Finance and Resources Committee

10.00am, Tuesday, 12 June 2018

Revenue Budget Framework 2018/23: Progress Update

Item number	7.1
Report number	
Executive/routine	Executive
Wards	n/a
Council Commitments	n/a

Executive Summary

On 22 February 2018, Council approved a balanced budget for 2018/19. Taking account of measures approved as part of previous years' budget motions, the budget is underpinned by the delivery of total savings of some £36.5m. Following receipt of additional grant funding relative to original assumptions, the approved budget also includes £27.7m of additional, or continuing, service investment. This investment, in turn, builds on the significant additional baselined funding included within the Health and Social Care and Safer and Stronger Communities functions in 2018/19 that is geared towards addressing structural deficits and thereby re-establishing financial sustainability in these areas.

In approving the 2018/19 budget it was noted, however, that there remained a significant savings requirement across the period of the budget framework as a whole, estimated at £130m between 2019/20 and 2022/23 inclusive. The largest contributors to this overall requirement were expenditure linked to the assumed level of pay award, demographic-related provision and reductions in anticipated grant funding, net of additional projected Council Tax income.

All factors contained within the budget framework are the subject of at-least six-monthly review. The following sections of the report set out the main conclusions arising from the most recent review and their consequent impact on the estimated overall savings requirement. An update with regard to development of implementation plans for those savings and investment approved as part of the 2018/19 budget motion is also provided.

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 overall impact of the proposed changes to a number of the baseline expenditure and income assumptions included within the 2018/23 revenue budget framework; and

1.1.2 note, nonetheless, the significant estimated remaining savings requirement across the overall period of the framework and the consequent intention to bring forward a Council-wide change strategy to the Committee's September meeting.

2. Background

2.1 On 22 February 2018, Council approved a balanced budget for 2018/19. Taking account of measures approved as part of previous years' budget motions, the budget is underpinned by the delivery of total savings of some £36.5m. Following receipt of additional grant funding relative to original assumptions, the approved budget also includes £27.7m of additional, or continuing, service investment. This investment, in turn, builds on the significant additional baselined funding included within the Health and Social Care and Safer and Stronger Communities functions in 2018/19 that is geared towards addressing structural deficits and thereby re-establishing financial sustainability in these areas.

2.2 In approving the 2018/19 budget it was noted, however, that there remained a significant savings requirement across the period of the budget framework as a whole, estimated at £130m between 2019/20 and 2022/23 inclusive. The largest contributors to this overall requirement were expenditure linked to the assumed level of pay award, demographic-related provision and reductions in anticipated grant funding, net of additional projected Council Tax income.

2.3 All factors contained within the budget framework are the subject of at-least six-monthly review. The following sections of the report set out the main conclusions arising from the most recent review and their consequent impact on the estimated overall savings requirement. An update with regard to the development of implementation plans for those savings and investment approved as part of the 2018/19 budget motion is also provided.

3. Main report

Pay award provision

3.1 Employee costs represent the largest single element of the Council's gross expenditure, equating to around 39% of total costs. As a result, assumptions on the level of employee pay awards are key in determining the overall quantum of savings requiring to be identified to maintain a balance between available funding and expenditure demands. By means of illustration, each 1% uplift equates to an increase in overall staffing costs of some £5.3m, based on current staffing levels.

3.2 As was noted in the budget framework update report to the Committee's meeting on 8 February, the Scottish Government has relaxed its pay policy for 2018/19, adopting a tiered approach as follows:

3.2.1 providing a 3% increase for staff whose annual 2017/18 salary did not exceed £36,500;

3.2.2 a 2% increase for staff whose annual salary was between £36,500 and £80,000; and

3.2.3 a £1,600 maximum flat-rate increase for staff in receipt of salaries above this level.

3.3 The level of employee pay award for all local government employee groups is negotiated between COSLA and the representative trade unions on a Scotland-wide basis. The employer's first and final offer to all employee groups for 2018/19 mirrors that of the broader Scottish Government policy, along with continuing payment of the Scottish Local Government Living Wage.

3.4 Thus far, both the Educational Institute for Scotland and GMB Unions have initiated consultative ballots on the employer's offer, with a recommendation that it be rejected. Members are reminded that the budget framework provided funding equivalent to a 3% increase across all staff groups in 2018/19 (but with the intention that any additional sums needed to achieve overall settlement be targeted towards lower-paid staff) and, as such, there is limited scope to absorb a higher level of increase.

3.5 While the 2018/19 employer's offer is aligned to that of the Scottish Government, COSLA has indicated that this should not be seen as setting a precedent for future years and that subsequent years' settlements will have at their core striking an appropriate balance between recognising and rewarding the local government workforce and overall affordability and sustainability.

3.6 In view of the relaxation of the Scottish Government's policy and the resulting heightening of expectations after a number of years' real-terms pay reductions, however, it is proposed that the baseline assumption be increased from 2% to 3% per annum for all remaining years of the framework, cumulatively adding £20.6m of anticipated expenditure over the period from 2019/20 to 2022/23 inclusive.

Inflationary assumptions

3.7 In addition to employee pay awards, a number of other aspects of the Council's expenditure are subject to inflationary price increases, be they contractual uplifts, utility costs or more general rises in the cost of goods and services procured and used in the course of the Council's activities.

3.8 The precise impacts of changes in inflation rates vary by area. The "blended" annual uplift applied to the Education PPP contracts, for example, is derived from the headline rate of UK-wide inflation at agreed reference points. The agreed level of increase for care home fees, in contrast, is negotiated on a Scotland-wide basis by COSLA, Scottish Care and the Coalition of Care and Support Providers, with the agreed fee uplift in the nursing and residential rate for 2018/19 being 3.39%. Other cost changes, such as energy tariffs, are more difficult to predict, with this uncertainty increasing the further into the future they are modelled due to reduced volumes of forward-purchasing and variation in pass-through charges.

3.9 In total, annual provision for non pay award-related inflation is currently £5.0m, with this sum predicated in most cases on an underlying rate of inflation of 2%. In recognition of wider upward pressure in this area outlined above, it is proposed to increase this provision to 3% per annum, resulting in an increase in allowance of £2.5m in 2019/20, rising to an additional £2.8m annual increase by 2022/23.

Wave 4 schools investment

3.10 As part of considering the Council's 2018/23 Capital Investment Programme (CIP), members of the Committee were advised that, on the assumption of 50% Scottish Government funding, there remained an overall funding shortfall of some £78m over and above the level of provision contained within the approved CIP. Given the strategic importance of this investment to the Council's wider priorities, the updated revenue budget framework reflects loan charge expenditure aligned to the profile of the proposed construction programme, comprising £0.6m of support in 2021/22 and increasing to £4.6m in 2022/23. Should the level of Scottish Government funding support vary from that currently assumed, the affordability of the programme will require to be re-assessed. Similarly, the precise loans charge profile will require to be reviewed upon introduction of the Equal Instalment of Principal (EIP) loan accounting method with effect from April 2021, with the potential for a higher initial level of expenditure (decreasing annually thereafter) linked more directly to the interest payable on the outstanding principal.

3.11 At its meeting on 27 March 2018, in considering a report on Queensferry High School, the Committee agreed to allocate £1.277m of a total of £3.5m of Local Development Plan-related investment included within the budget framework to meet additional running costs associated with the new school from April 2020. This allocation reflects the school's role in facilitating the expansion of secondary school capacity to address the impact of anticipated housing development.

3.12 The revenue budget faces a number of challenges as a result of changes to the profile of the operational estate. Increasing service demands have resulted in a corresponding increase in the overall floor area occupied. By way of illustration, between January 2015 and March 2018, new-build projects amounting to 65,000 sq. metres have been completed, including the construction of three new Wave 3 high schools, rising school roll-related classroom extensions at twelve primary schools, nine new gym and dining halls and eight new nursery buildings.

3.13 Most new buildings are larger than the ones they replace and are generally more sophisticated, resulting in better environments but higher running costs, particularly for Non-Domestic Rates. Continuation of existing maintenance regimes will also result in early deterioration of key building elements. While the Council will continue to examine all opportunities for further property-related savings through rationalisation and co-location, in ensuring that sufficient funds are allocated to operate and maintain these new facilities on a sustainable basis, it is proposed to increase the level of provision for associated running costs of these newly-constructed schools and other buildings by £1.8m in 2021/22 and a further £0.6m in 2022/23.

Government grant funding

3.14 Despite changes arising from revised Council Tax multipliers and the Council's decision to increase charges across all bands in both 2017/18 and 2018/19 by 3%, the majority of revenue funding is still received by means of General Revenue Grant (GRG) and retained Non-Domestic Rates (NDR). As with assumptions around the level of pay award, projections in this area are therefore crucial in determining the overall savings requirement, with each 1% change in combined GRG and NDR income representing a movement of about £6.9m.

3.15 Due to the Scottish Government's status as a minority Administration, support from an Opposition Group has been vital to securing Parliamentary approval for its Draft Budget in recent years. Additional funding for Local Government has been introduced at varying stages of Parliamentary consideration, with the £130m introduced at Stage 1 of the 2017/18 process baselined for 2018/19 and subsequently supplemented by £159.5m of further Local Government-specific investment at the equivalent stage of the 2018/19 process. While clearly welcome in allowing the Council to invest additional sums in a number of key areas, the relatively late stage at which these resources became available (the Local Government Finance Settlement was announced on 14 December 2017 and the additional resources at Stage 1 of the Budget Bill introduced on 31 January 2018) restricted, to an extent, the ability to consider the appropriate balance between savings and investment as part of the public engagement process.

3.16 Compared on a like-for-like basis (i.e. adjusting for additional monies received for implementation of new or expanded commitments), the Council's combined level of GRG/NDR for 2018/19 represents a 0.4% cash-terms reduction on the equivalent figure for 2017/18, this being the most favourable level of Settlement since 2013/14.

3.17 The precise level of funding settlement for Local Government, and by extension the Council, depends upon an ever-more complex interaction of UK Treasury block grant allocations, Scottish economic performance and associated taxation policy, Scottish Government priorities and the operation of the needs-based distribution formulae. The degree of political consensus around the importance of protecting investment in the services provided by local government has prompted a reconsideration of relative priorities at a national level and, given the need to secure the support of at least one other political party within the Scottish Parliament, increased its profile and relative bargaining position. On this basis, it is proposed that the Council's actual 2018/19 level of reduction be adopted as the baseline in each of the next four years, albeit with financial modelling (and option generation) reflecting the potential for downward variation from this level.

3.18 In this respect, it should be noted that, at this stage, no allocations have been confirmed, even at Scottish Government-wide level, beyond 2018/19. The recently-published Scottish Government Medium-Term Financial Strategy, however, reinforces a number of previous funding commitments that, combined with modest anticipated cash-terms increases in overall Scottish Government expenditure, points to a likely continuation of real-terms reductions in underlying grant allocations for Local Government over the five-year period concerned.

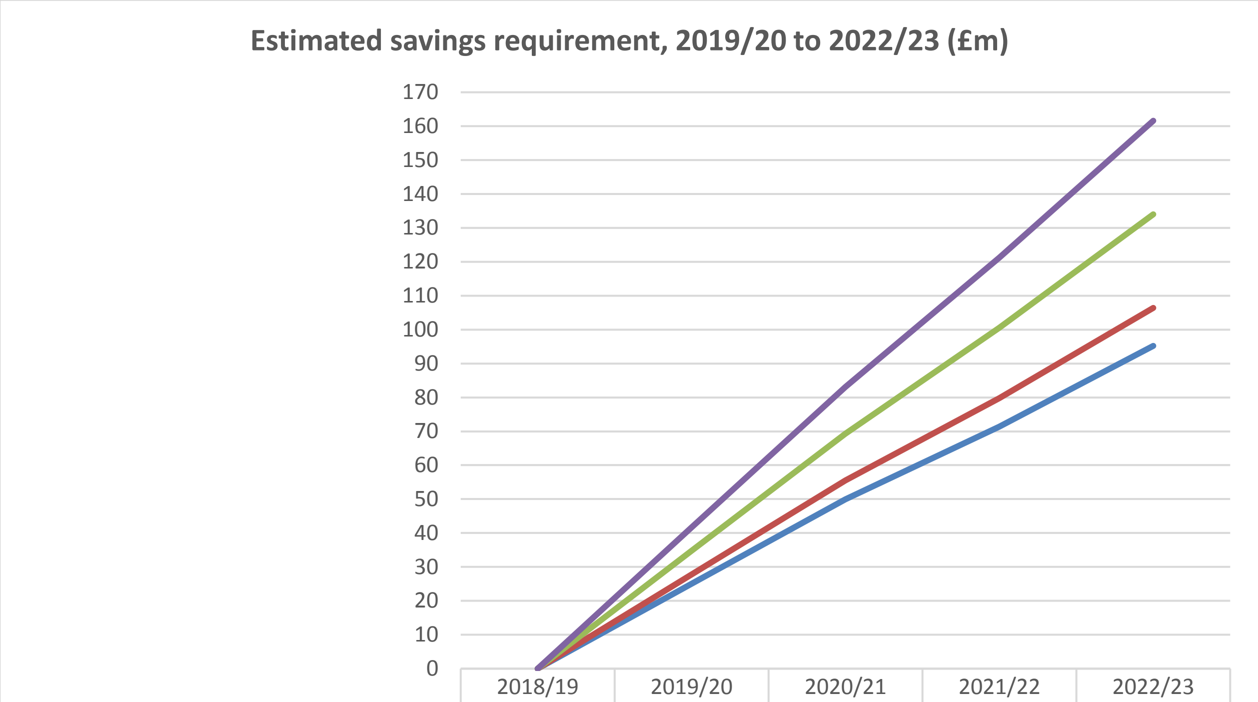
3.19 Given this risk that actual allocations are less favourable than the 0.4% cash-terms reduction that forms the revised baseline for the Council's financial planning, there is a consequent need to consider a range of potential outcomes around this baseline assumption. This need to plan for a less favourable outcome is reinforced by potential changes to the funding floor calculation, through which Edinburgh received £18m of additional support in 2018/19, tempering the level of reduction that would otherwise have been faced.

3.20 Members have previously been advised of the assumption of a 3% increase in Council Tax levels in each of the next four years and no change to this assumption is proposed at this time.

3.21 Taken together, the net effect of these changes on the savings requirement in each of the next four years is shown in the table below:

	Estimated cumulative savings requirements as set out in Budget Framework Update, 7 November 2017 (£m)			
	2019/20	**2020/21**	**2021/22**	**2022/23**
Total Savings Requirement (net of 2018/19 savings)	**42.2**	**80.3**	**105.3**	**130.3**
Proposed revisions:				
Upward change in pay award provision (net of assumed savings)	5.3	10.5	15.6	20.6
Upward amendments to inflationary assumptions for non-pay factors	2.5	5.1	7.8	10.6
Wave 4 schools - associated borrowing	0.0	0.0	0.6	4.6
Wave 4 schools – associated running costs	0.0	0.0	1.8	2.4
Upward revisions to grant/NDR funding assumptions	(22.2)	(40.4)	(51.3)	(62.1)
Net change in assumptions	**(14.4)**	**(24.8)**	**(25.5)**	**(23.9)**
Revised savings requirement	**27.8**	**55.5**	**79.8**	**106.4**

3.22 As noted above, there is potential, in particular, for the level of grant/NDR funding to vary from this baseline assumption. The following chart therefore indicates a range of possible variations on this position based on changes in grant allocations. It is recommended that, while an estimated £27.8m of savings require to be delivered in 2019/20 to achieve financial balance, options to a larger quantum be identified both to allow for an element of public and member discretion in those taken forward and to guard against the potential for a lower overall level of grant funding settlement. An additional 1% annual reduction in grant funding in each of the next four years, for example, would increase the overall savings requirement in 2019/20 to £34.7m and that over the period to 2022/23 to £134.0m.



	2018/19	2019/20	2020/21	2021/22	2022/23
"Flat-cash" settlement	0.0	25.0	49.9	71.4	95.2
Baseline assumption i.e. 0.4% year-on-year reduction in grant	0.0	27.8	55.5	79.8	106.4
Further 1% annual reduction in grant	0.0	34.7	69.3	100.5	134.0
Further 2% annual reduction in grant	0.0	41.6	83.1	121.2	161.6

Development of savings implementation plans and application of additional budget motion investment

3.23 The setting of a balanced budget for the Council as a whole for 2018/19 was predicated on the delivery of some £36.5m of savings, along with effective management of a range of risks and pressures, many of a demand-led nature.

Health and Social Care

3.24 The Council's 2018/19 allocation to the Edinburgh Integration Joint Board (EIJB) represents a year-on-year uplift of £12.6m (6.8%), with provisional further contributions from NHS Lothian (£4m) and the EIJB (£2.8m) based on increasing capacity. In addition to securing these contributions, in view of significant expenditure pressures and required service investment, achievement of a balanced overall position is dependent upon delivery of £1.9m of efficiency savings and £7.2m of transformation programme-related savings, particularly those rooted in improved demand management.

3.25 At this stage, the majority of these projects are assessed at amber, with additional scoping and/or implementation work required to support their achievability. There is a particular risk, however, around the delivery of £3m of savings linked to a programme of reviews through the Telecare and Support Planning/Brokerage projects. Urgent work is also required to agree the scope and approach of a proposal to deliver £1m of savings in internal services linked to growth in Self-Directed Support (SDS) arrangements and to develop detailed proposals for delivery of £1.1m of savings through improved workforce management. Offsetting savings will also require to be identified following a policy change with regard to the reimbursement of home-to-work travel expenses for social care workers with no fixed place of work. The EIJB Chief Officer presented an update on the 2018/19 financial plan to the EIJB on 18th May and this noted that the proposed £4m contribution from NHSL Lothian has not been finalised, pending agreement on targets associated with planned improvements. In addition, there is currently a shortfall of £0.5m against the assumed EIJB contribution to the 2018/19 budget.

3.26 In view of these risks, the Partnership Management Team has agreed a number of further actions to seek to address this situation, including establishing a separate Transformation Savings programme with a dedicated Programme Manager and additional wider project resource, integration of currently-separate workstreams and improved reporting and scrutiny arrangements. While the Council believes that the provision of additional social care packages will contribute significantly towards the shared priority of reducing delayed discharge volumes, it is not possible to guarantee that these additional partner contributions will lead to achievement of delayed discharge targets, upon which the assumed £4m NHS Lothian contribution is currently predicated. Further reassurance on the receipt of this contribution is required. Additional investment should not be undertaken until the core budget funding issues are resolved.

Resources and the Chief Executive's Service

3.27 In addition to the £12.7m of newly-approved savings for implementation in 2018/19, a further £7.4m of previously-assumed or approved savings require to be delivered in 2018/19. At this stage, additional actions are required to enhance confidence around the delivery of significant transformation-linked savings across, in particular, the Asset Management Strategy and Customer areas with detailed work being undertaken by the relevant Heads of Service with Finance.

3.28 Following confirmation of the revised Facilities Management structure after the detailed engagement and consultation undertaken as part of the service's organisational review, £2.8m of budgetary pressures are now evident. These will be offset by £1m of one-off mitigation measures in 2018/19. Pending development of further mitigating measures, the net budget pressure of £1.8m is assessed as red. There is a further pressure of £0.8m to progress the Asset Management Strategy, following full utilisation of earmarked development funds. As not all of this expenditure is committed, this pressure is assessed as amber at this time.

3.29 The Council's approved revenue budget for 2018/19 includes £8.5m of additional funding (an element of which relates to the revenue consequences of additional capital investment) to initiate a sustained, five-year strategy to address backlog maintenance challenges across the Council's property estate. The main features of the delivery programme were set out in a report considered by the Finance and Resources Committee on 27 March 2018, comprising a detailed and prioritised plan, supported by the provision of dedicated and commensurate additional programme management. Investment in 2018/19 will focus, in particular, upon potential future health and safety issues, preventative maintenance and sustainability measures.

Place

3.30 Approved savings of £5.9m fall due for delivery in 2018/19. At this stage, some 85% of these are assessed as amber or green, albeit a number of dependencies to full implementation have been identified. Following use of a number of one-off measures to achieve a balanced service outturn in 2017/18, underlying structural pressures in the Waste and Roads services are being addressed through medium-term improvement plans and re-alignment of the wider Place budget. Mitigating actions are also being developed to address a range of other pressures across the Directorate.

3.31 The approved service budget included a number of new, or expanded, service initiatives, with development of implementation plans well-advanced:

- Waste and cleansing initiatives - £1m;
- Roads, pavements and streetlighting repairs - £0.925m;
- Investment in communities and localities - £0.250m; and
- Others (various) - £0.420m.

Communities and Families

3.32 All savings approved for delivery in 2018/19 are currently assessed as green with the exception of Home to School Transport (£0.4m) and Senior Management Efficiencies (£0.15m) where further development work is required to provide assurance that the savings implementation plans and impact mitigations are suitably robust.

3.33 The approved service budget includes a number of new, or expanded, service initiatives as follows:

- Looked-after children - £1.5m.
- Children with Additional Support Needs - £0.415m.
- Holiday Hunger (being taken forward as School Holiday Challenge) - £0.250m.
- Third sector grants - £0.250m.
- School Clothing Allowance - £0.150m.

3.34 On-going funding of £1.573m has also been provided for the Libraries service.

3.35 While some of these sums will be applied against existing pressures, detailed implementation plans are being developed for the new investment, taking account as appropriate of existing and emerging Scottish Government policies.

3.36 Known or anticipated pressures in the coming year include the level of out-of-council placements, residential care, home-to-school transport and additional required investment in the management of secondary school sports facilities. Mitigating actions to manage these pressures are under development.

Safer and Stronger Communities

3.37 Following Council's rejection of the budget engagement proposal in respect of the Night Noise Team, no additional savings were included in the approved 2018/19 budget motion. The service is, however, continuing to examine opportunities to deliver savings through a re-assessment of the current delivery model for Advice Services, consistent with the provision of both community and locality-based services and continuing availability of independent advice. Existing service delivery arrangements have been extended until 30 September 2018 pending the outcome of this review.

3.38 The approved budget included £1.972m of additional service investment. This investment will be applied in three areas:

- in-year liability for increases in both Local Housing Allowance subsidy and management fee for the Council's Private Sector Leasing contract, critical to the on-going delivery of the temporary accommodation strategy;
- net additional cost of moving to a Shared Housing model, promoting service user independent living skills (a report in this area is included elsewhere on today's agenda); and
- implementation of the recommendations of the Homelessness Taskforce, due to report to the June meeting of the Housing and Economy Committee.

3.39 The service will also require to manage current and anticipated on-going financial impacts of Welfare Reform, particularly the full roll-out of Universal Credit. In future, Safer and Stronger Communities will be presented as part of the reporting arrangements for Communities and Families, given Council's recent decision to transfer leadership responsibility for this function to the Executive Director of Communities and Families.

Change Strategy

3.40 The Council has delivered over £240m of recurring savings since 2012/13, equivalent to around 25% of its net budget. This has allowed the combined financial challenges of increasing demographic-led service demand, inflationary pressures and legislative reform to be addressed whilst steadily improving performance across many areas. It has been widely acknowledged, however, that a “salami-slicing” approach to budgeting, perpetuating doing things in the way that they have always been done, is not sustainable. There is a need to place much greater focus on service transformation and prioritisation, designed using insight from active engagement from citizens, communities and elected members.

3.41 The Council’s Change Strategy has therefore identified three key themes of (i) providing high-quality services at the right level, (ii) moving Edinburgh to a radical preventative agenda and (iii) achieving sustainable inclusive growth, to improve services whilst securing longer-term financial sustainability. In recognising that such a transformational shift can only be achieved over the medium- to longer-term, however, a staged approach will be adopted, with a suite of shorter-term measures identified to provide necessary financial breathing space in 2019/20 to provide the foundation for this more fundamental longer-term change. At this stage, it is anticipated that the overarching strategy, taking due account of Council priorities and commitments, will be presented to the Finance and Resources Committee on 27 September 2018 and members will be kept apprised of progress as the strategy develops.

4. Measures of success

4.1 Relevant measures in setting the revenue budget include:

4.1.1 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 2019/20 and subsequent years to be set as part of a sustainable longer-term framework;

4.1.2 Development of savings and investment options aligned to the Council’s priority outcomes, with due opportunity provided for public consultation and engagement; and

4.1.3 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.

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 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.

6.4 The assumptions underpinning the Council's budget framework are the subject of on-going review, with the results of the most recent such review detailed within this report. There is a risk, however, that these assumptions will understate the overall level of savings required and, on this basis, in 2019/20, it is recommended that potential savings options in excess of this £27.8m baseline assumption be identified.

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, with the main impacts included elsewhere on today's agenda. The Council is also examining the potential to introduce carbon budgeting on a phased basis across its activities.

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 will be undertaken.

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

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

10.4 Revenue Budget Framework 2018/23: Progress Update, Finance and Resources Committee, 8 February 2018

10.5 Coalition Budget Motion 2018/19, City of Edinburgh Council, 22 February 2018

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11. Appendices

None.