direct income reduction assumption.*

Note 1.

"Net Income" is the total rent due to be collected, less written off former tenant arrears and rent loss due to empty homes. It also includes service charges and costs recovered in relation to communal heating schemes and owner occupiers. Although a 2% rent increase has been proposed the real term increase in income is expected to be 1.05%. This is due to a reduction in rental income as a result of 'right to buy' sales during 2017/18, a freeze being applied to service charges and assumptions made around a loss of income due to the rollout of Universal Credit. The average weekly rent will increase by £1.92.

Note 2.

"Housing Services" includes core housing management services, new tenant and community services like energy advice and modern apprenticeships. It includes employee costs, central support costs and recharges, premises and other expenditure. Following transformation, the HRA realised a 10% reduction in core housing management costs in 2016/17 and 2017/18 following a reduction in manager and team leader posts and a reduction in overheads. The rise in the Housing Services expenditure in 2018/19 includes an inflationary increase (£0.400m), planned growth in services (£1.000m) and expansion of new tenant and community services like energy advice, employment support services and modern apprenticeships (£0.600m).

Note 3.

'Property Maintenance' includes responsive repairs, estates maintenance, routine gas servicing and the costs associated with bringing empty homes back into use. As a part of transformation, a 20% reduction in the responsive repairs element of property maintenance over five years is assumed. This reflects the impact of increased capital investment in homes.

Note 4.

The HRA borrows to finance the planned housing investment and house building capital programmes. 'Debt Charges' are capital financing costs (principal repayments and interest). As a result of prudent treasury management and in year surpluses being used to offset capital borrowing in previous years, net debt levels are expected to increase by less than £5 million at the end of 2017/18 compared to that at the end of 2012/13, whilst delivering over £260 million of capital investment during the same period. The 4.47% increase in 2018/19 is in line with the ambitious capital investment plan set out in the report.

Note 5.

'Strategic Housing Investment' relates to income in excess of annual operating expenditure. It can be used within the same year to fund new capital investment (CFCR), repay old HRA debt or mitigate unforeseen risks. It can also be transferred to the Repairs and Renewals fund to support the new build programme in future years. The reduction is due to increased investment to deliver new services and expansion of existing services. The Strategic Housing Investment Fund is an amalgam of the Repairs and Renewals Fund and the Council Tax Discount Fund.

Appendix 7 –2018/19 Budget Consultation Results

Consulting tenants: What did we ask in this year's budget consultation?

Q1. What do you think of the five year investment plan & what we've done so far?

Q2. Thinking about your wider area you live in, what would be the one thing that would improve it?

Q3. What do you think tenants have found more difficult to pay for ?

Q4. What else can we do to help?

1,236 responses (Including 1,001 responses through the Tenants Survey)

567 individual comments

We encouraged tenants to take part in a variety of ways…

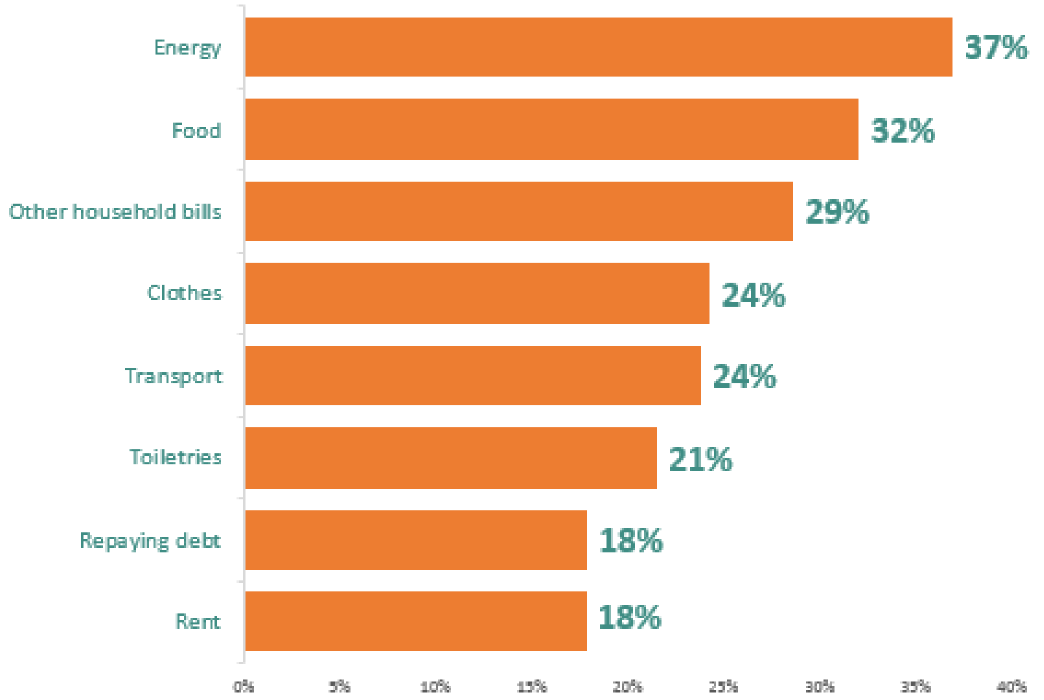
The Award Winning Rent Matters Working Group, made up of tenants, met five times to plan and deliver the annual budget consultation

- Online
- Postcard
- Cut-outs in newsletter
- Social media
- Local events
- Housing Officers, Concierge & Housing Property staff
- Text reminders
- Plasma Screens
- Posters
- Email footers emails
- Tenants Panel & RTOs

2018/19 Budget Consultation

82% of tenants who responded last year supported a 2% rent increase and almost a third were willing to pay more if improvements could be sped up. This year, 80% of tenants who responded were happy with the investment plan and progress to date

Q. Over the last 12 months, have you found it more difficult to pay for each of the following?*



* 31% of tenants, with childcare requirements said they were finding childcare more difficult to pay for

1236 tenants

Tenant priorities for local area: 3 Key Themes

- The maintenance and cleanliness of common areas e.g. grass cuttings, stair painting and cleaning
- The safety and security of blocks and areas e.g. lighting and secure doors
- New facilities for young people and tenants e.g. play parks and bike storage

What else can we do to help: 4 Key Themes

- Support to maximise incomes
- Better communication
- Improved maintenance and repair service
- Reduce the cost of energy

What tenants told us

What tenants think of the plan

‘The plans are good and when completed will be great for everyone’

‘£2 is a fair amount, much has been accomplished’

‘Good modernisations and improved living conditions’

‘It’s a lot for a lot of people who are struggling to pay rent as it is’

Tenant priorities for their areas

‘Better stair cleaning, benches around squares. This would help old people to get out of the house’

Parks for kids to play in, they have nothing in this area.’

‘Better Lights
more play parks, more youth services and support’

What else we could do to help?

‘More understanding regarding benefit cuts. Not just unemployed, but working family's too’

‘I would also like to see the housing officers come to see tenants more regularly’

‘Would definitely like to see energy efficiency within the building and homes, far too much energy and money is wasted’

How tenants responded

129 Locality Roadshows & Events

29 Online

40 Postcards

21 Tenants Courier

16 Door knocking

1,001 Tenant Surveys

Finance and Resources Committee

2pm, Thursday, 8 February 2018

2018-19 Budget Proposals: overview of citizen engagement process and feedback

Item number	5.7
Report number	
Executive/routine	
Wards	
Council Commitments	**All**

Executive Summary

This report outlines the structure of the budget engagement campaign and highlights the key actions taken to ensure citizens and other stakeholders were meaningfully engaged. The report summarises the overall level of response and emerging themes from feedback to the Council's budget engagement process.

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Report

2018-19 Budget Proposals: overview of citizen engagement process and feedback

1. Recommendations

1.1 To note the contents of this report.

1.2 To refer this report to Council as part of setting the 2018/19 revenue budget framework.

2. Background

2.1 In the context of the £21m savings that the Council needs to make in 2018/19, the Council continues to engage citizens and organisations in an open conversation about shared priorities and important themes for implementing the budget proposals, service changes and policy areas.

2.2 Continuing with the qualitative approach carried out in recent years, the purpose of this year’s budget engagement process was to identify and understand the potential impacts of the proposals, areas of concern, solutions and opportunities. The engagement therefore asked participants to consider the impacts of the budget proposals and submit their comments.

2.3 The objectives were:

2.3.1 to keep people engaged about the Council’s budget position and the shape of service changes;

2.3.2 to encourage and enable all sections of the population and the Council’s partners to have their say, using digital and non-digital engagement methods, for wide accessibility; and

2.3.3 to facilitate meaningful conversations with people in a positive and collaborative way, in order to develop solutions with them based on their needs and ideas.

2.4 In recent years the Council has taken a progressive approach to including citizens in decision-making processes around its budget, and being the first in Scotland to use a number of online tools. This has meant a significant increase in the number of participants and an improvement in the relevance of feedback in relation to the budget decisions the Council faces. Increasingly the Council has also brought partners into the budget engagement process to further broaden its reach.

2.5 The engagement campaign has previously been titled ‘Edinburgh’s Budget Challenge’ and recently ‘Play your Part’, and each year has been framed based on the Council’s financial challenges, policy areas and budget proposals.

2.6 In 2014, citizens were asked to prioritise spending across all services: participants highlighted a strong preference to protect spending on vulnerable people (both adults and children); direct delivery of education (nursery, primary, secondary schools); and culture.

2.7 In 2015, citizens were given a range of policy decisions on which to have their say. Of particular relevance to budget setting was the attitude towards how the Council raises money to pay for services. There was support for both increasing Council Tax and increasing charges for services, however this opinion was not uniform across the city or across age groups.

2.8 In 2016, the focus of citizen engagement moved to service re-design and transformation including libraries (opening hours and the use of volunteer support), channel shift (how the user online experience can be improved); sport and leisure (how activities can be run by individuals and communities). Participants were also asked what should be prioritised for investment in their local area. This feedback helped form the Locality Improvement Plans.

3. Main report

3.1 The engagement took place over 6 weeks, starting on 8 November and closing on 19 December.

3.2 Responses to the budget engagement could be submitted by online survey on the Council’s consultation hub, email, telephone, in writing, by paper form and face-to-face during events.

3.3 A Question Time event was hosted again for the third year at the City Chambers. The public was invited to attend and submit questions to the panel of elected members. The event was streamed live online so that people could watch the discussion and also participate by submit comments and questions in real time.

Communications activity

3.4 The budget engagement was supported by a multimedia communications approach that included:

3.4.1 Posters and leaflets - printing of posters and leaflets which were widely distributed to Council and non-Council locations;

3.4.2 An e-flier - used in previous years as a simple way for stakeholders to disseminate information, this was directly sent to more than 1,000 contacts;

3.4.3 Social media - campaign messages were shared and discussed on major social media platforms including Facebook, Twitter and LinkedIn;

3.4.4 Lamp post wraps - placed in more than 50 locations across the city;

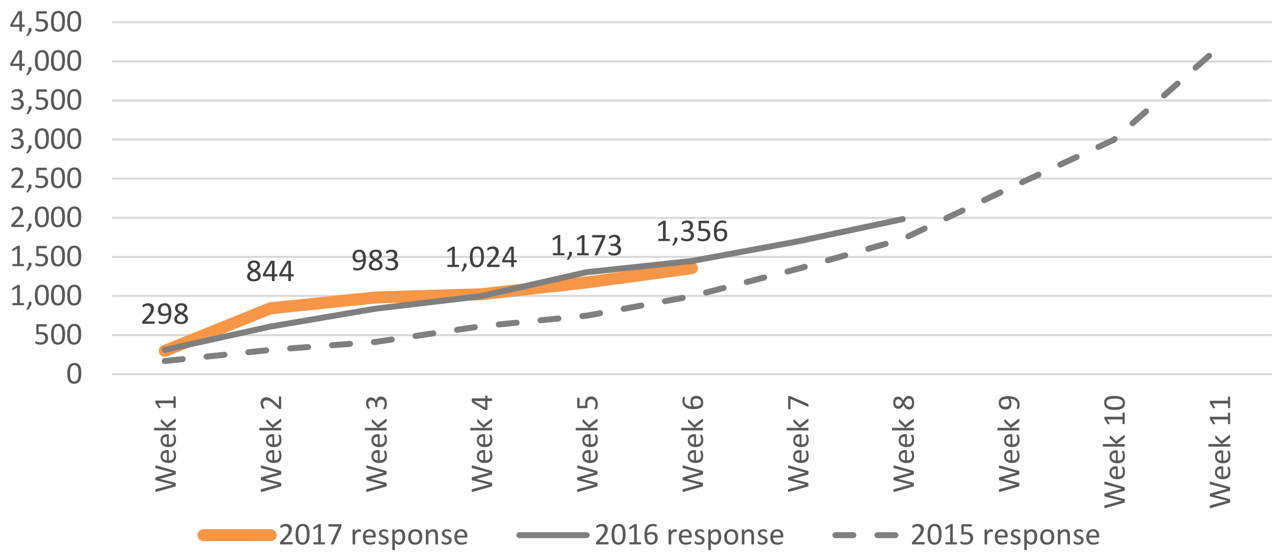
3.4.5 Internal communications - emails to Council employees from the Chief Executive and Council Leader through their scheduled messages, Managers News, Newsbeat and plasma screens in offices and libraries; and

3.4.6 Budget engagement video was produced and distributed to partners and stakeholders.

3.5 By the close of the engagement period the communications activity had generated 2,473 unique views on the Play Your Part webpage.

Response numbers

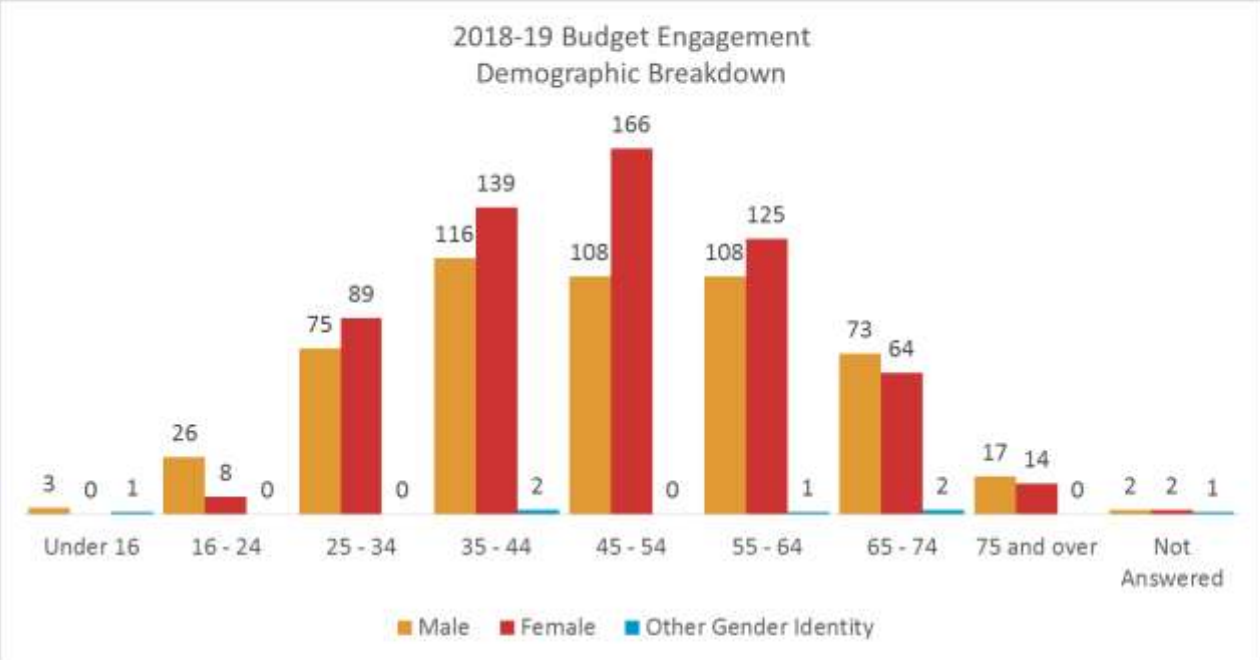
3.6 A total of 1,356 responses to the budget engagement have been received by all methods. While this was fewer responses than in 2015 and 2016 as shown in the graph below, the response was slightly above that generated over six weeks in 2015, and roughly tracked the response generated in 2016.



3.7 This total response to the budget includes the following elements:

- 1,063 comments received through the online survey, budget leaflet, and by email and telephone;
- 237 comments received through social media, including 215 Facebook comments and 22 direct replies on Twitter; and
- 56 questions asked as part of the Question Time event at the City Chambers. These questions were either answered on the night or responded to afterwards. 45 people attended this event and 77 watched it live.

3.8 The total response by age and gender is illustrated in the graph below.



Feedback on 2018-19 Budget Proposals

3.8 The full text of all comments received has been made available to elected members. Major themes of this feedback have been identified, especially where these were in relation to a specific budget proposal.

3.9 The largest number of responses were received in regard to the proposals affecting **Edinburgh Leisure** (378 total comments, 7 clearly supportive, 319 clearly opposed) with the balance being strongly negative. A direct mailout by Edinburgh Leisure was effective in delivering hundreds of additional submissions which fell into two broad categories – those who were concerned about the future of one specific facility or activity (no overall majority or consensus), and those who felt leisure facilities were an important tool to address a range of public health concerns.

Feedback also highlighted the competitive marketplace in some areas of the city, stating that Edinburgh Leisure prices were already high in relation to many private gyms.

The reduction in total Edinburgh Leisure funding was the main concern of respondents. Though charging for the maintenance of pitches was not a concern raised by most respondents, it was recognised as double hit for the service.

3.10 Proposals to charge for **garden waste collection** (159 total comments, 20 clearly supportive, 100 clearly opposed) caused uncertainty. While a minority felt the charge was unfair and being levied against households that already pay higher Council Tax, in general respondents did not feel charging was workable in Edinburgh. This response was based on a lack of clarity about how the charge would be implemented and enforced.

Respondents did not understand how a charge would be applied for a single bin in a communal stair, or how the Council would prevent households who hadn't paid from using a range of other options – such as burning, public litter bins, neighbours' bins or residual waste bins. Some residents felt that they would stop maintaining shared green areas if they were being penalised for doing so.

There was recognition that – as garden waste collection is not a statutory service – the Council was right to look at alternative funding and delivery approaches.

3.11 Respondents have, throughout several years of budget engagement processes, been in favour of increasing and re-banding **Council Tax** (65 total comments, 38 stating there should be an increase, 6 stating there should be a decrease). Edinburgh was regarded as a relatively wealthy city, which should not encounter difficulties paying for essential services that Edinburgh residents need.

3.12 Those responding about **Parking** (88 total comments) presented a range of different views. There was negative perception that the Council was again using parking charges as a revenue source rather than as part of an overall strategy.

Respondents claimed that parking charges do not reduce congestion, that the Council does little to discourage out-of-town residents from parking in residential streets in some areas of the city (which did impact on congestion), and that resident parking charges were expensive, especially as there was no assurance of getting a parking space.

Increasing parking charges was seen as positive in an active travel context, where the long-term goal was to transfer people to sustainable transport modes. There were also calls to reconsider congestion charging.

3.13 **Advertising on Council assets** (34 total comments, 4 clearly supportive, 27 clearly opposed) attracted little interest from respondents, but was an emotive issue for some. The main concern of respondents was the impact on the appearance of the city and where such advertising would be located. While the Council may have envisaged this as advertising on roundabouts and bridges, it appears some respondents may have thought of this proposal as including illuminated billboards on the City Chambers. The former would likely be of little concern, while the latter would be unacceptable to some.

Of secondary concern was the impact of advertising revenue on the Council's decision-making. Respondents believed that the Council could be compromised if it were receiving advertising revenue from businesses also seeking Council contracts.

3.14 The proposal to change **Waste Services working patterns** (37 total comments, 6 clearly supportive, 19 clearly opposed) was received negatively due to perception of the current performance of the service. Respondents felt that, as the service did not function well with the current working hours, staff should not be placed on alternative hours seen as rewarding them and reducing the service to the public. Respondents were also sceptical about the choice of working days put forward, with alternatives being suggested.

3.15 The removal of the **Night Team** (24 total comments) was questioned by all those who mentioned this proposal. It was unclear to respondents whether Police Scotland had been consulted and what their views were, and whether there would be effective cover for issues currently dealt with by the Night Team. Respondents believed that because of the broader remit of the police, the Night Team delivered better results. And, in general, the importance of night-time economy to Edinburgh was stressed, with some feeling this reduction could be a false economy.

3.16 Many of the comment received in relation to **Health and Social Care** (100 total comments) did not explicitly relate to budget proposals. Respondents stressed the importance of the protection and care of vulnerable people, stating this was a core responsibility of the Council. Additionally, there was a clear misunderstanding amongst some respondents between work being performed “by the third sector” and work being performed “by volunteers”. It was felt that volunteers would not be a suitable replacement for Council staff in a care role. In future communications, it may be useful to adopt a term for third-sector partners and their staff which makes it clear to customers that they are paid to perform their services.

3.17 **Education** (89 total comments) received few comments that related to the budget proposals, but was often cited as a priority. As with care for the elderly and vulnerable, education was seen as a core responsibility, and was felt to be essential to secure the long-term success of the city.

3.18 Respondents used the budget engagement process to talk about **Housing** (62 total comments), with a consensus that there was more need for affordable housing.

3.19 Comments received in relation to **active travel** (48 total comments) often urged the Council to push people towards walking or cycling, or to make these easier, as a way of addressing environmental, transport and public health concerns.

3.20 There was significant spontaneous support for the introduction of a **Tourist Tax** (suggested 118 times) – around 42% of all suggestions received as part of the budget engagement were about a Tourist Tax, vastly more than any other suggestion. Respondents observed that they had paid similar taxes during their stays in Europe and it was reasonable that visitors to Edinburgh did the same.

To a lesser extent, calls for a Tourist Tax were about making tourists compensate Edinburgh residents for the inconvenience and disruption they caused. This was also reflected in negative comments about **AirBnB** (19 total comments), urging the Council to restrict or control short-term lets in the city.

The proportion of residents who believe the Festivals make Edinburgh a worse place to live has increased every year for the past five years – from less than half a percent, to the 6% recorded in the 2017 Edinburgh People Survey.

3.21 There were 100 complaints received about the quality of service provided by the Council, many mentioning multiple issues, including: roads and pavements (63); street cleaning (34); and refuse collection (28).

3.22 Respondents felt that the Council had brought some of its budget issues on itself with spending on what they termed wasteful programmes or vanity projects. There were 78 comments about the tram, most of which were negative, and a further 34 comments about the extension of 20mph zones. It should be noted that while a majority of residents support 20mph zones, the proportion who support the programme has fallen from 59% in 2016 to 55% in 2017, while those who oppose has risen from 20% to 25% (all figures as measured by the Edinburgh People Survey 2016 and 2017).

3.23 Though not part of the 2017 budget engagement process, there were also 38 comments in relation to libraries. These respondents opposed the reduction in opening hours which was approved by Council as part of the previous year's budget but were delayed as a result of one-off Scottish Government funding.

Feedback on the engagement process and future approach

3.24 Respondents commented on the budget engagement process (28 total comments) itself, criticising the process for providing no options and felt that the options decisions had already been taken.

3.25 Going forward the Council plans to continue to involve citizens, elected members, partner organisations and Council employees in an open and meaningful conversation to shape the strategic direction, financial planning and service redesign. To do this effectively, engagement will be integral to the Council's Change Strategy in helping to shape priorities, understand what matters most to people and to develop innovative solutions with people.

3.26 Any approach taken forward will be aligned to the principles of the Community Empowerment Act and the National Standards of Community Engagement with relation to involving communities in decision-making processes and ensuring engagement is inclusive, open and genuine.

4. Measures of success

4.1 The success of a budget engagement process is determined by several criteria, including:

4.1.1 The number of individuals who are reached by messages about the consultation, raising awareness that the Council is engaging on its budget;

4.1.2 The number of individuals who attend events or otherwise respond to the budget engagement; and

4.1.3 The extent to which individuals and organisations have been able to understand and meaningfully input into the budget process. Unlike other measures of success, this is subjective and takes into account wider feedback on the budget process.

4.2 The budget engagement process is reviewed each year, and all of this feedback will be considered when designing any future budget engagement activity.

5. Financial impact

5.1 The budget engagement process is met from within existing budgets and resources.

5.2 The cost of the communications campaign was £6,300.

6. Risk, policy, compliance and governance impact

6.1 There is a general acceptance that a local authority has a responsibility to meaningfully engage with stakeholders on its budget. An open, transparent budget engagement process is a key part of several corporate strategies and local community plans. This process reduces the overall risk of legal action and reputational damage for the Council.

7. Equalities impact

7.1 The engagement process has been designed to be inclusive through all communication channels, reaching both individuals and special interest groups, using a range of promotional material.

7.2 All proposals from the budget are in the process of being equalities rights impact assessed both individually and cumulatively. The results of these ERIAs will be reported to Full Council as part of the budget process.

8. Sustainability impact

8.1 The impacts of this report in relation to the three elements of the Climate Change (Scotland) Act 2009 Public Bodies Duties have been considered, and the outcomes are summarised below.

8.2 This budget engagement process has no appreciable impact on carbon emissions. Through any engagement process it is hoped that services and their customers will develop more sustainable ways of operating.

8.3 The need to build resilience to climate change impacts is not relevant to this report, however specific proposals may have climate change impacts and these will be reported on as part of their individual impact assessments.

8.4 The budget engagement process will help achieve a sustainable Edinburgh through ensuring a diverse range of people have a meaningful say on issues that affect the economic wellbeing and environmental stewardship of the city.

9. Consultation and engagement

9.1 The budget engagement process is one of the Council's key projects for ensuring citizens, staff and other stakeholders have a voice in priorities for the city and how its budget is spent.

9.2 The budget engagement process will be continually reviewed based on participant and stakeholder feedback and good practice. Methods will be established for enabling meaningful dialogue with all stakeholder groups to ensure they are accessible and relevant for obtaining all types of feedback.

10. Background reading/external references

None.

Andrew Kerr

Chief Executive

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11. Appendices

Finance and Resources Committee

2.00p.m., Thursday 8 February 2018

Edinburgh Leisure – Pension Guarantee

Item number	5.8
Report number	
Executive/routine	
Wards	
Council Commitments:	**None**

Executive Summary

The Council has been asked by Edinburgh Leisure (EL) to act as a guarantor for its pension arrangements with Lothian Pension Fund (LPF), thus enabling EL to continue to fund its pension obligations using the "ongoing basis" to minimise the impact of pension increases on its budget. This is in accordance with LPF's Funding Strategy Statement (FSS) which specifically provides for such, given that the EL admission to LPF followed a formal transfer of staff from the Council.

Committee is asked to approve the recommendations in this report.

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Report

Edinburgh Leisure – Pension Guarantee

1. Recommendations

1.1 Members of the Finance and Resources Committee are asked to:

1.1.1 Note the content of the report;

1.1.2 Refer the report to Council for approval to act as a pension guarantor for Edinburgh Leisure; and

1.1.3 Agree that any further requests from organisations seeking pension liability guarantees should be considered on their own merits.

2. Background

2.1 Since 2006, LPF has required any employer seeking admission to the Local Government Pension Scheme (LGPS) to provide a pension liability guarantee from an organisation of suitable financial strength. Prior to this date, however, this was not mandatory.

2.2 Edinburgh Leisure (EL) was created on 1 April 1998, with 575 staff being TUPE transferred from the City of Edinburgh Council. These individuals transferred under TUPE, with full recognition of all Council terms and conditions, including membership of Lothian Pension Fund (LPF), with an “admitted body” status. EL closed the LPF to new employees in 2008, with alternative pension arrangements put in place for new employees. There are currently 231 employees still in LPF.

2.3 Each admitted body within LPF is aligned to one of the scheduled bodies (including Councils), and they are liable for any costs should the scheduled body be unable to meet its pension liabilities. The Council is the sponsor for EL.

2.4 An extract from Appendix C of the LPF FSS states “ … where the employer leaving the fund if a Transferee Admission Body or if an employer was admitted owing to the transfer from another Fund employer (and the ceding employer has agreed to the treatment of the employer as a Transferee Admission Body for funding purposes), the ongoing basis will be used”.

2.5 The Council has had other requests to provide formal pension guarantees from charitable and / or grant funded bodies in respect of historic admissions to LPF. To date, however, it, has only entered into such agreements with three smaller organisations, the admission to LPF in all three cases arose because of TUPE staff transfer considerations. The general principle applied by the Council is that, as primary responsibility lies with each organisation and with no staff being TUPE'd from the Council, the preference is to allow such organisations to meet any cessation liabilities over a longer time-period.

2.6 For information, West Lothian Council has previously accepted a TUPE transfer admission basis to LPF in respect of West Lothian Leisure (WLL) and therefore acts as a guarantor to LPF for WLL pension liabilities

3. Main report

3.1 LPF is introducing a new investment strategy from 1 April 2018. This medium-term strategy will be for those employers closed to new entrants but who do not meet the criteria for LPF's lower-risk strategy. EL, being closed to new entrants, would be moved into this strategy, which will be invested 50% in the primary strategy and 50% in the lower-risk strategy. The impact of this would be a significant increase in contribution rates.

3.2 The funding strategy statement allows for allocation to an alternative strategy "where the higher risk strategy is supported by an explicit guarantor and / or where the Fund would not consider such to represent a scenario of greater risk exposure to other employer(s)". Should the Council be minded to act as a guarantor, EL could be moved back to the primary strategy. The Council may be minded to consider that, due to the original transfer of staff from the Council to EL, at its inception, any exit payment on cessation could be calculated on an ongoing basis, rather than on a gilts basis.

3.3 The table below sets out the difference in contribution rates, and an assessment of the impact into EL's budget, provided by their Chief Executive Officer.

	Medium risk strategy		Main strategy	
Financial Year	Contrib. rate	Contrib. £m	Contrib. rate	Contrib. £m
2017/18	18.5%	0.923	18.5%	0.923
2018/19	29.8%	1.487	20.8%	1.038
2019/20	41.1%	2.051	23.2%	1.158
2020/21	42.2% and £0.5m cash	2.606	25.5%	1.273

3.4 The table shows that, without the support of the Council as a guarantor, pension contributions will be considerably more expensive, place a huge financial burden on EL and likely result in a significant impact into services provided by EL.

Additionally, this would place a significant risk on the savings proposals included within the Council's budget framework for 2018/19.

3.5 It is therefore recommended that the Council, given the original TUPE transfer of staff from the Council, becomes a guarantor for EL pension liabilities, and the approval of Council is sought to so do.

4. Measures of success

4.1 Edinburgh Leisure's pension liabilities do not impact adversely into service provision and that it is able to meet pension liabilities as they fall due.

5. Financial impact

5.1 Acting as a guarantor to EL will not impact directly on the Council at this time, provided EL meets its pension liabilities, as they fall due, however, should the Council not act as a guarantor, the likelihood of achieving planned budget savings in 2018/19 is diminished with likely need to either reduce services or increase CEC contract payment in future years.

6. Risk, policy, compliance and governance impact

6.1 Any guarantor arrangement requires the approval of Council.

6.2 The guarantor arrangement exposes the Council to a risk of additional costs if pension liabilities are not met as they fall due.

6.3 There is a risk that other bodies seek similar arrangements, and the Council would increase its potential exposure to additional costs if pension liabilities are not met as they fall due.

7. Equalities impact

7.1 There is no direct additional impact of the report's contents.

8. Sustainability impact

8.1 There is no direct additional impact of the report's contents.

9. Consultation and engagement

9.1 Discussions have been held with Edinburgh Leisure and Lothian Pension Fund.

10. Background reading/external references

10.1 None.

Stephen S. Moir

Executive Director of Resources

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11. Appendices

None.