

# Notice of meeting and agenda

## Finance and Resources Committee

**10.00am, Tuesday, 7th February, 2023**

Dean of Guild Court Room - City Chambers

This is a public meeting and members of the public are welcome to attend or watch the webcast live on the Council's website.

### Contacts

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## **1. Order of business**

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- 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**

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- 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**

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- 3.1 If any

## **4. Minutes**

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- 4.1 None.

## **5. Forward Planning**

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- 5.1 None.

## **6. Business Bulletin**

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- 6.1 None.

## **7. Executive Decisions**

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| 7.1 | Revenue Budget Framework 2023/27 – progress update – Report by the Interim Executive Director of Corporate Services | 7 - 46   |
| 7.2 | Revenue Budget 2023/24 - Risks and Reserves – Report by the Interim Executive Director of Corporate Services        | 47 - 62  |
| 7.3 | Sustainable Capital Budget Strategy 2023-2033 – Report by the Interim Executive Director of Corporate Services      | 63 - 84  |
| 7.4 | Accounts Commission: Local Government in Scotland – Financial   | 85 - 120 |

Bulletin 2021/22 – Report by the Interim Executive Director of Corporate Services

- |            |   |           |
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| <b>7.5</b> | Accounting for Service Concessions – Report by the Interim Executive Director of Corporate Services             | 121 - 132 |
| <b>7.6</b> | Housing Revenue Account (HRA) Budget Strategy 2023/2024 – 2032/2033 – Report by the Executive Director of Place | 133 - 152 |

## **8. Routine Decisions**

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- 8.1** None.

## **9. Motions**

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- 9.1** None.

### **Nick Smith**

Service Director, Legal and Assurance

## **Committee Members**

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Councillor Mandy Watt (Convener), Councillor Graeme Bruce, Councillor Phil Daggart, Councillor Joan Griffiths, Councillor Euan Hyslop, Councillor Lesley Macinnes, Councillor Alys Mumford, Councillor Vicky Nicolson, Councillor Neil Ross, Councillor Alex Staniforth and Councillor Lewis Younie.

## **Information about the Finance and Resources Committee**

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The Finance and Resources Committee consists of 11 Councillors and is appointed by the City of Edinburgh Council.

This meeting of the Finance and Resources Committee is being held in the City Chambers, High Street, Edinburgh and virtually by Microsoft Teams.

## **Further information**

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If you have any questions about the agenda or meeting arrangements, please contact Rachel Gentleman, Committee Services, City of Edinburgh Council, Business Centre 2.1, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG, Tel 0131 529 4107, email [rachel.gentleman@edinburgh.gov.uk](mailto:rachel.gentleman@edinburgh.gov.uk) / [taylor.ward@edinburgh.gov.uk](mailto:taylor.ward@edinburgh.gov.uk).

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## Finance and Resources Committee

10.00am, Tuesday, 7 February 2023

### Revenue Budget Framework 2023/27 – progress update

Executive/routine Wards Council Commitments	Executive All
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#### 1. Recommendations

- 1.1 Members of the Finance and Resources Committee are recommended to:
  - 1.1.1 note the updates to financial planning assumptions set out within the report, including the provisional outcome of the Local Government Finance Settlement in 2023/24;
  - 1.1.2 note, nonetheless, that even if all officer recommendations are approved, a gap of £3.7m remains in 2023/24, in addition to significant incremental gaps in subsequent years of the framework;
  - 1.1.3 note, in this context, the creation of a formal programme to oversee implementation of change and prioritisation on the scale required and agree, subject to ratification by Council, to provide up to £2m from the Council's Spend to Save Fund, with a further report on the programme's scope, content and governance to be brought to members in April 2023;
  - 1.1.4 note that further updates, including any changes resulting from the Scottish Budget's Parliamentary consideration, will be reported to members as appropriate;
  - 1.1.5 refer the report to Council as part of setting the revenue and capital budgets on 23 February 2023.

**Richard Carr**

Interim Executive Director of Corporate Services

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## Revenue Budget Framework 2023/27 – progress update

### 2. Executive Summary

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- 2.1 The report advises members of the provisional outcome of the 2023/24 Local Government Finance Settlement and the impact of this announcement and other changes in planning assumptions on the Council's incremental savings gaps for 2023/24 and subsequent years. A number of further recommended savings are presented for consideration, albeit leaving a residual gap of £3.7m in 2023/24.

### 3. Background

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- 3.1 Members of the Committee have previously considered a number of update reports on development of the Council's revenue budget for 2023/24 and subsequent years. The most recent of these reports was presented on 10 November 2022 and set out a remaining funding gap, assuming approval of all officer recommendations, of £21.2m in 2023/24 and increasing to £110.1m by 2026/27.

### 4. Main report

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#### Local Government Finance Settlement, 2023/24

- 4.1 On 15 December 2022, the Deputy First Minister presented a draft one-year Scottish Budget and Local Government Finance Settlement (LGFS) to the Scottish Parliament. Following this announcement, the accompanying Finance Circular, providing details of revenue and capital grant funding allocations at local authority level, was then issued on 20 December.
- 4.2 At this stage and consistent with previous years, the figures contained within the Settlement remain provisional, pending the Draft Budget's Parliamentary passage during January and February. As of the time of writing, the Stage One debate, the point at which additional monies have been introduced in some previous years, is scheduled for 2 February, and a verbal update will be provided as appropriate at the Committee's meeting.
- 4.3 The contents of the Finance Circular are also the subject of a consultation process. Any resulting amendments to individual allocations will be contained within the overall quantum of funding within the LGFS and not addressed by the provision of additional funding and, as of the time of writing, a number of changes have already

been advised. Should this process result in any further material change in funding allocation for the Council, an update will be reported to the budget-setting meeting on 23 February.

### **Impact of the provisional LGFS on the budget framework**

- 4.4 Analysis of the Settlement is on-going as additional details are received, with a number of queries raised by the Council and other local authorities thus far. Based on work undertaken to date, however, the provisional level of core revenue funding is slightly more favourable than the “flat cash” position assumed in the report presented to the Finance and Resources Committee on 10 November 2022 as outlined in the following sections.
- 4.5 This comparison takes into account both the headline year-on-year increase in grant funding and a number of new or recurring commitments within this sum, most materially £140m towards the costs of the 2022/23 employee pay award, £100m for uprating hourly pay in commissioned adult social care services to the Living Wage Foundation-recommended rate of £10.90 and £105m for devolution of Non-Domestic Rates Empty Property Relief to councils with effect from April 2023.

### **Revenue grant funding**

- 4.6 Expressed on a like-for-like cash basis, the overall Scotland-wide core revenue budget settlement has increased by some £71m (0.7%) relative to 2022/23. This assessment was revised in late January following confirmation of the reinstatement within the Settlement of funding to support the recurring impact of the 2021/22 teachers’ pay award. The position for Edinburgh is slightly below this average<sup>1</sup>, with a like-for-like level of core funding that has increased by £2.4m (0.3%).
- 4.7 This overall position is, in turn, due primarily to the distributional impacts of a decline in the city’s population, as captured by the 2021 mid-year estimate, in both absolute and relative terms. This reduction in population, a position that was mirrored across all four city authorities, was almost entirely within the 16-24 age group and may be attributable to remote teaching within the city’s higher and further education institutions. At this stage, it is not yet clear whether this will be a permanent phenomenon.
- 4.8 As a result both of these population changes and the introduction of a number of new funding streams (with associated funding commitments) where Edinburgh’s share is higher than that for the Settlement as a whole, the Council will not receive any additional support in 2023/24 through the Scottish Government policy whereby each authority is guaranteed at least 85% of the Scotland-wide per capita average. The loss of funding through this mechanism was partly, but not fully, offset by an increased contribution from the first stability floor.

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<sup>1</sup> While protected by the operation of the stability floor, internal analysis undertaken suggests that Edinburgh’s provisional year-on-year change in core settlement, expressed in percentage terms, is amongst the least favourable in Scotland.

- 4.9 Assuming approval of all the officer recommendations set out within the report to the meeting of the Finance and Resources Committee on 10 November 2022, the provisional level of Settlement would reduce the incremental savings requirement in 2023/24 from £21.2m to £18.8m. In addition, based on the estimated cost of implementation of relevant commitments, the Council has benefited from some distributional funding gains in these areas, reducing the remaining gap by £2.2m to £16.6m.

### **Integration Joint Boards**

- 4.10 As in recent years, the overall Settlement includes funding to be passed through to Integration Joint Boards (IJBs). The level of this additional funding is, however, much lower than in 2022/23, with no unhypothecated (i.e. general purpose) funding to address demand-led pressures. In total, an additional £95m of Scotland-wide funding is included, comprising £100m for an increase in the adult social care living wage in commissioned services as noted in Paragraph 4.5 and £15m for an inflation-related uplift for free personal and nursing care, offset by the removal of £20m of one-off funding for interim care provided as part of last year's Settlement.
- 4.11 Edinburgh's estimated share of these net sums is £8.9m<sup>2</sup> and, as in previous years, this funding will be passed on in full to the Edinburgh Integration Joint Board (EIJB). The implications of the proposed offers from the funding partners will be considered by the EIJB Chief Finance Officer and a further update provided to members in February.

### **Non-Domestic Rates**

- 4.12 The Deputy First Minister has confirmed that the Non-Domestic Rate poundage for 2023/24 will be unchanged from that in 2022/23, resulting in a slight saving relative to current planning assumptions. This saving will, however, largely be offset by the bringing into scope of some local authority-owned playing fields and parks with effect from April 2023.
- 4.13 The Settlement also confirmed the full devolution of Empty Property Relief (EPR) to local authorities with effect from April 2023. Edinburgh will therefore receive some £16.0m of Scotland-wide funding of £105m, based on current categories and volumes of relief.
- 4.14 As has been noted in previous reports to the Committee, all non-domestic properties have been subject to a revaluation, effective from April 2023. Draft revaluations have now been published and detailed analysis is on-going to assess how these changes compare to the additional level of provision included within the revenue budget framework. At this stage, however, provision has been retained for an additional recurring liability of £4m based on estimates of the overall impact of the revaluation on the Council's property estate.

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<sup>2</sup> This total includes a small element for commissioned homelessness services.



- 4.15 Consistent with the scaling down of COVID-related support in 2022/23, no specific relief will be provided to hospitality and leisure-related premises in 2023/24.

### **Council Tax**

- 4.16 The Deputy First Minister's announcement confirmed that councils will have full flexibility in setting Council Tax rates appropriate to their local area.
- 4.17 The budget framework currently assumes an increase of 3% across all bands in 2023/24, with each additional 1% generating a further £3.3m.

### **Funding flexibilities**

- 4.18 The Deputy First Minister's budget statement noted the availability of the previously confirmed service concession financial flexibility. The budget framework assumes application of the retrospective benefit of adopting this flexibility over a period of five years from 2023/24, with a detailed report included elsewhere on today's agenda.
- 4.19 In recognition of the unfunded element of employee pay awards and wider financial pressures, the Deputy First Minister reiterated a commitment to examine ringfenced and other directed funding as part of a wider partnership agreement between Local and Scottish Government. Local authorities will therefore be invited, through COSLA, to examine potential means of aligning spending more closely to jointly agreed outcomes and removing barriers which hinder flexibility in funding.

### **Public Sector Pay Policy (PSP)**

- 4.20 While not directly applicable to local government, recent years' PSPs have served as an initial yardstick in pay negotiations. The Scottish Government has, however, chosen not to announce pay uplifts, or publish a pay policy, for 2023/24. Further guidance on 2023/24 pay will be shared in the new year.
- 4.21 Members are reminded that the budget framework currently includes pay award provision equal to an average of 3% across the teaching and non-teaching workforces, with each additional 1% equating to expenditure of £6.7m<sup>3</sup> in 2023/24.

### **Other changes to budget framework assumptions**

- 4.22 The report to the Committee's meeting on 10 November 2022 apprised members of a number of changes to financial planning assumptions, with the resulting current assumptions summarised in Appendix 1. In addition to incorporating the provisional outcome of the LGFS, a number of further adjustments to the budget framework, summarised in Appendix 2, are proposed at this time as outlined in the following sections.

### **Under 22s tram concession – unutilised funding, 2022/23**

- 4.23 As noted in the current-year revenue monitoring report considered at the Committee's previous meeting on 26 January, it is anticipated that the remaining

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<sup>3</sup> This sum reflects the compounding impact of the agreement (for non-teaching staff) and latest pay offer (for teachers) in 2022/23.

element of the £0.500m of investment to support the expansion of younger persons' free travel included in the 2021/22 budget motion will be sufficient to address, in full, the resulting loss of income in 2022/23. On this basis, the £2m contribution approved to support the policy as part of the agreed 2022/23 budget motion is available to contribute, on a one-off basis, towards addressing the 2023/24 budget gap.

#### **Non-Domestic Rates revaluation – estimated transitional relief**

- 4.24 As noted in Paragraph 4.14, it is anticipated that the revaluation of non-domestic properties with effect from April 2023 will result in an overall recurring annual increase in liability of around £4m, with this sum already assumed within the overall savings requirement. The Deputy First Minister's announcement also confirmed that Revaluation Transitional Relief would be available on a tiered basis to protect those, including public sector bodies, most affected by the revaluation, the effect of which is to phase in significant increases in liability over up to a four-year period. On this basis, while analysis of likely entitlement is continuing as relevant details are received, £1.0m of transitional relief is assumed in 2023/24, with the level of this relief reducing in accordance with the tapered nature of the scheme in subsequent years.

#### **Devolution of Empty Property Relief (EPR)**

- 4.25 The Council's provisional settlement for 2023/24 includes £16.0m of funding to reflect the full devolving of Non-Domestic Rates EPR to local authority control with effect from 1 April 2023 but with the current value of reliefs granted being around £15m. Given the freezing of the NDR poundage in 2023/24 and the officer recommendation not to make any changes to existing reliefs pending further work and consultation to review the position for 2024/25, a saving of £1.0m, reducing in future years in line with the increase in the NDR poundage, is being assumed.
- 4.26 It is important to emphasise that delivery of this saving is dependent upon the impact of the wider revaluation as it affects empty properties and updates will be provided to members as clarification is received in this area.

#### **Millerhill Recycling and Energy Recovery Centre**

- 4.27 The Council is entitled to a share of the net income generated by the facility under a heat off-take agreement. Following a reassessment of the likely level of this income in light of wider trends in energy prices, it is proposed to increase the assumption of the receipt of £2.0m of income to £2.5m over each of the four years of the framework.

#### **Additional savings proposals**

- 4.28 Even if the additional grant funding income relative to previous assumptions and all of the planning changes outlined in the preceding sections<sup>4</sup> are added to those

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<sup>4</sup> The residual funding gap also reflects the rephrasing of some of the savings included in the report to the Committee on 10 November 2022.

measures included in the report to the Committee's previous meeting on 10 November 2022, a gap of £12.6m remains in 2023/24. Given this position, officers have continued to consider opportunities to deliver further savings, such that a balanced position can be achieved as is required by statute. These savings proposals and measures from officers are summarised in Appendix 3. The appendix provides further details of a number of savings initially included in the previous 10 November 2022 report, as well as those newly included in this report, along with details on supporting Integrated Impact Assessments undertaken or proposed.

- 4.29 While the focus in the first instance needs to be on balancing the position for 2023/24, members have, in Executive Committee discussions, also previously requested consideration of a community bus-related investment proposal as part of the budget process. Relevant details of this investment are included in Appendix 4.
- 4.30 Following a motion proposed by Cllr Staniforth, members of Council also agreed on 22 September 2022 to consider roll-out of the provision of sanitary bins to all toilet cubicles across the Council estate. The estimated annual cost of this provision is around £30,000. Provision for these costs is not currently included in the budget framework.
- 4.31 Following a motion proposed by Cllr Parker, members of the Policy and Sustainability Committee also requested a briefing note on staffing capacity within the Council's Climate and Sustainability team. Additional time-limited funding was provided to supplement this team in the 2021/22 and 2022/23 revenue budget framework but is not included going forward. The associated cost of the additional capacity in 2023/24 set out in the briefing note is £0.279m.

### **HR and Payroll system**

- 4.32 On 10 November 2022, members of the Committee noted the outcome of the Request for Proposal (RFP) for replacement of the Council's HR and Payroll system and approved mobilising the prerequisite work, insofar as is possible, prior to awarding the contract to the recommended vendor. Given both the level of investment required and the increasing budget gap in 2023/24 and subsequent years, a decision on this latter approval was deferred for consideration as part of the overall budget-setting process.
- 4.33 An update to be reported separately to members will provide further details of the related financial requirements of the preferred bid. While approval of this proposal would not result in any additional funding requirement in 2023/24, it would give rise to liabilities beyond those assumed in the budget framework in 2024/25 and subsequent years.

### **Overall position**

- 4.34 Approval and full delivery of all of the proposed savings in this report and those outlined in the previous report to the Committee's meeting on 10 November 2022

would result in a residual funding gap of £3.7m in 2023/24, increasing to £39.5m in 2024/25 and £91.8m by 2026/27.

- 4.35 These sums do not include any additional financial liabilities resulting from the HR and Payroll system implementation with effect from 2024/25 pending approval by Council. In addition, no account is being taken of any additional costs arising from the granting of a one-off public holiday in May 2023 to mark the Coronation of King Charles III pending Council's decision on this matter on 9 February.
- 4.36 The Council has a statutory duty to set a balanced budget for the coming financial year by 11 March. Further proposals to increase income or reduce expenditure (or a combination of both) therefore require to be identified as a matter of urgency.
- 4.37 Given the removal of restrictions on the level of Council Tax increase that may be applied, one option would be to increase Council Tax by an additional 1.2% over the 3% baseline assumption which, assuming no impact on collection rates, would generate an additional £4.0m of income.

### **Medium-Term Financial Plan Change Programme**

- 4.38 While the savings measures identified for 2023/24 would address most of the overall financial gap, it is acknowledged that the majority of these proposals are operational and tactical in nature. Given the extent of future years' savings requirements and wider environmental factors, it is imperative that planning of a longer period of strategic change be initiated immediately given the required lead-in times for detailed programme development and implementation.
- 4.39 Development of the Council's Medium-Term Financial Plan (MTFP) will place a greater emphasis on strategic and cross-cutting proposals, informed by the priorities included within the Business Plan, as a means of improving outcomes and ensuring continuing financial sustainability. The plan also highlights the importance of the Council's services becoming more technologically enabled and digitally delivered, with a reorientation of work to focus, where appropriate, on more preventative practices.
- 4.40 To support this process, the establishment of a formal change programme is underway, using existing staff wherever practicable. The precise content of this prioritised programme will be subject to annual review but with an indicative Year 1 focus on the Social Care Operating Model, Inclusion Services and HR/Pay Core System and other efficiency initiatives. Some of these will be jointly delivered with the EIJB.
- 4.41 Any additional costs incurred in 2022/23 will be contained within the forecast balanced position for the Council as a whole. It is proposed that relevant costs of up to £2m in 2023/24 be met in full, subject to ratification by Council, from the Spend to Save Fund, with subsequent repayment of these sums through savings generated. An update will be brought to members in April setting out further information about the scope, content and governance of the programme.

4.42 As part of the prioritised work programme, scoping work is underway to refresh fully the business case for replacement of the SWIFT social work case management system used by both Education and Children’s Services and Health and Social Care. It is anticipated that this work will take several months, with a report to the Finance and Resources Committee on costs and associated savings then presented in the autumn. The Council will also need to consider the provision of adequate resources to ensure the necessary investment in technology takes place in core systems to allow these to remain up to date and reflect changing requirements.

### **Edinburgh Integration Joint Board (EIJB)**

4.43 Parallel work on development of the EIJB’s budget for 2023/24 is also underway, with one workshop held thus far with Board members. This meeting provided an update on the impact of the Scottish Budget on the Board’s financial planning assumptions, as well as considering emerging savings opportunities. While the previous receipt of significant additional COVID-related funding has allowed the Chief Finance Officer to provide moderate assurance that a balanced position will be achieved in 2022/23, due to a combination of unfunded demographic growth, unfunded Living Wage contract uplifts and previous one-off funding from NHS Lothian, a significant structural deficit is being carried into 2023/24.

4.44 The Council will pass through Edinburgh’s share of all of the funding streams highlighted in Paragraph 4.5. In contrast to 2022/23, the grant settlement for Council-delegated services in 2023/24 provides no uncommitted funding, exacerbating existing challenges and meaning that a structured and prioritised savings programme will be required to achieve financial balance on a sustainable basis going forward.

### **Risks**

4.45 There remain a number of risks to the assumptions set out within this report, including, but not limited to, the following:

- (i) further pressures may emerge in demand-led services, particularly homelessness services<sup>5</sup>, with additional certainty also required concerning the on-going adequacy of funding available to support the Council’s Ukraine response;
- (ii) the allocations contained within the Scottish Budget and Finance Circular remain provisional, pending Parliamentary approval expected towards the end of February and thus may change;

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<sup>5</sup> The Council’s specific funding allocation for homelessness services fell by £1.6m due to changes in the distribution methodology for the Homelessness Prevention Fund in 2023/24.

- (iii) provision for employee pay awards<sup>6</sup> and contract uplifts (where 3% is assumed for each across period of budget framework), as well as wider inflationary pressures<sup>7</sup>, may be insufficient;
- (iv) the impact of construction inflation and increasing interest rates may affect the affordability of the revised capital programme, with a consequent need to reassess and reprioritise its composition;
- (v) the EIJB may not be able to set and deliver a balanced budget; and
- (vi) further savings options necessary to address remaining funding gaps in 2023/24 and subsequent years may not be identified and/or delivered within required timescales.

4.46 Further commentary on these and other risks is included in the Risks and Reserves report elsewhere on today's agenda.

## 5. Next Steps

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5.1 Following consideration by the Committee, the report will be referred to Council for decision as part of the budget-setting process. Given that the Council's grant funding allocation for 2023/24 remains provisional until approval of the Local Government Finance Order in late February, members will be kept apprised of changes to this or any of the other key assumptions underpinning the analysis presented, as well as any further savings options identified to address the remaining funding gap.

## 6. Financial impact

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- 6.1 The Council continues to face significant financial pressures resulting from increased demand for services, inflation and legislative reform, as well as the continuing financial impacts of the pandemic. These factors are set against a backdrop of core grant funding (accounting for around three quarters of the Council's overall income) that is not increasing.
- 6.2 While the report sets out a number of further potential measures towards achieving a balanced budget in 2023/24, significant funding gaps remain in future years, emphasising the need for the urgent initiation of a programme of change, aligned to the priorities set out within the Council's business plan.
- 6.3 The position set out in the report also assumes robust management of all service pressures and full delivery of approved savings. Given the increased emphasis on service-specific savings relative to previous years, this process will require to be closely monitored, with a focus on taking swift remedial action where required. Relevant Directors have also been asked to develop detailed plans for full mitigation

<sup>6</sup> The SJC (non-teaching) claim for 2023/24 has recently been submitted by the representative trade unions and is for an increase of 12% or £4,000, whichever is greater

<sup>7</sup> A general additional inflationary provision of £5m has also been incorporated within the budget framework, with an indicative allocation of this sum provided to relevant services.

of pressures for consideration by the Council Leadership Team before the beginning of the financial year.

## **7. Stakeholder/Community Impact**

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- 7.1 Given the extent of activity undertaken in recent years to inform the Council's priorities, no direct additional consultation or engagement has been undertaken as part of the 2023/24 budget development process. The Council will, however, set out – based on integrated impact assessments – what consultation will be necessary and when this will take place following the financial decisions taken by Council on 23 February 2023.
- 7.2 In addition to the publication of all relevant Integrated Impact Assessments (IIAs), a cumulative assessment will be presented to the budget-setting meeting of Council on 23 February 2023 to ensure members pay due regard to their duties in this area.

## **8. Background reading/external references**

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- 8.1 [Finance Update](#), Edinburgh Integration Joint Board, 13 December 2022
- 8.2 [Revenue Budget Update 2023/27: Progress Update](#), Finance and Resources Committee, 10 November 2022
- 8.3 [Revenue Budget Update 2023/27: Progress Update](#), Finance and Resources Committee, 8 September 2022
- 8.4 [Revenue Budget Framework 2022/27: progress update](#), Finance and Resources Committee, 16 June 2022
- 8.5 [Revenue Budget Update 2022/23 – Update](#), Finance and Resources Committee, 3 March 2022
- 8.6 [Coalition Budget Motion 2022/23](#), The City of Edinburgh Council, 24 February 2022

## **9. Appendices**

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- 9.1 Appendix 1 - Key assumptions within the budget framework, 2023/24 to 2026/27
- 9.1 Appendix 2 - Changes to Revenue Budget Framework, 2023/24 to 2026/27
- 9.2 Appendix 3 - Templates for 2023/24 officer savings proposals assumed in budget framework
- 9.3 Appendix 4 - Template for 2023/24 investment proposal requested by elected members

## Key assumptions within the budget framework, 2023/24 to 2026/27

	Note	2023/24	2024/25	2025/26	2026/27
Staff pay award (all staff; average provision)		3%	3%	3%	3%
Contract inflation (general)	1	3%	3%	3%	3%
Contract inflation (PPP contracts)	2	5-8%	3%	3%	3%
Electricity (tariff increase)	3	53%	17%	3%	3%
Gas (tariff increase)	3	8%	7%	3%	3%
Non-Domestic Rates poundage	4	0%	2.5%	2.5%	2.5%
COVID-related service impacts - total provision	5	£11m	£9m	£9m	£9m
Demographic provision	6	£3.9m	£3.9m	£3.9m	£3.9m
Additional gross homelessness provision relative to approved 2020/21 budget before mitigations		£33.7m	£33.7m	£33.7m	£33.7m
Council Tax (rate)		3%	3%	3%	3%
Council Tax (buoyancy)		0.75%	0.75%	0.75%	0.75%
Government grant core funding year-on-year change	7	0.30%	0%	0%	0%
Discretionary fees and charges (average)		5%	5%	5%	5%

**Note 1** - in recognition of the exceptional impact of successive years' inflation on the Council's revenue budget, the framework includes an additional £5m provision, baselined from 2023/24. This sum is notionally allocated to (i) anticipated pressures in costs of fuel, (ii) additional sums payable in respect of the Millerhill gate fee and the Council's NSL parking enforcement contract and (iii) a range of uplifts due on Education and Children's Services fees and contracts.

**Note 2** - the level of uplift applicable to the Council's PPP contracts is the Retail Price Index (RPI) rate in February of the preceding financial year. The actual level of uplift applied, however, is tempered by application of the relevant "constraining factor".

**Note 3** - level of provision is based on Scottish Procurement Utilities Guidance, taking into account wholesale prices and pre-purchased volumes. While there is a risk, in particular, around the level of uplift applicable to the gas contract in 2023/24, this is anticipated to be offset by continuation of savings relative to previous estimates in the current year.

**Note 4** - the provisional poundage for 2023/24 has been frozen at 2022/23 levels.

**Note 5** - the sum for 2023/24 comprises £6m for loss of the Lothian Buses dividend, up to £3m for loss of parking income and up to £2m for additional support for Edinburgh Leisure. These sums are £6m, £2m and £1m respectively in subsequent years of the framework.

**Note 6** - the sum shown comprises £3.6m for Education and Children's Services, of which some £2.3m is assumed to be directed to schools to reflect changes in pupil numbers, and £0.3m to Place to reflect the impact of increasing household numbers on waste collection and recycling costs.

**Note 7** - the level of change shown for 2023/24 is based on Edinburgh's allocation as part of the provisional Local Government Finance Settlement. Subsequent years' allocations are based on Local Government-wide planning allocations included within the Scottish Government's Resource Spending Review published in May 2022.



<b>Changes to Revenue Budget Framework, 2023/24 to 2026/27</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Updated gap as reported to Finance and Resources Committee on 10 November, 2022 assuming approval of all officer proposals	<b>21.2</b>	<b>56.9</b>	<b>86.1</b>	<b>110.1</b>
<b>Changes in profiling/quantity of savings assumed in above report:</b>				
Learning Support/ASL and Special Schools	0.5	0.5	0.5	0.5
Education Welfare Officers	0.0	(0.2)	(0.2)	(0.2)
Review of contracted spend to ensure efficiency with partners to remove areas of duplication	0.0	(0.2)	(0.2)	(0.2)
Provisional additional core grant funding per Local Government Finance Settlement, 2023/24	(2.4)	(2.4)	(2.4)	(2.4)
Other Settlement distributional gains	(2.2)	(2.2)	(2.2)	(2.2)
<b>Changes to budget framework assumptions:</b>				
Under 22s tram concessions - application of unused 2022/23 funding	(2.0)	0.0	0.0	0.0
NDR revaluation - estimated transitional relief	(1.0)	(0.7)	(0.3)	0.0
Devolution of Empty Property Relief - initial excess of funding over liabilities	(1.0)	(0.5)	0.0	0.0
Millerhill - additional income	(0.5)	(0.5)	(0.5)	(0.5)
<b>Updated position, including updates to framework assumptions</b>	<b>12.6</b>	<b>50.8</b>	<b>80.8</b>	<b>105.1</b>
<b>Additional savings proposals recommended by officers:</b>				
Reduction in requirement for temporary accommodation	(2.3)	(3.5)	(3.5)	(3.5)
Review of Devolved School Management (DSM) allocations	(5.6)	(5.3)	(5.3)	(5.3)
Review of Alignment of Inclusion and Support	0.0	(1.5)	(2.5)	(3.5)
Income Recovery in Regulatory Services and Planning and Building Standards	(0.5)	(0.5)	(0.5)	(0.5)
Organisational Reviews - Place	(0.5)	(0.5)	(0.5)	(0.5)
<b>Updated gap if all officer recommendations accepted, 7 February 2023</b>	<b>3.7</b>	<b>39.5</b>	<b>68.5</b>	<b>91.8</b>

Appendix 3 - Templates for 2023/24 savings proposals assumed in budget framework

	2023/24	2024/25	2025/26	2026/27	Template reference	Interim IIA or statement
	£000	£000	£000	£000		
<b>Updated gap prior to application of mitigations reported to Finance and Resources Committee, 10 November 2022</b>	76,500	105,200	131,600	158,600		
Corporate mitigations	(34,400)	(27,400)	(25,400)	(25,400)	n/a	n/a
<b>Revised gap after corporate mitigations</b>	<b>42,100</b>	<b>77,800</b>	<b>106,200</b>	<b>133,200</b>		
<b>Factors reflecting decisions previously approved by members:</b>						
Roads Construction Consent Inspections (approved at Transport and Environment Committee, 18 August 2022)	(400)	(400)	(400)	(400)	n/a; decision previously taken	n/a
Strategic Review of Parking (approved at Transport and Environment Committee, 18 August 2022)	(2,000)	(3,000)	(3,000)	(3,000)	n/a; decision previously taken	n/a
Homelessness - No Recourse to Public Funds (approved at Housing, Homelessness and Fair Work Committee, 29 September 2022)	(3,000)	(3,000)	(3,000)	(3,000)	n/a; decision previously taken	n/a
<b>Factors reflecting officer recommendations to members:</b>						
Tram Concessionary Travel	(3,000)	(3,500)	(3,500)	(3,500)	PL1	Interim IIA
Edinburgh Cycle Hire Scheme	(500)	(500)	(210)	0	PL2	Statement
Education Recovery funding - application of one-off residual balance	(2,500)	0	0	0	n/a	n/a
Instrumental Music Service - unallocated Scottish Government funding	(200)	(200)	(200)	(200)	n/a	n/a
Education additional funding	(1,600)	(1,600)	(1,600)	(1,600)	Part of ECS6	IIA (as part of wider review)
Schools Digital Learning - anticipated Scottish Government funding	0	0	0	(2,000)	n/a	n/a
Property rationalisation and income	(500)	(1,000)	(1,000)	(1,000)	PL3	Statement
Garden waste income - consolidation	(400)	(400)	(400)	(400)	n/a	Statement
Bus lane camera income - consolidation	(600)	(600)	(600)	(600)	n/a	Statement
Other adjustments	(500)	(800)	(350)	(1,550)	n/a	n/a
<b>Revised gap after factors reflecting decisions previously approved by, or recommended to, members:</b>	<b>26,900</b>	<b>62,800</b>	<b>91,940</b>	<b>115,950</b>		

<b>Savings included in report to Finance and Resources Committee, 10 November 2022</b>						
<b>Corporate Services Directorate</b>						
Customer - Promotion of Online Services and Automation	(165)	(165)	(165)	(165)	CS1	Statement
Corporate Services - Vacancy and Turnover Management	(1,173)	(1,173)	(1,173)	(1,173)	CS2	Statement
Corporate Services - Senior Manager Savings	(223)	(223)	(223)	(223)	CS3	Statement
Salary Sacrifice Income	(225)	(225)	(225)	(225)	CS4	Statement
<b>Education and Children's Services Directorate</b>						
Learning Support/ASL and Special Schools:	(500)	(500)	(500)	(500)	n/a (see note below)	n/a
- Education Welfare Officers	(400)	(600)	(600)	(600)	ECS1; full-year effect included in 2024/25	IIA to be prepared
Speech and Language Therapy	(850)	(850)	(850)	(850)	ECS2	IIA to be prepared
Multi Systemic Therapy Service	(500)	(500)	(500)	(500)	ECS3	Statement
Wellington Monies	(340)	(500)	(500)	(500)	ECS4	Wider Inclusion IIA to be prepared
Review of contracted spend to ensure efficiency with partners and to remove areas of duplication	(904)	(1,110)	(1,110)	(1,110)	ECS5	Overarching Interim IIA prepared, with IIA to be considered for each proposal
<b>Place Directorate</b>						
Taxicard	(120)	(150)	(150)	(150)	PL4	Interim IIA
One-off increase in income and reduction in funding for events and cultural grants	(250)	(250)	(250)	(250)	PL5	Interim IIA
<b>Total savings considered by Committee on 10 November, including any revised profiling</b>	<b>(5,650)</b>	<b>(6,246)</b>	<b>(6,246)</b>	<b>(6,246)</b>		
Reversal of Learning Support/ASL and Special Schools	500	500	500	500	Learning Support/ASL and Special Schools element reprofiled	n/a
<b>Remaining gap assuming approval of all officer recommendations, 10 November 2022</b>	<b>21,750</b>	<b>57,054</b>	<b>86,194</b>	<b>110,204</b>		
Provisional impact of Local Government Finance Settlement and other distributional gains	(4,600)	(4,600)	(4,600)	(4,600)		
Changes to other framework assumptions (see Appendix 2)	(4,500)	(1,700)	(800)	(500)		

<b>Additional savings proposals per report to Finance and Resources Committee, 7 February 2023:</b>						
Homelessness - Reduction in demand for temporary accommodation	(2,325)	(3,450)	(3,450)	(3,450)	PL6	Interim IIA
Review of Devolved School Management (DSM) allocations	(5,550)	(5,300)	(5,300)	(5,300)	ECS6	IIA to be prepared
Review and Alignment of Inclusion and Support	0	(1,500)	(2,500)	(3,500)	ECS7	Statement pending IIA for proposal development
Income Recovery in Regulatory Services and Planning and Building Standards	(500)	(500)	(500)	(500)	PL7	Statement
Organisational Reviews - Place	(530)	(530)	(530)	(530)	PL8	Statement (IIAs for each review)
<b>Remaining gap assuming approval of all officer recommendations</b>	<b>3,745</b>	<b>39,474</b>	<b>68,514</b>	<b>91,824</b>		

NB Yellow-highlighted cells indicate full-year effect of, or other change from, November savings.

### Revenue Savings Proposals 2023/24

Proposal reference number	PL1
Proposal description	Tram Concessionary Travel
Service Director	Paul Lawrence
Service Manager with responsibility for proposal development and delivery	Hannah Ross
Division	n/a

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	3.000	0.500	0.000	0.000	0.000
Cumulative Savings	3.000	3.500	3.500	3.500	3.500

<p>Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)</p> <p>On 6 October 2022, Transport and Environment Committee considered a report on the Scottish Government's scheme for free bus travel for older people and young people (under 22) and noted that this scheme does not include concessionary travel on trams. At present the Council is supporting free travel for older people on Edinburgh Trams and has agreed to meet the cost of concessionary travel for young people (under 22) on Edinburgh Trams until 31 March 2023.</p> <p>Transport and Environment Committee did not approve the proposal to cease the scheme of free travel for young people on Edinburgh Trams after 31 March 2023 but to consider this as part of the budget-setting process.</p>
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<p>Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.</p>
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<p>The Scottish Government is currently preparing a Fair Fares Review, which will look at concessionary travel on public transport across Scotland. The current concessionary schemes for older people and young people only apply to bus travel, with the City of Edinburgh Council meeting the cost of a similar scheme on Edinburgh Trams. The cost of a similar scheme for young people up to 31 March 2023 (subject to approval of the use of Council reserves) is expected to cost £0.3m. Council officers will work closely with the Scottish Government on the Fair Fares Review. Officers will also work closely with Edinburgh Trams to develop a communications plan to begin immediately after the budget decision to ensure that residents are aware of any approved changes to the scheme.</p>
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<p>Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.</p>
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<p>The proposed Revenue Budget Framework for 2022/23 which was considered by the Finance and Resources Committee on 3 February 2022 and the Council on 24 February 2022 noted that an increase of £1.0m in 2023/24 and thereafter £1.5m was expected to be required for concessionary fares for young people on the opening of the tram line to Newhaven.</p>
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<p>Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)</p>
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<p>An Integrated Impact Assessment has been completed for this proposal.</p>
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Current Budget (£m)	0.500	Proposed Budget Saving (£m)	0.500
Current FTE	0.0	Proposed FTE Reduction	N/A

### Revenue Savings Proposals 2023/24

Proposal reference number	PL2
Proposal description	Edinburgh Cycle Hire Scheme
Service Director	Peter Watton
Service Manager with responsibility for proposal development and delivery	Daisy Narayanan
Division	Sustainable Development

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.500	0.000	-0.290	-0.210	0.000
Cumulative Savings	0.500	0.500	0.210	0.000	0.000

<p>Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)</p> <p>On 27 May 2021, the Council approved investment of £2.3m over the course of four years from 2021/22 to meet the cost of an Edinburgh Bike Hire Scheme. However, in September 2021, the previous scheme ended and therefore Transport and Environment Committee agreed to investigate options for future delivery and to support local community initiatives in the short term (a report on the options is due to be considered by Transport and Environment Committee on 2 February 2023).</p> <p>However, recognising the current financial challenges facing the Council, it is proposed not to proceed with implementing any future options for a cycle hire scheme for the city and to release the funding set aside for this purpose.</p>
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<p>Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.</p>
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<p>There are no confirmed plans for implementing a cycle hire scheme in the future and there are no agreements in place for future funding of community schemes.</p>
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<p>Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.</p>
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<p>Transport and Environment Committee agreed objectives for a future cycle hire scheme which supported the delivery of the Council's City Mobility Plan, particularly in integrating active travel plans with wider public transport provision and seeking to increase cycling participation amongst low participation groups.</p>
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<p>Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)</p>
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<p>At this stage, there are considered to be no detrimental impacts arising from this proposal as there is no currently a scheme in place.</p>
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Current Budget (£m)	0.500	Proposed Budget Saving (£m)	0.500
Current FTE	0.0	Proposed FTE Reduction	N/A

### Revenue Savings Proposals 2023/24

Proposal reference number	PL3
Proposal description	Property rationalisation and income
Service Director	Peter Watton
Service Manager with responsibility for proposal development and delivery	Crawford McGhie, Graeme McGartland
Division	Sustainable Development

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.500	0.500	0.000	0.000	0.000
Cumulative Savings	0.500	1.000	1.000	1.000	1.000

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)

The proposal seeks to release property costs from a number of surplus properties through either their disposal, community asset transfer and/or entering into leasing arrangements whereby additional income will be created. For example, Westfield House and Portlee Resource Centre are already vacated and Portobello Town Hall transferred to the local community. Lease proposals at the former Drumbrae Care Home and the future lease of parts of Waverley Court are expected to generate additional income and cut costs.

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.

All proposals will be delivered through Business as Usual activity via Strategic Asset Management and Estates Services.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.

None

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)

Any reduction in the size of the estates will contribute to the Council's carbon reduction targets for 2030.

Current Budget (£m)	107.308	Proposed Budget Saving (£m)	0.500
Current FTE	N/A	Proposed FTE Reduction	N/A

### Revenue Savings Proposals 2023/24

Proposal reference number	CS1
Proposal description	Customer - Promotion of Online Services and Automation
Service Director	Nicola Harvey
Service Manager with responsibility for proposal development and delivery	Neil Jamieson
Division	Customer

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.165	0.000	0.000	0.000	0.000
Cumulative Savings	0.165	0.165	0.165	0.165	0.165

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)

Customer activities continue to be influenced by ongoing channel shift, self-service and automation. Saving initiatives include:

- Promoting Council Tax and Benefit online services and e-billing to reduce print and processing costs;
- Channel shift agenda and self-service e.g. online-only payment channels;
- Organisational review in support function to streamline service function - headcount reduction;
- Progressing webchat and chatbot capability and rationalising contact numbers, underpinned by knowledge base, better to flex resource capacity;
- Progressing online form capacity (driving benefit in service budgets);
- Reducing cost of translation services; and
- Utilising two-tier Sheriff Officer contract to drive Council Tax collection.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.

Recognition that some service changes may reduce customer choice. Initiatives will be designed/promoted to provide an accessible service model and align with service transformation plans (e.g. Smart City and 20-minute Neighbourhood) and wider strategic goals (e.g. ending poverty, addressing digital exclusion and promoting service inclusion).

Potential equalities and human rights and carbon, climate change adaptation and sustainable development

Council Tax online accounts/automation/online forms - to deliver significant savings may have to consider online by default/service accessibility considerations.

Minor organisation changes and team alignment - consideration of existing spans of control and welfare of team.

Current Budget (£m)	20.065	Proposed Budget Saving (£m)	0.165
Current FTE	541.5	Proposed FTE Reduction	6.0

Initial focus will be on maximisation of online services to reduce postage and printing costs. It is envisaged that any FTE savings will be delivered through vacancy management and reduction in agency expenditure.



### Revenue Savings Proposals 2023/24

Proposal reference number	CS2
Proposal description	Corporate Services - Vacancy and Turnover Management
Service Director	Richard Carr
Service Manager with responsibility for proposal development and delivery	Hugh Dunn, Nicola Harvey, Nick Smith, Gillie Severin, Mike Pinkerton
Division	All Divisions within Corporate Services

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	1.173	0.000	0.000	0.000	0.000
Cumulative Savings	1.173	1.173	1.173	1.173	1.173

<p>Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)</p> <p>Corporate Services' employee budget is £51.9m, after taking account of employee budgets which are fully recovered from non-General Fund and other external income sources. A 3% employee turnover target is £1.557m. Taking account of existing employee budget turnover targets of £0.386m, the Directorate will increase the turnover factor in its staffing budget to 3% to deliver an additional annual saving of £1.173m from employee turnover. As vacancies occur, managers will need to review whether posts need to be filled and if so, whether this needs to happen immediately, or if the functions can be discharged in another more cost-effective way, if indeed they are still required. If the conclusion is that a vacancy does need to be filled, then the full range of options for doing this will need to be considered, including converting full-time roles to part-time, the recruitment of apprentices and any other options. Where a role is likely to be impacted by the planned implementation of technology, it may be appropriate to recruit on a temporary or fixed-term basis.</p>
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<p>Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.</p> <p>There are two main implementation requirements. The first is the delivery of a programme to explain to managers what is required and why. This will be delivered during the current year given the approach is being rolled out across the Directorate during 2022/23. The second is a system of budget monitoring which enables spend against the Directorate's staffing budget to be reviewed by CSMT each month. In parallel it will be important to monitor spend on agency and overtime to ensure the delivery of the vacancy factor does not impact adversely on these two areas of expenditure. The savings target will be tracked against implementation plans, with monthly updates to Service Management Teams and with exceptions being reported to CSMT.</p>
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<p>Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.</p> <p>Failing to appoint into vacant posts may adversely impact various projects across the Council, which service staff currently support.</p>
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<p>Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)</p> <p>The proposals are not envisaged to lead to any negative impacts.</p>
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Current Budget (£m) (net of recoveries)	51.889	Proposed Budget Saving (£m)	1.173
Current FTE	1,410.5	Proposed FTE Reduction	40.0
<p>This proposal will increase the vacancy factor to 3% across the Directorate. This proposal has been initiated in the current financial year and broadly reflects the current level of vacancy performance.</p>			

### Revenue Savings Proposals 2023/24

Proposal reference number	CS3
Proposal description	Corporate Services - Senior Manager savings
Service Director	Richard Carr
Service Manager with responsibility for proposal development and delivery	Richard Carr and Nicola Harvey
Division	Customer/Strategy and Communications

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.223	0.000	0.000	0.000	0.000
Cumulative Savings	0.223	0.223	0.223	0.223	0.223

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)
Customer - a review of the Business Support model has taken place annually since 2016, with £11.5m of savings realised. A revised structure has allowed a senior management post to be deleted and a voluntary redundancy application accepted by the Council. Strategy and Communications - a senior manager has left the Council and the post will not be recruited to.

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.
Both senior managers left the Council during 2022/23 and neither post will be recruited to. The savings proposal has been fully implemented and the savings achieved.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.
The loss of skills and experience has been managed by transfer of knowledge within each service.

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)
Non-filling of these two posts has not led to any negative outcomes for equalities, human rights, carbon, climate change adaptation and sustainable development impacts.

Current Budget (£m)	0.223	Proposed Budget Saving (£m)	0.223
Current FTE	2.0	Proposed FTE Reduction	2.0
These roles are already vacated.			

### Revenue Savings Proposals 2023/24

Proposal reference number	CS4
Proposal description	Salary Sacrifice income
Service Director	TBC
Service Manager with responsibility for proposal development and delivery	Steven Wright
Division	Human Resources

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.225	0.000	0.000	0.000	0.000
Cumulative Savings	0.225	0.225	0.225	0.225	0.225

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)

To reflect income levels achieved from Salary Sacrifice schemes introduced in 2020/21 for employees for Backshore Electronics, gym membership and the new car leasing scheme. The Council generates a saving, depending on the terms of the scheme - generally on reduced employer's National Insurance and Superannuation costs.

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.

Finance and Resources Committee approved award of contract for Salary Sacrifice schemes on 3rd December 2020 Award of Contract for an Employee Benefits Platform report refers. This proposal reflects the current forecast of income recovery.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.

Service outcomes were assessed as part of the award of contract for the Employee Benefit Platform on 3 December 2020.

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts were assessed as part of the award of contract for the Employee Benefit Platform on 3 December 2020.

Current Budget (£m)	2.337	Proposed Budget Saving (£m)	0.225
Current FTE	156.0	Proposed FTE Reduction	0.0

### Revenue Savings Proposals 2023/24

Proposal reference number	ECS1
Proposal description	Education Welfare Officers (EWOs)
Service Director	Amanda Hatton
Service Manager with responsibility for proposal development and delivery	Lorna French/Sharon Mcghee
Division	Learning and Teaching

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.400	0.200	0.000	0.000	0.000
Cumulative Savings	0.400	0.600	0.600	0.600	0.600

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)

Following a Thematic Review of Attendance it is proposed to rationalise the various posts that are in place across the system to align with national and local policy (Included, Engaged and Involved) and to provide a consistent, targeted and/or intensive support model which also makes better use of Finance for Equity (PEF and SEF). Currently schools use a variety of methods to improve attendance. These range from clearer policies, improved management systems, improved curricula and effective inclusion. Many schools often use Pupil Equity Fund to employ a Pupil Support Officer to build relationships and support families to improve attendance. Some schools also make use of an Education Welfare Officer whose remit is to enforce the policy and refer to the Children's Reporter where no improvement has been made. This methodology is intrinsically punitive and does not support the child-centred vision for improving attendance or inclusion.

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.

This will be subject to an integrated impact assessment and Organisational Review. It will be aligned to the review of Inclusion as it will rely on schools working more closely within their learning communities to improve service, as well as pooling PEF to employ Pupil Support Officers to work directly with families. Consultation will be required at all stages, including with parent groups.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.

Improving attendance is a priority so the review of the services currently contributing to this need is being carefully considered. A full Integrated Impact Assessment will be prepared. Reviews of work taken place in other local authorities suggests that this type of service was largely remodelled in almost all cases. Research confirms that building relationships and improving the school offer are more likely to improve attendance than using an 'Attendance Officer' type of approach.

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)

We cannot reduce support for our most vulnerable families so this project would need to be seen as part of an overall improvement in service delivery. An Organisational Review as part of the wider improvements for inclusion would include IIA to ensure all Equalities duties were met. There would be no net zero impacts.

Current Budget (£m)	0.650	Proposed Budget Saving (£m)	0.600
Current FTE	12.0	Proposed FTE Reduction	TBC

An organisational review will be implemented in accordance with the Council's Managing Change procedure. It is anticipated that opportunities will be available to redeploy relevant staff into similar roles.

### Revenue Savings Proposals 2023/24

Proposal reference number	ECS2
Proposal description	Speech and Language Therapy
Service Director	Amanda Hatton
Service Manager with responsibility for proposal development and delivery	Lorna French/Sharon McGhee
Division	Learning and Teaching

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.850	0.000	0.000	0.000	0.000
Cumulative Savings	0.850	0.850	0.850	0.850	0.850

<p>Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)</p> <p>There is currently a significant overlap between services purchased through the Speech and Language Therapy Service Level Agreement and core services provided by the NHS. It is therefore proposed that a review of delivery of SLA is progressed and alternative options are identified to ensure that required level of service delivery can continue to be provided from within existing resource in the most efficient way. We propose a shift towards more focus on complex needs in the provision of the Speech and Language Therapy additionally funded by the City of Edinburgh Council through a service level agreement with the NHS. The aim of the suggested change to the service delivery is to target the most vulnerable children in our society and ensure that they have every opportunity to improve their communication skills and continue to reduce any inequalities in line with the Local Authority's Education statutory requirement.</p>
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<p>Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.</p>
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<p>The following steps are planned for implementation of this saving:</p> <p>A) Review of the current referral system / scope of practice and criteria, including eating, drinking and swallowing (EDS) for children and young people to ensure clinical and educational needs are not overlapped and ensure the correct statutory boundaries / duties are being met.</p> <p>B) Review potential for crossover into PEF funding duplication leading to: double accounting and, potentially, double invoicing for same work.</p> <p>C) Increase the number of training hours to educational staff to then deliver internally with all direct Speech and Language Therapy work referred to NHS pathways.</p> <p>D) Work with the NHS to ensure a smooth transition</p> <p>E) Explore chargeback for clinical assessments / support being undertaken in educational establishments.</p>
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Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.

There is a need to be more effective and targeted in the referral process and the data reporting and monitoring needs to be interrogated more to identify actual / potential efficiency savings. This targets our limited budget to where the need is greatest.

Children, young people and their families will continue to access support provided universally through the NHS clinics. Individual schools in areas of material deprivation, or upon evidence of a specific need, may continue to purchase Speech and Language therapy in addition to the support provided in NHS clinics. This aligns with the Learning communities approach, allows robust monitoring of outcomes, purposeful identification of measures of success and more effective quality assurance processes.

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)

Families most in need will be prioritised for targeted support, shifting the balance of resources to benefit the most vulnerable.

Current NHS allocation of 15 Speech and Language Therapists in post would reduce which may create waiting list for SLT support - however service delivery will be reviewed on an ongoing basis and there would be potential to increase internal provision to address this issue if required, although this would reduce the level of the saving delivered.

Current Budget (£m)	0.850	Proposed Budget Saving (£m)	0.850
Current FTE	0.0	Proposed FTE Reduction	0.0

### Revenue Savings Proposals 2023/24

Proposal reference number	ECS3
Proposal description	Multi Systemic Therapy Service
Service Director	Amanda Hatton
Service Manager with responsibility for proposal development and delivery	Steve Harte
Division	Children's Services

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.500	0.000	0.000	0.000	0.000
Cumulative Savings	0.500	0.500	0.500	0.500	0.500

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)
Removal of the Multi Systemic Therapy Team with service to be delivered through other existing teams.

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.
This service has already ceased and while some staff are in the process of being redeployed, this process will be completed by March 2023.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.
None - due to the changing nature of the service and how the needs of service users are addressed the requirement for this team had come to a natural end with the activities being picked up by other existing teams.

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)
None

Current Budget (£m)	0.500	Proposed Budget Saving (£m)	0.500
Current FTE	12.0	Proposed FTE Reduction	12.0
An organisational review has been implemented.			



### Revenue Savings Proposals 2023/24

Proposal reference number	ECS4
Proposal description	Wellington Monies
Service Director	Amanda Hatton
Service Manager with responsibility for proposal development and delivery	Lorna French/Sharon McGhee
Division	Children's Services

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.340	0.160	0.000	0.000	0.000
Cumulative Savings	0.340	0.500	0.500	0.500	0.500

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)

This funding stream was designed to ensure support at school level for those young people who would previously have accessed Wellington School. All schools now have a Wellbeing Hub, following a Council investment in excess of £2.5 million per annum, so this money can be removed over time. The money is currently used for staffing so redeployments may be required.

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.

Timeline would require sufficient communication to Headteachers, alternative planning and redeployment. An organisational review will not be required as each school may have used the money differently and post holders should not be permanent.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.

Although schools have Wellbeing Hubs the ASN rates have increased since that proposal was initiated. Successful implementation of this project will require schools to be working effectively across their Learning Communities and pooling resources to ensure best value. It will also require improvements to the curriculum offer in some schools to ensure learners are motivated to attend and have their needs met.

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)

The proposal will be assessed within the IIA undertaken as part of the wider review of Inclusion.

Current Budget (£m)	0.500	Proposed Budget Saving (£m)	0.500
Current FTE	0.0	Proposed FTE Reduction	0.0

### Revenue Savings Proposals 2023/24

Proposal reference number	ECS5
Proposal description	Review of Contracted Spend to Ensure Efficiency with Partners and to Remove Areas of Duplication
Service Director	Amanda Hatton
Service Manager with responsibility for proposal development and delivery	Lorna French Laura Zanotti
Division	Education and Children's Services

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.904	0.206	0.000	0.000	0.000
Cumulative Savings	0.904	1.110	1.110	1.110	1.110

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)
<p>This proposal will examine services purchased from partners along with grants paid to third sector organisations to ensure that Best Value is achieved and that areas of duplication are minimised.</p> <p>Review of delivery of contracts and SLAs to identify alternative options and ensure that required level of service can continue to be provided from within existing resources.</p>

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.
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<p>The following steps will be undertaken in implementation of the saving:</p> <p>A) Undertake all IIAs and work across the Directorate to better understand where any overlaps, synergies and efficiencies can be made.</p> <p>B) Review of the current referral system / scope of practice and criteria to ensure clinical and educational needs are not overlapped and ensure the correct statutory duties are being met.</p> <p>C) Review potential for crossover into PEF funding duplication leading to fragmentation and possible double accounting.</p> <p>D) Communicate the change to organisations, staff and service users as required.</p> <p>E) Explore chargeback for clinical assessments / support being undertaken in educational establishments.</p> <p>There may be an initial requirement in both the third sector and within schools and practice teams to ensure children, young people and families have a safety net and are appropriately signposted to relevant organisations.</p>
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Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.
<p>There is a need to be more effective and targeted in the referral process and the data reporting and monitoring needs to be interrogated more to identify actual / potential efficiency savings.</p> <p>Statutory Partner Agencies and Third Sector organisations and their staff; children, young people and families living in communities across Edinburgh who benefit from accessing these services;</p>

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)
Details will be considered for each proposal.

Current Budget (£m)	22.100	Proposed Budget Saving (£m)	1.110
Current FTE	0.0	Proposed FTE Reduction	0.0

### Revenue Savings Proposals 2023/24

Proposal reference number	PL4
Proposal description	Taxicard
Service Director	Place
Service Manager with responsibility for proposal development and delivery	Gareth Barwell
Division	Operational Services

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.120	0.030	0.000	0.000	0.000
Cumulative Savings	0.120	0.150	0.150	0.150	0.150

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)

Beginning in 2023/24, there is a proposal to cease funding the Taxicard service on a phased basis to 2024/25. Taxicard enables people with a disability which makes it difficult to use ordinary buses to get around the city by taxi. The journey is charged at a nominal cost. Cards are issued for a three-year period. The Council currently contracts with a single taxi operator in the city for this service. Demand for the service has reduced in recent years. Benchmarking suggests that there are few local authorities providing this service and that taxi companies are providing this service without subsidy from the Council (e.g. City Cabs operate a scheme called Cab Assist).

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.

The contract for Taxicard is currently awarded via waiver to the Council's contract standing orders. It is proposed to phase out the scheme in order to maintain provision for current recipients in the short term. If approved, officers will write to all scheme recipients to let them know that their card will not be renewed when it expires. The Council will also engage with the taxi provider commissioned for this service to advise that the scheme will be phased out.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.

There are no anticipated service impacts arising from this proposal as the service is provided by a third party directly to customers. As noted above, benchmarking suggests that few local authorities continue to provide a Taxi Card service and, in Edinburgh, there is at least one example of a similar scheme operated privately by a taxi company.

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)

An Integrated Impact Assessment has been completed for this proposal.

Current Budget (£m)	0.150	Proposed Budget Saving (£m)	0.150
Current FTE	n/a	Proposed FTE Reduction	n/a

### Revenue Savings Proposals 2023/24

Proposal reference number	PL5
Proposal description	One-off Increase in Income and Reduction in Funding for Events and Cultural Grants
Service Director	Joan Parr
Service Manager with responsibility for proposal development and delivery	Joan Parr
Division	Culture and Wellbeing

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.250	0.000	0.000	0.000	0.000
Cumulative Savings	0.250	0.250	0.250	0.250	0.250

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)

This is a one-off proposal in 2023/24 to increase income from recovery of costs for events and filming in the city together with a one-off reduction in funding for the city's Events programme 2023/24 and Third Party Cultural Grants programme 2023/24. A sustainable approach to achieving this saving on an on-going basis will be developed during financial year 2023/24. In 2023/24, it is anticipated that the proposal will be delivered as follows: Cost recovery: £0.025m; Events programme: £0.140m; and Cultural Grants: £0.085m.

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.

Officers will continue to implement full cost recovery for events and filming in the city and will implement a reduction in the funding available for the city's Events programme and the Third Party Cultural Grants programme 2023/24. These awards are made on an annual basis, with recommendations approved by the Culture and Communities Committee.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.

While this reduction is proposed on a one-off basis, there will be a reduction in the number of events supported by the Council in 2023/24. The reduction in funding for cultural grants may also result in a reduced programme of activities in 2023/24 but officers will work closely with affected funded organisations to minimise the impact (including supporting applications for alternative or match funding for activities if necessary).

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)

An integrated impact assessment has been carried out as part of the development of this proposal.

Current Budget (£m)	5.956	Proposed Budget Saving (£m)	0.250
Current FTE	n/a	Proposed FTE Reduction	n/a

### Revenue Savings Proposals 2023/24

Proposal reference number	PL6
Proposal description	Homelessness - Reduction in demand for temporary accommodation
Service Director	Nicky Brown
Service Manager with responsibility for proposal development and delivery	Jill Thomson / Sarah Burns / Elaine Scott
Division	Housing and Homelessness

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	2.325	1.125	0.000	0.000	0.000
Cumulative Savings	2.325	3.450	3.450	3.450	3.450

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)
This proposal has two core elements: a) to increase the number of Council properties available to people in temporary accommodation (by making approximately 600 properties which are currently empty available for use. Circa 70% of these properties will be made available for homeless households); and b) to increase prevention activities to support people at risk of homelessness to access support and advice.

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.
The empty properties will begin to become available from May 2023 and resources to support prevention activities will be maintained and enhanced, leading to further reductions in the number of households requiring temporary accommodation.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.
This would have a positive impact on outcomes, as the Council would be able reduce the number of households in temporary accommodation, the Council will have fewer empty properties and the cost of temporary accommodation will be further reduced as more households will be supported in order to prevent them becoming homeless.

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)
An integrated impact assessment has been completed for this proposal.

Current Budget (£m)	62.000	Proposed Budget Saving (£m)	3.450
Current FTE	182.0	Proposed FTE Increase	45.0

### Revenue Savings Proposals 2023/24

Proposal reference number	ECS6
Proposal description	Review of Devolved School Management Allocations
Service Director	Amanda Hatton / Lorna French
Service Manager with responsibility for proposal development and delivery	Lorna French
Division	Education and Children's Services

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	7.150	-0.250	0.000	0.000	0.000
Cumulative Savings	7.150	6.900	6.900	6.900	6.900

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)

Review allocations made under Scheme of Devolved School Management along with centrally managed resources including consideration of

- recurring unallocated funding of £1.6m;
- a one off contribution from school carry forward balances of £2m in 2023/24. School carry forward balances increased by £2m in 2022/23 due to difficulties recruiting along with lack of requirement to fill some posts over the course of the pandemic. This one off contribution will reduce balances to pre covid levels;
- DSM per capita allocations of £1.95m in 2023/24, increasing to £2.9m in 2024/25 to reflect full academic year. This additional funding was made available to schools to provide for additional support during the pandemic and consultation with Head Teachers indicates that it is not required to support core activities on an ongoing basis; and
- staffing allocations of £1.6m increasing to £2.4m in 2024/25 focussing on a review of Transition Teacher posts and additional specific Pupil Support allocations made to support P1-P3. These posts were allocated to provide additional support during the pandemic and can now be removed without impacting on core teaching activities or core support activities. This proposal has been subject to consultation with Head Teachers and they have advised that these are areas that they would prefer to target over other core activities. While the proposal also includes removal of additional COVID-related pupil support allocations, this can be managed through normal staff turnover and vacancy management.

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.

Budget savings will be implemented from Summer 2023 within the DSM framework. Headteachers have been consulted and will have the ability to manage savings in a way that best needs the needs of their individual schools while maintaining core pre Covid Pupil Teacher ratios

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.

This measure will not impact on core Pupil Teacher ratios and the statutory requirement to provide an education that meets the individual needs of all pupils will remain. In delivering this requirement schools will continue to meet any needs arising from protected characteristics. There is no evidence that the proposed budget reduction will impact disproportionately on any group with protected characteristics.

The Council has also invested heavily in the implementation of its Empowered Learning digital strategy to support changes in how Education and support can be delivered more effectively, taking advantage of improved connectivity and the allocation of 1:1 digital devices across the learning estate.

It should also be noted that while this proposal does propose a reduction in transition teacher numbers it is anticipated that the number of teachers required by City of Edinburgh Council will continue to increase as a result of rising rolls. Scottish Government published statistics evidence an increase in teacher numbers of 6.4% across the city over the last three years, compared with a national average of 3.7%. So while there may be a need for a small number of teachers to be redeployed no staff will be under threat of redundancy as a result of this measure.

Budgetary provision for this ongoing growth of £2.296 million per annum is built in to the Council's budget framework assumptions.

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)

The element relating of the saving relating to the removal of £1.6m unallocated reserve will not have any impact as it was not allocated to any recurring activity.

The one-off contribution of £2m carry-forward balances is also effectively a centrally held reserve which accrued due to restricted activity during the pandemic. This funding is also not allocated to any recurring activity and can therefore be given up with no adverse impact.

The £1.95m DSM allocation reduction in 2023/24, rising to £2.9m in 2024/25, was additional funding provided over the last 18 months and does not support core activity, schools were able to use this funding based on decisions made at a local level and the removal of the funding will not impact on specific groups or core teaching activities. Given the nature of Devolved School Management Headteachers will have the ability to divert resources locally if they feel that there in an ongoing need.

The proposed staffing reduction of £1.6m in 2023/24, rising to £2.4m in 2024/25 will remove two specific staffing groups. Again this additional resource was put in to schools over the last 18 months to support transition from Primary to Secondary and to provide some additional support in P1-3 during the pandemic. These additional posts served an important purpose at the time, but it is felt that this role can now be removed without any adverse impact. Again as with the DSM reduction noted above, the scheme of Devolved School Management will allow for Headteachers to continue to divert resources in to this area if they feel that there is still a need locally.

Current Budget (£m)	284.300	Proposed Budget Saving (£m)	7.150
Current FTE	3,812.0	Proposed FTE Reduction	65.0

### Revenue Savings Proposals 2023/24

Proposal reference number	ECS7
Proposal description	Review and Alignment of Inclusion and Support
Service Director	Lorna French
Service Manager with responsibility for proposal development and delivery	Sharon McGhee
Division	Education

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.000	1.500	1.000	1.000	0.900
Cumulative Savings	0.000	1.500	2.500	3.500	4.400

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where applicable)
<p>Inclusion in Edinburgh is being reviewed in light of the recommendations from the National ASL Review and to ensure alignment with the objectives of the City Plan. This will result in more needs being met locally and specialist services being aligned across Learning Communities. It will specifically improve opportunities for community empowerment and will build capacity within the schools themselves, reducing the reliance on central teams of specialists and therefore providing a more skilled, responsive service overall. It fully coheres with the 20-minute neighbourhood and Team around the Learning Community approach. It also underlines national policy that inclusion is delivered as close to the child or young person as possible. This methodology often results in longer staying-on rates and greater independent work habits, therefore higher life chances.</p> <p>As this is such a large area of work, an overarching project board has been set up to oversee the organisational review of the services which support inclusion, as well as to agree the vision and strategy. This work was begun pre-pandemic and is now being taken forward with peer support from the ADES ASN Network and will involve an independent collaborative review of Inclusion by Education Scotland and ADES on how inclusion is delivered. Initial baseline measures indicate that of the four workstreams, Pupil Support Assistants should be prioritised. This will also satisfy trade unions which have been critical of low pay and poor career progression for PSAs. Recruitment and retention of PSAs has been increasingly difficult and absence rates are higher than for other groups. Taken together this indicates a need to review the overall provision, including training, remuneration and career progression. Comparator authorities have concluded reviews for PSAs to 'professionalise' the workforce, which with fewer, better paid employees, has released significant efficiency savings. Finally, significant research shows that untrained low paid staff can stifle independence rather than support inclusion and raise attainment. It is anticipated that the ASL Service would be decentralised, with inclusion being managed at learning community level. It is also anticipated that some external funding to 3rd sector partners is reviewed to ensure better, strategic use is made of Pupil Equity and Strategic Equity funding.</p> <p>The special school estate is in scope due to the significant changes in ASN delivered in our schools and could see increases in learners attending mainstream schools, as well as clearer ASN profiles for our special schools. This should result in a smaller physical footprint.</p>

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial)
<p>Headteachers have been calling for a review of Inclusion for several years and as mentioned above, the Project Board was initiated pre-pandemic and has just been reconvened. Due to the complexity and scale of the change involved, an overall impact assessment is being prepared, as well as individual ones for each workstream. These will be done with full involvement from teaching and ancillary unions and appropriate stakeholder reference groups. The indicative timeline is that actions could be implemented by 2024/25, however the review of special schools will be particularly sensitive and will require Statutory Consultations.</p>



**Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where**

Edinburgh has invested heavily in ASL to a greater extent than almost all other local authorities, with the exception of the Challenge Authorities (which received approximately 10 times the funding pro rata), but has not reviewed provision or completed service level internal scrutiny for several years. The allocation of Inclusion Support 'audit hours for PSAs' was adjusted to be directed to those children and young people recorded on SEEMIS with ASN. This resulted in a significant rise in the numbers assessed as having ASN, accounting for 60% of the national increase in the past 3 years. In addition our profile of ASN is completely at odds with the national picture in which most ASN are in SIMD deciles 1 and 2, whereas ASN in Edinburgh occurs mostly in deciles 7,8,9 and 10. This suggests a perverse incentive has arisen which requires further analysis. There is no ambition to remove support overall, but we should be realigning the support and reducing the management costs.

In parallel, Teams around the Learning Community models are being developed which ensure that headteachers make best use of the significant resources for Finance for Equity, which they can pool and plan together across schools. The greatest risk will be in continuing with the current model. As the population changes and empowerment gains momentum, our schools need to be supporting children and young people to become increasingly active and empowered. Failing to meet needs appropriately could result in lower attainment, children's medical needs not being sufficiently met, an increase in risk-taking behaviour/crime from young people who are at risk of not engaging in full-time education and ultimately legal action against the Council for not fulfilling statutory requirements. If there is not adequate funding to enable the inclusion agenda and requirements under key legislation, there is a risk of legal and reputational impact to the Council.

Part of the new model for school/locality-based inclusion is the investment of recurring budget in excess of £2.5m to establish Wellbeing Hubs in every secondary school to support the presumption of mainstream and to provide additional capacity for young people to take part in a range of curricular and learning experiences and supports.

**Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts,**

Full Impact Assessments and Organisational Reviews will be required to ensure compliance with relevant legislation and policy

- Children Young People Scotland Act
- Equality Act 2010
- Scottish Government ASL Action Plan
- UNCRC
- The Promise, Care Experienced Children and Young People

Current Budget (£m)	55.800	Proposed Budget Saving (£m)	4.400
Current FTE	1,288.0	Proposed FTE Reduction	80.0

This review has recently been reconvened and will be progressed with full involvement from teaching and ancillary unions and appropriate stakeholder reference groups. No financial / FTE savings are assumed in 2023/24 pending development of detailed proposals.

### Revenue Savings Proposals 2023/24

Proposal reference number	PL7
Proposal description	Income Recovery in Regulatory Services and Planning and Building Standards
Service Director	Peter Watton
Service Manager with responsibility for proposal development and delivery	Andrew Mitchell/David Givan
Division	Place

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.500	0.000	0.000	0.000	0.000
Cumulative Savings	0.500	0.500	0.500	0.500	0.500

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)
This proposal is to increase the income recovery in Planning and Building Standards and in Regulatory Services (non ring-fenced accounts) through the fees charged for services. There is also a small reduction in costs anticipated in Regulatory Services.

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.
The charges for these services have already been agreed. However, in Regulatory Services, it is intended to update the relevant Committee on the status of these activities in advance of these increases being delivered.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.
There are no impacts on service outcomes anticipated with the increase in income recovery proposed. The small reduction in funding in Regulatory Services may have an impact on service delivery, which the Head of Regulatory Services will seek to mitigate as far as possible.

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)
As these charges are already in place, no integrated impacts are anticipated.

Current Budget (£m)	n/a	Proposed Budget Saving (£m)	0.500
Current FTE	n/a	Proposed FTE Reduction	n/a

### Revenue Savings Proposals 2023/24

Proposal reference number	PL8
Proposal description	Organisational Reviews - Place
Service Director	Paul Lawrence
Service Manager with responsibility for proposal development and delivery	Joan Parr, Gareth Barwell, Peter Watton
Division	Place

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.530	0.000	0.000	0.000	0.000
Cumulative Savings	0.530	0.530	0.530	0.530	0.530

**Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where applicable)**  
 This proposal seeks to reduce the overall staff cost within the Place Directorate through the implementation of a small number of organisational reviews which are either currently in progress or are planned.

**Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, etc.)**  
 These organisational reviews are or will be implemented in accordance with the Council's Managing Change procedure.

**Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, the Council's Managing Change procedure.**  
 Each organisational review will identify any potential impact on service outcomes and associated mitigations (where it is possible to do so) as part of the engagement and consultation carried out.

**Potential equalities and human rights and carbon, climate change adaptation and sustainable development**  
 Integrated Impact Assessments will be carried out as part of the preparation for each organisational review and will be updated throughout the review period.

Current Budget (£m)	183.452	Proposed Budget Saving (£m)	0.530
Current FTE	4,878.0	Proposed FTE Reduction	7.000

This is an indicative estimate of the FTE reductions associated with this proposal. A small number of organisational reviews will be implemented in accordance with the Council's Managing Change procedure.

## Revenue Investment Proposals 2023/24

Proposal reference number	INV1
Proposal description	Restoring Bus Services for Willowbrae/Lady Nairne and Dumbiedykes
Service Director	Peter Watton
Service Manager with responsibility for proposal development and delivery	Daisy Narayanan
Division	Sustainable Development

Forecast Savings (including later years where applicable)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Incremental Savings	0.200	0.000	0.000	0.000	0.000
Cumulative Savings	0.200	0.200	0.200	0.200	0.200

Description of savings proposal, rationale for implementation and alignment to Business Plan priorities (where relevant)

In June 2022, the Council approved a combined motion by Councillors Whyte and Mowat seeking to address the issues raised by local residents in the Willowbrae/Lady Nairne and Dumbiedykes areas of the city where local bus services have been withdrawn. The action agreed was to investigate options for an improved level of public transport in these areas. In December 2022, Transport and Environment Committee received an update on the challenges and options for supported services and requested that the option to introduce an accessible minibus for Willowbrae/Lady Nairne and Dumbiedykes be considered as part of the Council's budget process. This proposal is therefore to introduce a registered local (mini)bus service which would operate to a set timetable and which could accept concessionary bus passes. The cost of operating this service 5 or 6 days per week (including the cost of the vehicle and driver) is estimated to be approximately £0.1m per location. It is unlikely that this cost could be fully recovered from fare revenue.

Outline implementation plan for saving, including (i) key steps, (ii) timescales and (iii) resources (staffing, financial and any project management) required to support delivery. Please highlight any cases where consultation is either required or may otherwise be desirable.

If this proposal is approved, Council officers would seek to engage with local bus service providers and to invite tenders to operate such a service. This would become part of the Council's Supported Bus Programme and would be administered accordingly. If this proposal is approved, the contract will increase in value annually by inflation and therefore will need to be considered as part of the Council's future approach to inflationary increases.

Potential impact on service outcomes and any mitigating actions proposed. This should take into account, where applicable, risks and dependencies, relevant strategic, service plan or community planning outcomes and any pertinent research of practice elsewhere.

It is important to note that there may be other areas of the city which are (or will soon be) experiencing reduced bus services as the operating environment for public transport is extremely challenging and patronage is falling meaning that it is increasingly difficult to sustain all existing commercial services.

Potential equalities and human rights and carbon, climate change adaptation and sustainable development impacts, including proposed mitigating actions (at this stage, only a high-level assessment is requested, highlighting where further work is required)

An Integrated Impact Assessment has been completed for this proposal.

Current Budget (£m)	1.500	Proposed Budget Increase (£m)	0.200
Current FTE	0.000	Proposed FTE Reduction	0.000

## Finance and Resources Committee

10.00am, Tuesday, 7 February 2023

### Revenue Budget 2023/24 - Risks and Reserves

Executive/routine  
Wards

Executive  
All

#### 1. Recommendations

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- 1.1 Members of the Finance and Resources Committee are recommended to:
  - 1.1.1 note the range and nature of the Council's usable reserves in light of the continuing impacts of the pandemic and wider risk factors; and
  - 1.1.2 remit the report to The City of Edinburgh Council for approval on 23 February 2023 as part of the budget-setting process.

#### Richard Carr

Interim Executive Director of Corporate Services

Contact: Hugh Dunn, Service Director: Finance and Procurement

Finance and Procurement Division, Corporate Services Directorate

E-mail: [hugh.dunn@edinburgh.gov.uk](mailto:hugh.dunn@edinburgh.gov.uk) | Tel: 0131 469 3150

## Revenue Budget 2023/24 – Risks and Reserves

### 2. Executive Summary

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- 2.1 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.
- 2.2 The report outlines the level of reserves held and the purposes for which they are maintained, including consideration of the adequacy of the balances held to mitigate against known risks.

### 3. Background

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- 3.1 This report advises members of significant risks identified within the budget process and sets out the range of measures and provisions in place to mitigate these.
- 3.2 Unallocated reserves are held against the risk 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 incurring related expenditure, in accordance with accounting rules.
- 3.3 The reserves held by the Council are reviewed annually as part of the revenue budget-setting 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.

### 4. Main report

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#### Risks

- 4.1 Risks form an integral part of the business and budget planning process. What is most important, however, is that they are identified, actively managed and, where appropriate, mitigated. Appendix 1 shows a matrix, setting out how it is planned that the known risks identified in this report will be managed. This list is, however, not exhaustive due to the complexity and diversity of the changing environment within which the Council operates.

## **COVID–19 specific impacts on service expenditure/income loss, including homelessness services**

- 4.2 The continuing impacts of the COVID-19 pandemic pose significant risks, both in terms of the immediate ability to set a balanced budget for 2023/24 and undertaking longer-term financial planning. While relaxation of public health restrictions has allowed for greater certainty in service planning, changing work patterns have affected patronage for Lothian Buses and Edinburgh Trams, with passenger numbers for each at around 80% of pre-COVID levels. These working patterns have also affected usage of Edinburgh Leisure’s facilities and the level of parking income received by the Council. There is therefore a risk that the actual increases in service expenditure and losses of income for both the Council and its ALEOs may be higher than assumed in the budget framework.
- 4.3 The revenue budget framework approved in February 2022 included specific provision for some £11m of continuing COVID-related impacts in 2023/24<sup>1</sup>, with this sum reducing to £9m in 2024/25<sup>2</sup> and remaining at this level over the period to 2026/27. The framework also includes provision of up to £7m in 2023/24 for the part-year effect of operation of the tram extension to Newhaven, increasing to £9.25m in 2024/25. While it is anticipated that the level of provision of £25.3m included in the budget framework in the current year will be sufficient to meet all relevant liabilities, it is acknowledged that the adequacy of the significantly reduced sum set aside for COVID impacts in 2023/24 will require to be closely monitored during the year and regular updates will therefore be provided to elected members.
- 4.4 As outlined in the complementary revenue budget update report included elsewhere on the agenda, total gross additional provision of £19.1m relative to 2022/23 levels has been included within the framework in recognition of increased homelessness-related expenditure, meaning that in cumulative terms, the total service budget has more than doubled since 2019/20. This additional investment reflects a combination of actual and projected service growth, pass-through of inflationary pressures (particularly in energy costs), reduced levels of Housing Benefit recovery and additional accommodation required for Ukrainian households following the ending of initial hosting arrangements. While the level of provision includes an assumption of continuing growth in demand, there is a risk around the adequacy of this funding, particularly following the suspension of “local connection” with effect from 29 November 2022.
- 4.5 Given the extent of these pressures, a number of prevention-related initiatives have previously been developed. In evaluating the effectiveness of these initiatives, consideration is being given to whether expansion of existing activities, or additional targeted work, would improve outcomes and provide cost benefits to the Council.

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<sup>1</sup> Indicatively comprising £6m for the loss of the Lothian Buses dividend, £3m for reductions in parking income and an increased payment for service to Edinburgh Leisure of £2m.

<sup>2</sup> Indicatively comprising £6m for the loss of the Lothian Buses dividend, £2m for reductions in parking income and an increased payment for service to Edinburgh Leisure of £1m.

Further commentary in this area is included in the revenue budget update report elsewhere on today's agenda.

### **Inflation and pay awards**

- 4.6 Inflation levels affect the Council's activities in a number of ways; directly through increasing prices of purchased goods and services and the level of uplifts applied to relevant contracts and indirectly through consumer spending and expectations for wage awards. The budget framework currently provides for inflation and pay awards at 3% in each of the four years of the budget framework.
- 4.7 The Council has been subject to a range of exceptional inflationary pressures in 2022/23, most materially energy cost increases but also including food, fuel, home-to-school transport and uplifts affecting a number of its contracts. In view of these increases, the 2023/24 framework baseline includes an additional £17.7m relative to the approved 2022/23 budget for energy costs and £5.5m for PPP contract-related liabilities. A general additional inflationary provision of £5m has also been incorporated, with an indicative allocation of this sum provided to relevant services. There is a risk, however, that further pressures may emerge.
- 4.8 The budget framework provides for the recurring cost of the agreed non-teaching pay award in 2022/23. Sums included in the framework for the teachers' pay award are aligned to the most recent (rejected) 5% offer. Any increase in the cash value of this offer without the provision of full Scottish Government funding would hasten a further pressure, with each 1% broadly equivalent to a recurring annual liability of £2.2m.
- 4.9 Negotiations around the 2023/24 pay award remain at an early stage but, given wider inflationary pressures, there is a significant risk that the level of settlement exceeds the 3% assumed within the budget framework<sup>3</sup>. Should this similarly not be accompanied by the provision of corresponding additional funding, this may require the identification of further savings proposals which would be the subject of future consideration. Across the teaching and non-teaching bargaining groups, each 1% increase would equate to an additional recurring annual liability of some £6.7m.

### **Delivery of approved savings and management of underlying service pressures**

- 4.10 The effects of the COVID pandemic have also affected management's ability to deliver the level of pre-approved savings and manage on-going pressures to the extent assumed. In setting the 2021/22 budget, however, members approved some £12m of additional core service investment and this, alongside more robust scrutiny at the savings identification, development and implementation stages, has resulted in the continuation of the improving trend apparent in recent years, with 89% of

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<sup>3</sup> The SJC (non-teaching) claim for 2023/24 has recently been submitted by the representative trade unions and is for an increase of 12% or £4,000, whichever is greater.



savings by value delivered and all main service areas maintaining core expenditure within budget in 2021/22.

- 4.11 There are, however, residual pressures apparent within the Education and Children's Services and Place Directorates in 2022/23 (or anticipated within 2023/24) that will require to be managed on a sustainable basis if the integrity of the budget framework is not to be compromised. Specific proposed actions to manage these pressures are being developed and will be reported to members once confirmed.
- 4.12 While projected savings delivery in 2022/23 has improved further to 97%, the majority of approved savings for the current year are in corporate budgets where delivery has traditionally been higher than in service-specific areas. Given the extent of the overall funding gap and previous reliance on these corporate savings, the 2023/24 revenue budget framework set out elsewhere on today's agenda of necessity includes a greater proportion of savings within Directorates, emphasising the importance of robust implementation plans with accountability clearly assigned and delivery closely monitored.

#### **Future funding settlements**

- 4.13 Uncertainty around future funding settlements poses a significant risk to the Council's ability to set a balanced budget, given its impact on the overall level of savings required. Following a number of years in which provisional grant settlements were only advised in January or February prior to the start of the financial year in April, the Scottish Government's [Resource Spending Review](#) (RSR), published in May 2022, provided sector-wide revenue funding planning allocations for the period to 2026/27. The detailed Scottish Budget was then published on 15 December and the provisional Local Government Finance Settlement (LGFS) the following week. The level of grant funding assumed within the revenue budget framework for 2023/24 is aligned to the LGFS announcement.
- 4.14 In previous years, these allocations were subject to change as part of the Draft Budget's Parliamentary passage. While the signing of a co-operation agreement between the Scottish National Party and Scottish Greens may make subsequent changes less likely, any changes that do occur are unlikely to reduce the overall level of funding provided and the provisional LGFS announcement should therefore serve as a baseline from which to develop the Council's detailed plans<sup>4</sup>. It is anticipated that the impact of any changes arising from this Parliamentary consideration will be known by early February and members will be kept apprised of any implications for the budget framework.
- 4.15 Future years' funding allocations could also vary for a number of reasons, including the use of updated population and other needs-based data and the complexities of

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<sup>4</sup> This is subject to any other distributional issues identified during the consultation period which, while net-neutral in overall terms, could result in downward movement at council-specific level.

funding distribution formulae, as well as wider Scottish and UK Government fiscal policy and the required level of pass-through to the Integration Joint Board.

- 4.16 The sensitivity of the level of Edinburgh's grant settlement to relatively small changes in population has been vividly demonstrated in 2023/24 through the loss of £10.1m of support received in 2022/23 through application of the Scottish Government policy whereby no authority receives less than 85% of the per capita Scottish average. This loss has only partially been compensated through operation of the first "stability" floor, meaning that the year-on-year level of change in Edinburgh's core grant funding is amongst the lowest in Scotland.
- 4.17 There is also the potential for significant changes in future grant funding settlements to emerge once the full results of the 2021 census are incorporated, given that current allocations are based on population estimates. By means of illustration, Edinburgh's 2011 census figure was almost 19,000 lower than 2011 mid-year estimate that had underpinned its grant settlement, resulting in a substantial downward revision (and loss of funding) when corrected.

#### **Demographic changes leading to rising service demands**

- 4.18 Demographic changes continue to increase the overall level of demand for the Council's services and the ability to provide for this within available resources. Levels of provision were reviewed in 2021 in light of updated population and pupil roll projections, resulting in the inclusion in the 2023/24 budget framework of total demographic-related investment of £3.9m (with similar incremental increases assumed in subsequent years).
- 4.19 The level of provision included in the framework is currently being reviewed in light of updated school roll projections. More effective demand management, greater use of preventative approaches to service delivery and service prioritisation will, however, likely be required in order for this level of funding to prove sustainable over the medium to longer term.
- 4.20 Current economic conditions are also placing additional demands on a number of service areas, including advice services, benefits processing and homelessness services. There is a risk that the resulting additional expenditure demands cannot be contained within existing resources, heightening the importance of proactive and preventative action.

#### **Income**

- 4.21 Assumptions are made in the budget process on the level of income that can be generated by services. There are risks associated with these assumptions, primarily around (i) demand for and/or price sensitivity of chargeable services, (ii) timing of implementation of new or amended charges and (iii) the ability to collect all income due. The Council has a range of measures in place to mitigate these risks, such as application of appropriate debt policies, service level agreements with external users and regular monitoring of income levels as a prompt to remedial action.

- 4.22 These areas have all been reviewed in light of the pandemic, with detailed monthly monitoring being undertaken and adjustments reflected in future years' budgets for the anticipated on-going loss of the Lothian Buses dividend and reduced levels of parking income. These assumptions remain subject to regular review as the longer-term position becomes clearer.
- 4.23 Income from Council Tax finances around 26% of the Council's net expenditure. Changes in collection rates, the size and profile of the Council Tax base, required bad debt provisions and sums paid through the Council Tax Reduction Scheme therefore all affect the total level of available resourcing. Despite the impacts of the pandemic, collection rates have largely been maintained since 2019/20, with in-year collection levels of around 97%. Given the potential for this collection level to be affected by current economic conditions, however, the position will continue to be closely tracked in the coming months.

### **Legislative changes**

- 4.24 Legislative changes present on-going risks to the budget framework and while provision has been made for the projected impact of known factors, there is a risk that further changes are made, resulting in direct or indirect impacts on the Council's budget. It is additionally assumed that implementation of all of the savings measures included in the budget framework is fully within the Council's gift.
- 4.25 The budget framework in 2023/24 incorporates an estimate of additional liabilities resulting from a Scotland-wide revaluation of properties subject to Non-Domestic Rates (NDR), effective from April 2023. The Council's revenue grant allocation also reflects the full devolving of NDR Empty Property Relief with effect from April 2023.
- 4.26 Over the longer term, account will require to be taken of a range of other proposed legislative changes, including the creation of a National Care Service (where there is a risk, amongst other factors, that the resulting loss of economies of scale will result in unbudgeted costs being borne by the Council) and reform of the current Council Tax system.
- 4.27 The Deputy First Minister's Scottish Budget announcement on 15 December 2022 confirmed that councils would have full flexibility to set Council Tax rates appropriate to their local area in 2023/24. The Council's budget framework assumes a baseline increase of 3% in 2023/24, with similar increases in each of the following four years.

### **Legal claims and inquiries**

- 4.28 There is a risk that the Council is exposed to reputational and financial consequences of legal claims and inquiries in relation to uninsured and insured incidents. The on-going Scottish Child Abuse Inquiry has potentially significant financial implications going forward but, at this stage, the precise impact on the Council (and any associated financial liability) remains to be confirmed. Local authority contributions to the redress scheme have, however, been agreed at

national level, with the corresponding funding already deducted in arriving at the amount of distributable funding to local authorities.

- 4.29 Following an independent inquiry into allegations of abuse conducted by the late Sean Bell and the recommendations contained in the report that followed, the Council launched a redress scheme which enable it to pay compensation to those who are eligible under the scheme rules. Provision has been made within the revenue budget framework for subsequent redress payments made under this scheme.

### **Major infrastructure projects**

- 4.30 The long-term financial implications of some major infrastructure projects, particularly the City Plan and energy-efficient retrofitting of the Council's property estate, are still emerging. In addition, in view of cost increases on capital projects in 2022 varying between 15% and 30%, the Sustainable Capital Budget Strategy 2023/33 report included elsewhere on today's agenda proposes a reprioritisation of the existing ten-year programme, including cash-limiting budgets and delaying uncommitted learning estate projects pending development of fully funded business cases.
- 4.31 While the above proposals would, on current assumptions, allow the programme to absorb anticipated cost pressures and remain fully funded at this time, there is a risk that the Council will require to support additional borrowing and/or revenue running costs associated with these projects. There is additionally a risk that further increases in interest rates will result in unbudgeted loans charge expenditure, rendering the revised programme unaffordable. On-going review of the projects and potential timing and value of funding requirements will therefore continue to be undertaken through relevant project boards and risks escalated as appropriate.
- 4.32 The Council secured £206m of required borrowing from the Public Works Loan Board in 2021/22, all at an interest rate below 2%. This, alongside temporarily using available cash balances to fund capital expenditure, has served to manage both borrowing-related risks and upward pressure on project costs due to pandemic-related delays, labour and materials shortages while providing on-going savings to the revenue budget. The ability to continue to do so going forward, however, is correspondingly reduced, with the proposed use of the financial concession flexibility also reducing the cash reserves available.

### **Reserves**

- 4.33 Members are aware that the Council holds a number of earmarked reserves within the General Fund. As of 31 March 2022, the General Fund balance stood at £257.204m, of which £228.224m was earmarked for specific purposes.
- 4.34 The level of these reserves reflected the receipt, in 2020/21 and 2021/22, of significant COVID-related funding to be applied against relevant expenditure commitments in subsequent years. In line with the Council's 2022/23 Budget Framework, the unallocated General Fund was reduced from £28.981m to

£26.738m, representing the application of sums transferred to this reserve on a one-off basis in 2021/22.

- 4.35 The earmarked reserves held as of 31 March 2022 comprised four broad categories:
- (i) **balances set aside to manage financial risks and for specific investment which are likely to arise in the medium-term future**, including maintenance of an insurance fund, dilapidations and workforce transformation. The Council held £170.981m against these future risks, including £71.179m of general COVID- and other pressures-related funding and £10.858m to cover workforce management costs of change management programmes;
  - (ii) **balances set aside from income received in advance**, including the Council Tax Discount Fund and City Strategic Investment Fund. The Council held £45.790m of such income, of which £15.159m related to service-specific COVID funding to be offset against relevant expenditure in future years;
  - (iii) **balances set aside to support investment in specific projects**, such as Spend to Save, which will deliver savings in future years. The Council held £4.206m for such projects; and
  - (iv) **balances held under the Devolved School Management Scheme and unallocated Pupil Equity Funding**. The Council held £7.246m of these funds.
- 4.36 As shown in Appendix 2, there are significant projected movements in the level of earmarked reserves during 2022/23 (an overall reduction of some £64.5m). In net terms, this movement is primarily attributable to the application of COVID-related funding received in 2020/21 and 2021/22 against in-year liabilities. While the overall level of the Council's usable reserves is expected to increase by £48.2m in 2023/24, this reflects the creation of a designated reserve linked to adoption of the service concession flexibility. When this is excluded, the level of reserves is anticipated to decrease by £27.5m.

## 5. Next Steps

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- 5.1 Following Committee's consideration, the report will be referred to The City of Edinburgh Council for approval as part of the budget-setting process.

## 6. Financial impact

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- 6.1 The report identifies where funding has been made available for the risks set out. The Council also holds unallocated General Fund reserves against the likelihood of unfunded risks occurring. Subject to approval by members, the level of these unallocated reserves will be maintained at £26.7m in recognition of the wider risks to which the Council is exposed, which remains in line with other Scottish local authorities.

## **7. Stakeholder/Community Impact**

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7.1 There are no direct impacts arising from this report.

## **8. Background reading/external references**

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8.1 [Revenue Budget Framework 2022/27 - progress update](#), Finance and Resources Committee, 3 February 2022

8.2 [Revenue Budget Framework 2023/27 - progress update](#), Finance and Resources Committee, 10 November 2022

## **9. Appendices**

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9.1 Appendix 1 – Risk Matrix

9.2 Appendix 2 – Projected Movement in General Fund

**Risk Matrix**

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

<b>Risk</b>	<b>Provisions and other actions to manage</b>
<p>COVID-19 specific impacts on service expenditure/ income loss, including homelessness services</p>	<p>Regular CLT, ALEO Governance Hub and elected member scrutiny of the impacts of COVID-19 on budget framework assumptions</p> <p>Creation of dedicated COVID-19 mitigation reserve, providing significant funding for relevant impacts from 2023/24 to 2026/27 inclusive, alongside wider re-alignment of existing reserves, including increasing level of unallocated General Fund balance</p> <p>Examination/consideration of all non-service budgets, reserves and available financial “flexibilities” to spread the cost impacts of the pandemic over a longer timeframe</p> <p>Adoption, where practicable, of preventative investment to mitigate demand increases</p> <p>On-going mitigating actions which also relate to wider risk management actions detailed below</p>
<p>Inflation and pay awards</p>	<p>Regular review of inflationary forecasts and, in particular, consideration of impact on Local Government at sector-specific forums</p> <p>Incorporation of known increased liabilities for utilities and contract uplifts</p> <p>Inclusion within budget framework of further additional £5m in 2023/24 for other inflation-linked liabilities</p> <p>Liaison with COSLA on pay award discussions, including affordability</p>
<p>Delivery of approved savings and management of underlying pressures</p>	<p>Updated, detailed and consistently applied guidance for Finance staff in assessing the rigour of accompanying savings implementation plans</p> <p>Earlier recognition, through discussion and agreement at Corporate Leadership Team, of the impact of underlying service pressures and savings shortfalls on the robustness of the budget framework</p> <p>Early consideration of likely required project management and other support</p> <p>Regular CLT and elected member scrutiny of proposed savings at the inception, development and delivery stages</p> <p>Regular SMT consideration of overall service budgetary position, including known or emerging risks and pressures, with a view to taking prompt corrective action</p>

	Budget re-alignment, where required, to facilitate enhanced ownership, accountability and transparency of reporting
Future funding settlements	Provisions included in the Long-Term Financial Plan (LTFP)  Regular monitoring of public expenditure projections and active membership of relevant professional forums, promptly recognising potential or actual grant variations in LTFP (including population-related variation)  Progress in development of a longer planning timeframe to recognise the potential for variation from baseline assumptions in any given year and, by extension, an ability for additional savings measures to be accelerated
Demographic changes leading to rising service demands	Provisions made in LTFP and regular reviews of the adequacy thereof
Income	Service Level Agreements with external users, application of appropriate debt policies (including, where appropriate, upfront payment for services delivered) and regular monitoring of income levels as a prompt to remedial action
Legislative changes	Provisions made in LTFP and regular reviews of the adequacy thereof  On-going monitoring of impacts of welfare reform and other relevant legislation on expenditure and income  Active membership of relevant professional forums
Legal claims and inquiries	The Council explicitly 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.
Major infrastructure projects	Regular progress monitoring through Change Boards, particularly at key milestones, with documented escalation procedures  Senior Finance representation on all Project Boards  Review of tender prices  Reprioritisation of Sustainable Capital Budget Strategy in view of wider cost pressures  Opportunities considered to lock out borrowing rate risk



## Projected Movement in General Fund

Appendix 2

General Fund	Opening Balance at 1.04.22 £000	Actual/planned use 2022/23 £000	Projected Balance at 1.04.23 £000	Planned (Uses) / Contributions £000	Projected Balance at 31.03.24 £000	
<u>Balances Set Aside to Manage Financial Risks and for Specific Investment</u>						
Balances set aside for specific investment	60,101	4,121	64,222	(6,508)	57,714	Funding set aside for specific projects, including monies for Enterprise Resource Planning, the Tram Extension and St James GAM and future liabilities for large-scale infrastructure.
Council Priorities Fund	2,628	(2,628)	0	0	0	Monies set aside from previous years' underspends which will be utilised to fund emerging Council priorities or expenditure pressures. Use of the opening balance formed part of the Council's budget strategy for 2022/23.
Contingency and workforce restructuring	10,858	0	10,858	(4,043)	6,815	Monies held to cover costs of workforce management changes including staff severance costs, which may be utilised to support future change programmes. Additional sums may be required in respect of organisational reviews undertaken in the coming year.
Dilapidations Fund	3,957	0	3,957	(3,957)	0	Monies set aside to meet costs arising from the termination of property leases and other related contractual commitments to facilitate rationalisation of property. The planned use in 2023/24 forms part of the £5m in-year application of reserves assumed in the budget framework.
Insurance Fund	22,258	(585)	21,673	(500)	21,173	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 on-going legal inquiries.

	<b>Opening Balance at 1.04.22 £000</b>	<b>Actual/planned use 2022/23 £000</b>	<b>Projected Balance at 1.04.23 £000</b>	<b>Planned (Uses) / Contributions £000</b>	<b>Projected Balance at 31.03.24 £000</b>	
<b>General Fund</b>						
COVID-19 mitigation reserve	71,179	(41,179)	30,000	(10,000)	20,000	Reserve created primarily in recognition of the continuing cost and income impacts of the pandemic. The opening balance reflects significant COVID-related funding provided by the Scottish Government in 2020/21 and 2021/22 but for use in subsequent years.
Service Concession - Financial Flexibilities	0	0	0	75,760	75,760	Financial flexibilities granted by the Scottish Government to recognise the liabilities for service concessions over the useful life of the asset rather than the contract life with effect from 1 April 2023.
<u>Balances Set aside from Income Received in Advance</u>						
Licensing and Registration Income	5,712	(237)	5,475	0	5,475	Monies representing licensing income related to cabs, houses in multiple occupation, liquor and landlord registration. The Council is not permitted to use these monies on other services.
Other Minor Funds	175	0	175	(64)	111	Minor funds for other specific projects.
Pre-paid PPP monies and lifecycle costs	3,998	305	4,303	236	4,539	Monies set aside in recognition of the phasing issues related to grant monies, for lifecycle costs of projects.
Council Tax Discount Fund	11,304	(6,936)	4,368	0	4,368	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 Repairs and Renewals fund. The movement in any given year reflects the combined impact of Council Tax income set aside and investment funding drawn down.

	Opening Balance at 1.04.22 £000	Actual/ planned use 2022/23 £000	Projected Balance at 1.04.23 £000	Planned (Uses) / Contributions £000	Projected Balance at 31.03.24 £000	
Unspent revenue grants	8,386	195	8,581	(282)	8,299	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.
City Strategic Investment Fund	1,056	(55)	1,001	0	1,001	Primarily represents funds set aside for strategic regeneration priorities (£2.150m originally approved) and to provide match funding for new city development opportunities (£0.5m).
COVID-19 advances	15,159	(14,322)	837	(155)	682	Reserve reflecting service-specific COVID funding received in 2020/21 and 2021/22 but permitted to be spent in future years.
<u>Balances Set Aside for Investment in Specific Projects which will Generate Future Savings</u>						
Spend to Save Fund, Energy Efficiency and Salix CEEF	4,206	340	4,546	(279)	4,267	Funds set aside to assist service areas deliver revenue savings in future years through provision of one-off upfront revenue investment. Scheme repayments will be used to support further new initiatives.
<u>Balances Set Aside under Devolved School Management Scheme and Pupil Equity Fund</u>						
Balances held by schools under DSM / Pupil Equity Fund	7,246	(1,246)	6,000	(2,000)	4,000	Balances set aside for Devolved School Management Scheme and Pupil Equity Fund. There will always be a balance at March as the DSM scheme and PEF are based on an academic year.
<u>Unallocated General Fund</u>	28,981	(2,243)	26,738	0	26,738	Unallocated funds held against the risk of unanticipated expenditure and/or reduced income arising in any particular year, in line with Council reserves policy. The movement in 2022/23 reflects the decisions of Council on 27 May 2021 to draw down unspent funding transferred to unallocated reserves in 2021/22.
<b>Total General Fund</b>	<b>257,204</b>	<b>(64,470)</b>	<b>192,734</b>	<b>48,208</b>	<b>240,942</b>	

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## Finance and Resources Committee

10.00am, Tuesday, 7 February 2023

### Sustainable Capital Budget Strategy 2023-2033

Executive/routine Wards Council Commitments	Executive All
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#### 1. Recommendations

- 1.1 To note the priorities for capital expenditure outlined in this report which are aligned to the Council Business Plan;
- 1.2 To note the financial pressures arising from challenging market conditions, and the proposed measures required to bring the programme into a balanced position;
- 1.3 To delegate authority to the Chief Executive, in consultation with the Convenor of the Committee, to award contracts for the construction of learning estate projects where it can be demonstrated the contract value is within approved budget limits;
- 1.4 To note the provisional Local Government Finance Settlement;
- 1.5 To note that delivery of funded capital expenditure priorities is dependent on the achievement of a balanced medium-term revenue budget;
- 1.6 To note that there is no capacity to fund additional projects that are not in the current programme;
- 1.7 To note the climate assessment of capital spending proposals;
- 1.8 To refer the report to the Governance Risk and Best Value Committee as part of its work programme; and
- 1.9 To refer this report to the Council Budget meeting on 23 February 2023.

**Richard Carr**  
Interim Executive Director of Corporate Services

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## Sustainable Capital Budget Strategy 2023-2033

### 2. Executive Summary

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- 2.1 The Sustainable Capital Budget Strategy sets out priorities for £1.47bn of Council capital investment, in alignment with the Council Business Plan, over the medium to long-term.
- 2.2 The Capital Budget Strategy is experiencing significant financial pressure due to current market conditions. The impact from factors such as COVID-19 and Brexit has been compounded by the Ukraine war and the cost-of-living crisis, resulting in very significant increases in costs across all capital projects.
- 2.3 Funding assumptions have been reviewed, but there are limited opportunities to increase the level of funding to address inflationary pressures.
- 2.4 It is therefore proposed that, where possible, budgets are cash limited, uncommitted learning estate projects are delayed pending the development of fully funded business plans and Balerno High School undergoes a retrofit, rather than a full replacement.

### 3. Background

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- 3.1 The [Sustainable Capital Budget Strategy 2022-2032](#) was reported to Finance and Resources Committee on 3 February 2022 and approved by full Council at its budget meeting of 24 February 2022. The report detailed priorities for Council capital investment of £1,459.874m, in alignment with the Council Business Plan, over the medium to long-term and set out a plan on how they could be funded.
- 3.2 However, it was recognised that the Strategy was expected to come under significant financial pressure as a result of higher tender prices caused by external factors including COVID-19 and Brexit. It was also noted that if a funding gap emerged, then further re-profiling of priorities, reduction in scope of projects or additional revenue savings to fund the borrowing costs would be required. This could potentially mean that later phases of the programme could not be delivered within the ten-year strategy.
- 3.3 On 10 November 2022 Committee considered a report on the [Sustainable Capital Budget Strategy 2023-33](#). The report highlighted the increased financial pressures resulting from adverse market conditions and proposed that, where possible, budgets should be cash limited, uncommitted learning estate projects should only

be progressed following the development of fully funded business cases and that Balerno High School should undergo a retrofit, rather than a full replacement.

- 3.4 This report provides an update on the financial challenges facing the Council's capital budget as well as the resources available and sets out proposals for a balanced position to be considered at the Council budget meeting on 23 February 2023. This report should be read in parallel with the revenue budget report elsewhere on this agenda as the revenue impact of additional capital expenditure needs to be contained within a balanced medium-term revenue budget.
- 3.5 The [Council Business Plan 2023-27](#) brings together the Council's strategic priorities into a single plan and should also be read alongside this strategy.
- 3.6 This report only covers the general fund capital investment programme. The capital expenditure requirements for the Housing Revenue Account are included in a report on the Housing Revenue Account Business Plan 2023-24 also on this agenda.

## 4. Main report

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- 4.1 A summary of capital investment priorities and available funding is included at Appendix 1, with changes since the report to November Committee detailed in Appendix 2.

### **Latest Capital Monitoring Position**

- 4.2 Projected slippage in the 2022/23 programme was included in the Capital Monitoring 2022/23 – Month Eight Position reported to Finance and Resources Committee on 26 January 2023 and has been built into the revised programme in Appendix 1. This slippage will be further amended to reflect the final outturn for the financial year and thereafter reported to Finance and Resources Committee in summer 2023.

### **Capital Expenditure Priorities and Pressures**

- 4.3 Priorities for capital investment for the period 2023-2033 have been reviewed and continue to align with the three strategic priorities set out in the Council's Business Plan, namely:
- Create good places to live and work
  - End poverty in Edinburgh
  - Become a net zero city by 2030
- 4.4 The level of capital expenditure required takes account of updated expenditure forecasts and phasing for projects in the existing Sustainable Capital Budget Strategy.
- 4.5 The Capital Budget Strategy is experiencing significant financial pressure due to current market conditions, as reported to Committee in November. Analysis of the impact of construction industry inflation on capital projects by Council Officers,

supported by external consultants Faithful and Gould, shows uplifts of between 15% and 30% in 2022.

- 4.6 Expansion and improvements to the Council's Learning Estate continue to be the most significant cost for the programme. There is an opportunity for learning estate buildings across the city to become anchor facilities for wider joined up service delivery in local communities and to help address the net zero challenge, addressing all three of the strategic priorities. For all new learning estate projects currently in development, options for wider service delivery from the facility are being considered during the design phase and buildings are designed to the Passivhaus standard.
- 4.7 The cost to deliver the learning estate programme is estimated at £429m. This figure takes account of latest cost estimates. As reported in November, the programme now assumes Balerno High School undergoes a full retrofit rather than being replaced and uncommitted local development plan schools are not included, pending the development of fully funded business cases. A list of proposed savings has been included in Appendix 3.
- 4.8 Construction contracts for several of the large learning estate projects in the Capital Investment Programme are due to be finalised soon. Flexibility is required to minimise delay and reduce the risk of post-tender cost increases. To assist this process, it is recommended that the Committee delegates authority to the Chief Executive, in consultation with the Convenor of the Committee, to award contracts for the construction of learning estate projects where it can be demonstrated that the contract value is within approved budget limits.
- 4.9 £166m is allocated towards the Council's roads and transport infrastructure, including carriageways, footways and investment in specific assets such as North Bridge. The North Bridge refurbishment project is experiencing significant cost pressures due to construction market volatility and increases to the scope of the works. Forecast costs have increased by £24m compared with the previous budget provision. The condition of the bridge is now largely known and the project team is now confident that the revised budget will not be exceeded.
- 4.10 It is proposed that £12m of this pressure is funded from the carriageway and footways budget over an 8 year period as set out in Appendix 3, with the remaining £12m funded from additional borrowing described in paragraph 4.32 below.
- 4.11 The remaining budgets within the capital programme have been cash limited. This includes investment in active travel, improvements to existing Council buildings and the delivery of cultural projects. Inflationary pressures will be met by rephasing and reprioritisation (including reduction in scope of works) and external funding, where available.
- 4.12 To achieve net zero by 2030, the city will need to tackle its largest sources of carbon emissions. The transport sector is one such significant source and road transport accounts for 68% of total transport emissions. Investing in active travel infrastructure provides the city's residents, visitors and businesses with a means of



transport that is low carbon and can efficiently move people and goods around the city. Investing in active travel also helps create better places to live and work and provides free or low-cost transport for residents and visitors. There is council capital funding of £90m to deliver Public Transport, Road Safety and Active Travel infrastructure which will be augmented by external funding.

- 4.13 The programme also includes £61m of investment in the Council's building retrofit programme, of which £10m will be supported by Scottish Government's Green Growth Accelerator initiative. This initiative is planned to retrofit 12 Council buildings in order to significantly reduce carbon emissions and improve building user comfort.
- 4.14 In order to continue to deliver high-quality services, the Council needs to continue to invest in the condition and suitability of its property assets. To address the climate emergency, works will be designed to reduce carbon emissions arising from Council buildings. There is also an opportunity for facilities to be adapted in order that wider services can be delivered from these locations, making the city a better place to live and work and improving outcomes for citizens. The Sustainable Capital Budget Strategy 2023-33, as set out in Appendix 1, includes £147m for the existing operational estate.
- 4.15 The programme includes £14m of investment in cultural facilities, with a £5m contribution to the Dunard Centre as part of the Edinburgh and South East Scotland City Deal and a £4m contribution and a £5m loan<sup>1</sup> for the refurbishment of the King's Theatre. The King's Theatre project is experiencing funding challenges due to current economic conditions, but no additional funding is included within the revised capital budget presented.
- 4.16 Funding of £3.9m is provided for improvements to sports facilities. This includes an annual capital grant of £0.165m for Edinburgh Leisure works and £0.867m towards a proposed BMX track at Hunter's Hall. The latter is likely to require external funding before the Council can take it forward. In addition, £1.4m is provided to meet the final cost of the new Meadowbank Stadium, which opened in July 2022. This is more than the original budget, but as the Council has secured borrowing at a lower rate than was assumed in the business case, there is no additional cost to the Council.
- 4.17 While additional social housing provision is financed by the Housing Revenue Account, the general fund capital programme distributes grant funding to social landlords on behalf of Scottish Government. It also provides £183m for lending to Edinburgh Living LLPs which is included within this Strategy. These projects are self-financing using income from affordable rents. Investment will therefore only take place based on a viable business case. Further information on the risks of this on-lending are included in paragraph 4.33 below.

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<sup>1</sup> The £5m loan agreed with Festival City Theatres Trust is fully repayable, based on future operating surpluses.

## Climate Assessment of Capital Budget Proposals

- 4.18 This year a new [methodology](#) developed by the [Institute for Climate Economics](#) (I4CE) has been trialled to better understand how spending plans are aligned with the Council's net zero ambition. The process adopts a simple taxonomy to analyse local authority expenditure identified as having impacts that are: very favourable; favourable under conditions; neutral or unfavourable with respect to potential greenhouse gas emissions. The methodology helps to ensure both consistency and objectivity in the assessments. More details about the assessment of construction projects based on the I4CE methodology can be found in Appendix 4.
- 4.19 This high-level and qualitative assessment provides a simple yet powerful insight into the budget and helps better understanding of the impact of expenditure on targets to inform budget decisions.
- 4.20 Key findings show that, for the expected expenditure for 2023-33 (a total of £1.5bn analysed):
- 58 % of the total investment (£ 875 m) is in line with the Council's climate ambition (labelled as either "favourable under conditions", or "very favourable")
  - 33 % is considered as neutral
  - 4 % is unfavourable
  - 4 % is classified as "undefined" as the expenditure did not match with any item in the taxonomy
- 4.21 Most of the "favourable" spend corresponds to the maintenance and expansion of active travel routes, the construction of buildings to high energy standard, and the energy efficient retrofit of buildings. More details can be found in Appendix 5.
- 4.22 More than one third of the total budget is allocated to the construction of new buildings. Some new build schools have been assessed as "unfavourable" despite plans to build them to high energy efficient standards, because they will lead to land-use change. "Soil artificialisation" or "soil sealing" generates emissions and make the city more vulnerable to climate change.
- 4.23 Ways to improve this assessment going forwards include:
- Spending more on energy retrofit and energy efficiency projects rather than new builds. Even built to Passivhaus standard, a new building will still result in additional operational emissions (not to mention large embodied carbon emissions)
  - Avoid 'soil sealing' – important to prioritise building on brownfield/ vacant/ derelict land
  - Prioritise active travel / public realm spending over road improvement when possible
  - Purchase electric vehicles rather than diesel/petrol.

## Capital Funding Assumptions

- 4.24 The funding assumptions for Sustainable Capital Budget Strategy 2023-2033 have been thoroughly reviewed line by line, to provide an up-to-date estimate of funding available. Funding available is currently estimated at £1.475bn. Detailed analysis of funding is provided in Appendix 1 with the under-pinning assumptions set out in Appendix 6.
- 4.25 The provisional 2023-24 Local Government Finance Settlement was provided on 20 December 2022. This provided Edinburgh with £52.571m in general capital grant, comprising core grant of £37.945m, continued support for the 2022/23 local government pay award of £9.709m<sup>2</sup> and funding of £4.917m for the expansion of school kitchen and dining facilities for the roll out of free school meals. In addition, a further £0.811m for play park renewals is expected, taking the general capital grant to £53.382m for 2023-24.
- 4.26 For future years, it is assumed that the core grant will be unchanged and further play park funding will be provided in 2024-25 and 2025-26 as advised by Scottish Government.
- 4.27 The provisional settlement also set out specific grant funding for Affordable Housing and Cycling, Walking and Safer Routes for 2024-25 and it is assumed that this level of funding will also be available in future years.
- 4.28 In addition to the above, the Council receives funding from Scottish Government and other bodies for specific initiatives. While this funding is only formally recognised in the budget when the amount and timing of receipts are confirmed, all capital pressures in this report are presented net of any anticipated funding. There are likely to be further opportunities for the Council to secure additional grant funding towards its priorities, particularly in areas such as net zero, active travel and regeneration.
- 4.29 The Scottish Government is increasingly supporting capital investment with revenue-based funding models, linked to the achievement of agreed outcomes. New secondary schools in Currie, Liberton and Wester Hailes as well as the retrofit programme will receive this outcome-based funding via the Learning Estate Investment Programme and the Green Growth Accelerator Model respectively. It is currently assumed that all outcomes will be achieved and funding will be received in full, but there is a risk that the funding could be reduced in the event that outcomes are not fully achieved.
- 4.30 It is assumed that developers' contributions will partially offset some of the costs of supplying an increased learning estate and additional transport infrastructure to meet the needs of a growing city. This funding stream will be kept under review as

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<sup>2</sup> The Scottish Government contribution to the local government pay deal is being paid via the general capital grant funding mechanism in 2022/23 and 2023/24. This is on the assumption that local authorities will transfer the monies to revenue via the Capital Fund reserve. From 2024/25 onwards, it is assumed that the pay award will be funded from the revenue budget settlement.

the Wave 4 schools, Local Development Plan and subsequently City Plan infrastructure progress.

- 4.31 The Capital Budget Strategy assumes capital receipts from sale of surplus assets. Receipts up to 2025 are based on the current disposal programme. Beyond this, the level of income will depend on the Council's asset management strategy, but a conservative forecast of £3m per annum is assumed based on previous years. A further £27.650m of funding is available from previous years' receipts which are held in the capital fund, based on previous Council budget decisions.
- 4.32 A significant proportion of the programme is funded from loans fund advances, with the associated borrowing costs met from the Council's loans charges revenue budget. The funding available for loans charges in the medium-term financial plan has been reviewed and, although interest rates have increased from the historic lows seen in recent years, the budget is still sufficient to support the level and profile of expenditure set out in this report, including an additional £12m for the North Bridge project. This is due, in part, to proactive treasury management, which has enabled the Council to benefit by borrowing at low rates, when they were available. The revenue budget framework provides funding to meet the anticipated loans charges associated with general loans fund advances of £494m. However, there is little headroom to absorb further inflationary pressures, grant reductions or increases in interest rates. Furthermore, it should be noted that the Council's ability to meet the costs of loans charges is dependent on the achievement of a balanced revenue budget. Any shortfall in revenue budget savings could result in a reduction in capital investment.
- 4.33 At present the City of Edinburgh Council only has consent to borrow from the Scottish Government for Edinburgh Living LLP up to 2023-24 for a total of £248m. In addition, both the Housing Revenue Account (HRA) Business Plan and General Fund on-lending assume continuation of the consent beyond this point, in the form of capital receipts in the HRA and borrowing in the General Fund. Work is underway to understand future viable models for mid-market and market rent, taking into account development costs, availability of grant funding and consents. However external factors highlighted elsewhere in this report, together with proposed rent freezes create challenges for the affordability of future affordable housing acquisitions by Edinburgh Living.

#### **Unfunded Capital Priorities and Pressures**

- 4.34 There is no capacity to fund additional projects that are not included in the current capital programme. Previously reported unfunded projects, which include community centres, City Centre Transformation and hostile vehicle mitigation remain in that category. New projects, including ICT infrastructure, will require external funding or reprioritisation of the existing programme. The Council will continue to progress opportunities for grant funding, where it is available.

## 5. Next Steps

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- 5.1 This report will be considered by Council at its budget meeting of 23 February 2023.
- 5.2 This report will be referred to Governance, Risk and Best Value Committee to consider as part of its programme of work.
- 5.3 Finance will continue work with project and programme managers to monitor capital budgets.

## 6. Financial impact

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- 6.1 This report sets out capital expenditure and funding of £1.475bn based on the assumptions set out above, including the generation of savings and additional income in revenue budgets. These assumptions will be kept under review, and capital expenditure plans remain contingent on the strategy continuing to be affordable.
- 6.2 Investment in additional property assets is likely to result in increased running costs borne by the Council's service areas. [A report on the associated cost implications of changes in the size and profile of the Council's operational property estate](#) was considered by this Committee on 23 May 2019. The report noted the need to provide for the additional revenue costs of several demand- and condition-led school replacements and new-builds. Based on the cost projections intimated in that report and sums provided within the budget framework in respect of known rising school rolls projects, the Wave Four schools programme (as set out in the original 2018 business case) and additional, or expanded, facilities linked to the Local Development Plan, this level of provision was anticipated to be sufficient to meet, in full, these additional costs at that time.
- 6.3 There is, however, a continuing need to assess, based on best-available expenditure and income projections for the projects concerned, the adequacy of sums provided within the budget framework in respect of known and emerging potential commitments. As a result, all projects will be required to produce a detailed business case, setting out both capital and revenue costs and demonstrating how they will be funded prior to project commencement as part of the wider Gateway process requirement.

## 7. Stakeholder/Community Impact

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- 7.1 Consultation on the capital budget will be undertaken as part of the Council's wider budget setting process.
- 7.2 The stakeholder and community impact of individual projects within the Council's capital programme is considered as part of the business cases for those projects.

- 7.3 Public sector climate change duties have been strengthened in 2022 with a new requirement to ensure alignment of spending plans and use of resources with sustainability ambitions. To this end, a new methodology developed by the Institute for Climate Economics (I4CE) has been trialled to better understand the climate impacts of the Council's capital budget strategy.

## **8. Background reading/external references**

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- 8.1 [Sustainable Capital Budget Strategy 2022-2032](#), Finance and Resources Committee, 3 February 2022
- 8.2 [Sustainable Capital Budget Strategy 2023-2033](#), Finance and Resources Committee, 10 November 2022
- 8.3 [Council Business Plan 2023-27](#), The City of Edinburgh Council, 15 December 2022
- 8.4 [Link to Month 8 monitoring report when available]
- 8.5 [Changes to the Operational Property Estate: Life Cycle Costs Forecast](#), Finance and Resources Committee, 23 May 2019

## **9. Appendices**

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- 9.1 Appendix 1 – Capital Expenditure Priorities and Available Funding
- 9.2 Appendix 2 – Changes from 10 November F and R Committee
- 9.3 Appendix 3 – Savings Proposals
- 9.4 Appendix 4 – Climate assessment of local authority budgets – I4CE methodology - Details on the methodology for the assessment of construction projects
- 9.5 Appendix 5 - Climate assessment of local authority budgets – I4CE methodology – Key findings
- 9.6 Appendix 6 – Funding Assumptions

**A Sustainable Capital Budget Strategy 2023-2033**  
**Capital Expenditure Priorities and Available Funding**

Expenditure	Total	Revised	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative
		Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
Project Area		2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Primary Schools	31.254	12.223	10.775	8.256	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Wave 4 Schools	294.233	56.007	87.029	78.021	39.761	1.233	18.498	12.944	0.740	0.000	0.000
New Schools and Extensions for Population Growth	103.774	31.616	20.659	26.500	8.000	9.000	8.000	0.000	0.000	0.000	0.000
Libraries	1.728	1.728	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Sports Facilities	3.918	2.433	0.165	0.165	0.165	0.165	0.165	0.165	0.165	0.165	0.165
Other Community Projects	1.191	1.191	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Depots	6.628	2.312	4.316	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Parks, Greenspace and Cemeteries and Other Environment	8.541	2.222	1.904	2.715	0.250	0.250	0.250	0.250	0.250	0.250	0.200
Fleet Replacement	8.055	8.055	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Roads and Transport Infrastructure (including North Bridge)	165.654	36.824	25.969	15.469	12.268	12.110	12.110	12.110	12.110	13.610	13.072
Energy Efficiency Street Lighting Project and Traffic Signals Prudential	12.774	1.271	1.220	1.220	1.220	1.220	1.220	1.265	1.450	1.450	1.238
Public Transport, Road Safety and Active Travel	89.738	16.444	14.621	13.587	8.128	6.921	6.921	5.910	5.736	5.736	5.736
Tram Life Cycle Replacement	5.697	3.242	1.658	0.287	0.069	0.071	0.073	0.076	0.079	0.092	0.050
IMPACT	5.000	4.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
King's Theatre	9.000	0.000	9.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Culture	0.236	0.074	0.162	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Asset Management Works	147.356	10.006	16.000	16.000	16.000	16.000	16.000	14.000	14.000	15.350	14.000
Retrofit	60.850	5.467	19.677	25.635	10.071	0.000	0.000	0.000	0.000	0.000	0.000
Edinburgh Living	182.515	59.418	70.500	41.793	10.804	0.000	0.000	0.000	0.000	0.000	0.000
Other Housing and Regeneration	291.674	29.303	29.562	30.159	28.950	28.950	28.950	28.950	28.950	28.950	28.950
Tram to Newhaven	1.755	1.755	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
ICT & Other Corporate Services	9.454	4.665	1.597	0.669	0.678	0.615	0.615	0.615	0.000	0.000	0.000
Contingency <sup>1</sup>	43.996	0.324	0.000	5.000	5.000	5.000	5.000	5.708	5.011	7.953	
Slippage Adjustment <sup>2</sup>	-10.502	-31.233	-15.765	5.775	14.880	11.601	1.185	0.638	2.006	0.580	-0.170
<b>Total Expenditure</b>	<b>1,474.517</b>	<b>259.346</b>	<b>300.048</b>	<b>271.250</b>	<b>156.244</b>	<b>93.136</b>	<b>98.987</b>	<b>81.924</b>	<b>71.194</b>	<b>71.194</b>	<b>71.194</b>

Funding	Total	Revised	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative
		Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
Funding Stream		2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Asset Sales (Unringfenced)	35.000	7.000	4.000	3.000	3.000	3.000	3.000	3.000	3.000	3.000	3.000
Capital Fund Drawdown	27.650	27.650	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Developers Contributions	6.369	6.369	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
General Capital Grant	398.130	53.382	39.161	39.972	37.945	37.945	37.945	37.945	37.945	37.945	37.945
Less: Contribution to Capital Fund (Pay Award)	-9.709	-9.709	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Specific Grants	306.117	31.458	31.458	31.458	30.249	30.249	30.249	30.249	30.249	30.249	30.249
Loans Fund Advances - Prudential	32.652	18.547	10.913	0.669	0.678	0.615	0.615	0.615	0.000	0.000	0.000
Loans Fund Advances - On-Lending	182.515	59.418	70.500	41.793	10.804	0.000	0.000	0.000	0.000	0.000	0.000
Loans Fund Advances - Trams to Newhaven	1.755	1.755	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Loans Fund Advances - General	494.037	63.476	144.016	154.358	73.568	21.327	27.178	10.115	0.000	0.000	0.000
<b>Total</b>	<b>1,474.517</b>	<b>259.346</b>	<b>300.048</b>	<b>271.250</b>	<b>156.244</b>	<b>93.136</b>	<b>98.987</b>	<b>81.924</b>	<b>71.194</b>	<b>71.194</b>	<b>71.194</b>

<sup>1</sup> Contingency provision relates to projects in current programme and is not available for additional investment

<sup>2</sup> Slippage provision relates to phasing of expenditure and takes account of projects slipping from 2022-2023. It is not available for additional investment

***Summary of Changes***

<b>Loans Fund Advances - General</b>	<b>£m</b>
10 November 2022 F&R Committee	415.4
7 February 2023 Special Budget Meeting	494.0
<b>Movement</b>	<b>78.6</b>

<b>Description</b>	<b>Amount</b>
Slippage 22/23	17.4
Slippage assumption 23/24 - 32/33	-28.4
North Bridge	12.0
Meadowbank	1.4
Reduction in Grant assumption	74.9
Increase in Contingency to assume full use of Grants	14.0
Increase in assumed Capital Receipts and Capital Fund Drawdown	-12.6
<b>Total</b>	<b>78.6</b>



## A Sustainable Capital Budget Strategy 2023-2033

## Savings Proposals

Project	Total	Revised	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative
		Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
		2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<i>New Schools - Delayed implementation pending fully funded business cases</i>											
Builyeon Road Primary School (S Queensferry)	29.172	1.023	7.559	10.590	10.000	0.000	0.000	0.000	0.000	0.000	0.000
Kirkliston/West Edinburgh Secondary Provision	60.000	0.000	0.000	0.000	3.375	24.567	29.200	2.859	0.000	0.000	0.000
Gilmerton Station Road Primary School	19.200	0.000	0.000	0.000	0.000	0.000	1.080	7.861	9.344	0.915	0.000
Granton Waterfront Primary School	19.200	0.000	0.000	0.000	1.123	8.176	9.718	0.183	0.000	0.000	0.000
East of Milburn Tower Primary School	19.200	0.000	0.000	0.000	0.000	0.000	1.168	8.503	9.529	0.000	0.000
Less: adjustment to assumed developers contributions	-58.709	-0.362	-9.097	-1.259	-4.092	-11.998	-18.441	-14.257	0.796	0.000	0.000
	<b>88.063</b>	<b>0.661</b>	<b>-1.538</b>	<b>9.331</b>	<b>10.406</b>	<b>20.745</b>	<b>22.724</b>	<b>5.150</b>	<b>19.669</b>	<b>0.915</b>	<b>0.000</b>
<i>Balerno High School</i>											
Cost of School Replacement	69.200	0.000	0.000	0.000	2.371	2.466	36.996	25.888	1.479	0.000	0.000
Less: cost of full renovation and retrofit	-34.600	0.000	0.000	0.000	-1.185	-1.233	-18.498	-12.944	-0.740	0.000	0.000
	<b>34.600</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>1.185</b>	<b>1.233</b>	<b>18.498</b>	<b>12.944</b>	<b>0.740</b>	<b>0.000</b>	<b>0.000</b>
<i>Savings to Address North Bridge Pressure</i>											
Reduction to Carriageways and Footways Allocation	12.000	1.500	1.500	1.500	1.500	1.500	1.500	1.500	1.500	0.000	0.000
	<b>12.000</b>	<b>1.500</b>	<b>1.500</b>	<b>1.500</b>	<b>1.500</b>	<b>1.500</b>	<b>1.500</b>	<b>1.500</b>	<b>1.500</b>	<b>0.000</b>	<b>0.000</b>
<b>Total Proposed Savings</b>	<b>134.663</b>	<b>2.161</b>	<b>-0.038</b>	<b>10.831</b>	<b>13.091</b>	<b>23.478</b>	<b>42.722</b>	<b>19.594</b>	<b>21.909</b>	<b>0.915</b>	<b>0.000</b>

## Appendix 4 - Climate assessment of local authority budgets – I4CE methodology - Details on the methodology for the assessment of construction projects

### Construction of new buildings:

Investments made for the construction of new buildings are to be evaluated with regard to three criteria:

- energy-carbon performance of the construction in relation to the standard in force;
- land use change or soil artificialisation (the construction should not waterproof the soil or change the use of agricultural, forest or natural land);
- access to essential services

A building that respects the regulatory energy and carbon performance thresholds **and** does not lead to land use change will be classified as “favourable under conditions”. If one of the two criteria is not met, 100% of the expenditure is classified as "unfavourable".

If the targeted energy and carbon performance goes beyond the current standard, the estimated costs related to achieving this performance can be classified as "very favourable", the rest being classified as "favourable under conditions" or "unfavourable" depending on whether or not the construction contributes to soil artificialization.

### Land use change

The construction of new buildings increases the surface area to be heated and the heating and transportation infrastructure needs, contributes to urban transportation, urban sprawl and requires the manufacture and use of emitting materials such as cement. In fact, apart from the impact on carbon sinks and the emissions linked to induced mobility, most of the carbon footprint of an energy-efficient building is linked to the construction and demolition phases (which represent between 60 and 90% of the total carbon footprint over a 50-year - CEREMA, 2021). It is therefore necessary to use less emitting construction methods by using low-carbon materials and decarbonizing the industrial sectors.

As far as land use change is concerned, carbon emissions are generated due to the removal of carbon sinks (notably grasslands).

The artificialization generated by construction would represent 8% of the sector's emissions (FNTP, 2021). According to CEREMA (2020), the fight against artificialization can be achieved through:

- densification, without loss of quality of life for the residents;
- the use of vacant spaces (derelict land or vacant housing);
- and finally, rewilding

The question of the location of new construction, and the travel required to access essential services, is also to be considered. Enabling access to essential services without having to use a private car reduces transport emissions, and densifies neighbourhoods, reducing soil artificialisation (C40 Knowledge Hub, 2020).

The table below sets out how assessment against each of the 3 criteria informs the overall climate assessment.

	Housing, public and commercial buildings									
1) Energy performance vs Buildings Standards	Beyond Buildings Standards (minimum 10% reduction vs Buildings Standards)				Compliant with Buildings Standards					
2) Land use change / soils artificialisation : Is the construction built on green field?	No	Yes	No	Yes	No	Yes	No	Yes	One of these criteria is unknown	The construction is linked with a fossil fuel activity (e.g. refinery)
3) 20-minute neighbourhood: Are essential services easily accessible?	Yes	Yes	No	No	Yes	Yes	No	No		
Spend assessment	very favourable : extra cost versus building standards	very favourable: extra cost versus building standards	very favourable: extra cost versus building standards	very favourable: extra cost versus building standards	Favourable under conditions: 100% of the spend	Unfavourable : 100% of the spend	Unfavourable : 100% of the spend	Unfavourable : 100% of the spend		
	Favourable under conditions: rest of the spend	Unfavourable : rest of the spend	Unfavourable : rest of the spend	Unfavourable : rest of the spend						

**Buildings retrofit:**

The renovation of buildings that are not specifically focussing on thermal improvements does not lead to a sufficient reduction in emissions to achieve the building's emission reduction target. Therefore, a "non-energy efficient" renovation is considered "neutral".

“Energy efficient retrofit” corresponds to work involving energy items such as heating, hot water, ventilation, insulation, carpentry. The costs related to thermal renovations leading to complete and efficient renovations are classified as "very favourable". The rest of the expenditure is considered as covering costs not related to "energy performance" and is therefore classified as "neutral". The costs related to biosourced materials are considered as "very favourable".

If the energy or carbon performance renovation allows for a reduction in the building's energy consumption or greenhouse gas (GHG) emissions of the building, but without a jump in class in the Energy Performance Certificate or where the reduction in consumption is less than 30%, then the expenditure is classified as "neutral".

It would also be relevant to identify "missed opportunities", i.e. renovations that renovate one or more energy-related items but without any intention of improving energy performance. For example, a facade renovation without taking advantage of it to better insulate the building.

## Appendix 5 - Climate assessment of local authority budgets – I4CE methodology – Key findings

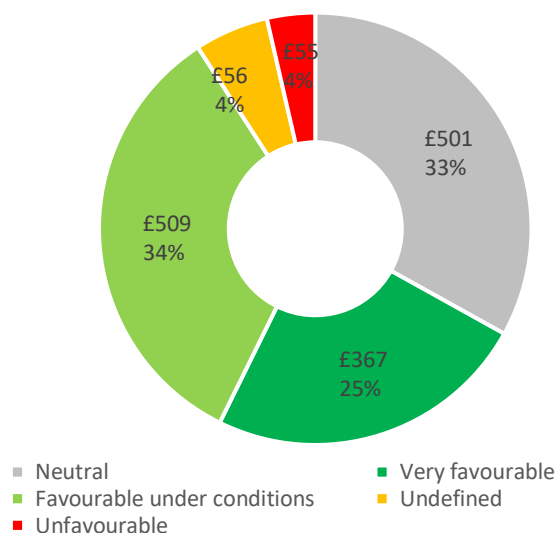


Figure 1: Climate assessment of the Capital Budget Book, total expenditure for 2023-2033. Figures in million pounds (£m)

Top “very favourable” spends:

Project	Cumulated spend (£m) 2023-33	% of total	Justification
Carriageway / Footway Works	£115m	8%	Encourages active travel. Note significant additional money is being spent on active travel through Sustrans funding – not captured here
Road safety and active travel projects	£84m	6%	Includes 20 mph speed limiting, walking projects, cycle projects, George Street project, LEZ development etc.
EnerPHit	£61m	4%	Deep energy retrofit of 10-12 Council buildings

Top “unfavourable” spends:

Project	Cumulated spend (£m) 2023-33	% of total	Justification
LDP schools – new builds	£46m	3%	Includes New Brunstane/Newcraighall Primary School and Maybury Primary School. Although designed to be built beyond building regulations to achieve excellent levels of energy efficiency, 88% of the spend has been classified as ‘unfavourable’ due to the fact that they are generating ‘soil sealing’ (cf Appendix 4). Note: Decisions for the location of these schools have been made several years ago.
Fleet replacement	£6m	<1%	Provisions to procure over a hundred diesel vehicles in the next few years, including to purchase 15x 26T diesel bin lorries (on top of the 5 electric ones funded by ZWS). This will lock in future emissions.

Broomhills/Frogston Primary School	£3m	<1%	New school not exceeding building regulations in terms of energy performance and risk of creating soil sealing
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### Capital Budget Funding Assumptions – 2023-33

Element	£m	Key Assumptions	Date of Latest Update	Date for Next Review
General Capital Grant	398.130	<p>Grant based on Local Government Finance Circular No. 11/2022 issued in December 2022, setting out general capital grant for 2023/24.</p> <p>This provides</p> <ul style="list-style-type: none"> <li>Core General Capital Grant - £37.945m</li> <li>Free School Meals - £4.917m</li> <li>Pay Award - £9.709m</li> </ul> <p>The level of core grant is estimated to continue at this level for each year of the ten-year programme, but the school meal and pay award funding is only for 22/23 (already received) and 23/24.</p> <p>In addition, funding for play park renewal is assumed as follows, based on letter issued by Scottish Government in August 2020</p> <ul style="list-style-type: none"> <li>2023/24 - £0.811m</li> <li>2023/24 - £1.216m</li> <li>2024/25 - £2.027m</li> </ul>	Dec 22	Feb 23 when SG budget confirmed
Specific Capital Grants	306.117	<p>Grant based on Local Government Finance Circular No. 11/2022 issued in December 2022, setting out general grant for 2023/24.</p> <p>This provides</p> <ul style="list-style-type: none"> <li>T MDF (Affordable Housing) - £27.950m</li> <li>Cycling, Walking and Safer Routes - £2.299m</li> </ul> <p>The level of grant is estimated to continue at this level for each year of the ten-year programme.</p> <p>In addition, a further £1.209m per annum is assumed from the Place Based Investment Programme for the first three years of the programme.</p>	Dec 22	Feb 23 SG budget confirmed
Asset Sales	35.000	<p>Estimate provided by Head of Estates - December 2022</p> <ul style="list-style-type: none"> <li>23/24 £7m</li> <li>24/25 £4m</li> </ul> <p>Future years will depend on the evolving asset management strategy - £3m per annum is assumed based on historic receipt levels.</p>	Dec 22	Dec 23



Element	£m	Key Assumptions	Date of Latest Update	Date for Next Review
Capital Fund	27.650	The capital fund contains the proceeds of previous years' asset sales. The balance currently stands at £42.531m. Of this £27.733m has been allocated to fund the capital programme and LDP infrastructure based on previous Council decisions. It is assumed that £27.650m is available to fund the capital programme as a small element may be required to fund feasibility work (revenue).	Dec 22	Dec 23
Developers Contributions	6.369	Developers contributions are based on the level of receipts collected from developers for projects within the programme. This level will be reviewed as S75 agreed with developers.	Dec 22	Sept 23
Loans Fund Advances - General	494.037	Borrowing assumptions and cash flow reviewed against revenue budget framework to ensure affordability.	Dec 22	Feb 23 revenue budget confirmed
Loans Fund Advances – Outcome-based funding	(included in general figure above)	Learning Estate Investment Programme (LEIP) – £19.0m has been assumed for Currie High School, based on the most recently received funding letter and prorated amounts have been assumed for Liberton and Westhales, based on the sizes of the proposed schools. Enerphit - £10m has been assumed based on the business case for the programme.	Dec 22	Feb 23 Phase 3 of LEIP to be confirmed shortly
Loans Fund Advances – Prudential	32.652m	This is based on approved business cases for Fleet Replacement, Depots Review and ICT programmes. It also includes the £5m loan to the Festival City Theatres Trust for the refurbishment of the King's Theatre.	Dec 22	Sept 23
Loans Fund Advances – On Lending	182.515	Funding matches expenditure – fully funded business case	Dec 22	Sept 23
Loans Fund Advances – Tram to Newhaven	1.755	Funding matches expenditure – fully funded business case	Dec 22	Sept 23
Slippage	10.502	Based on previous outturn positions, it is assumed that the February budget position will slip by at least 10%. This allows us to gain a truer picture of the underlying need to borrow to finance the capital programme. It is assumed that roughly half of the slipped expenditure will fall into the year immediately following the original planned budget and the remainder into the year after.	Dec 22	Sept 23

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# Finance and Resources Committee

10.00am, Tuesday, 7 February 2023

## Accounts Commission: Local Government in Scotland – Financial Bulletin 2021/22

Executive/routine  
Wards  
Council Commitments

### 1. Recommendations

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- 1.1 Members of the Finance and Resources Committee are asked to:
  - 1.1.1 note the contents of the report; and
  - 1.1.2 refer the report to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

**Richard Carr**

Interim Executive Director of Corporate Services

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## Accounts Commission: Local Government in Scotland – Financial Bulletin 2021/22

### 2. Executive Summary

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- 2.1 The report provides a summary of the main issues and themes identified within the Accounts Commission's recently published *Financial Bulletin 2021/22* and how these relate to the local context within Edinburgh.

### 3. Background

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- 3.1 On 12 January 2023, the Accounts Commission published its annual *Financial Bulletin* report. The report is an independent high-level analysis of the financial performance of councils during the preceding year (2021/22), their financial standing entering 2022/23 and associated longer-term financial outlook.
- 3.2 As in previous years, the overview will be complemented by the publication of the *Performance Overview* report in May 2023. Both reports are, however, again specifically couched within the context of the pandemic, with the Financial Bulletin including coverage and analysis of its full-year financial impacts and the Performance Overview expected to consider councils' responses to, and recovery from, COVID-19 amidst a wider range of financial and performance challenges.
- 3.3 The report's contents and main conclusions are primarily drawn from councils' audited accounts and associated external audit reports, supplemented by a separate data request issued in October 2022 to which the Council responded.

### 4. Main report

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#### Overview of report and key messages

- 4.1 The report's format largely follows that adopted in previous years, with respective sections on income, financial standing and performance and financial outlook. A series of key messages is also set out on pages 3 and 4 of the report, drawing specific attention to the following:
- (i) Despite additional COVID-19 funding, councils continued to face significant financial challenges during 2021/22, requiring significant savings to deliver balanced budgets and increasingly difficult choices to be made about spending priorities;

- (ii) in 2021/22, councils' savings performance continued to improve and total usable reserves increased, which councils have used to contribute towards meeting budget gaps arising from service demand and budget pressures;
- (iii) in 2021/22, Scottish Government revenue funding to councils increased by 5.3% in real terms<sup>1</sup>. This represented the first real-terms increase on the 2013/14 revenue funding position since 2015/16 (excluding one-off COVID-19 money). In 2021/22, revenue funding levels for local government and other parts of the Scottish Government budget (excluding COVID funding) have converged back to a level similar to eight years ago;
- (iv) an increasing proportion of local government funding is now either formally ring-fenced or provided with the expectation it will be spent on specific services. The report calculates this to be 23% of total revenue funding in 2021/22. Ring-fenced and directed funding helps support delivery of key Scottish Government policies but removes local discretion and flexibility over how these funds can be used by councils;
- (v) councils have noted that COVID-19 and inflationary costs are having an impact on capital projects. If these issues persist, they will present risks to councils' capital programmes which form a necessary component of modernising services to deliver improved outcomes for local communities;
- (vi) Councils face the most difficult budget-setting context seen for many years with the ongoing impacts of COVID-19, inflation and the cost of living crisis. They will need to continue to make recurring savings and also make increasingly difficult choices with their spending priorities, including, in some cases, potential service reductions; and
- (vii) two-thirds of councils intend to use reserves to help bridge the 2022/23 gap between anticipated expenditure and revenue (budget gap) of £0.4 billion but this reliance on non-recurring reserves is not sustainable in the medium to long term. Delivering recurring savings and reducing reliance on using reserves to fill budget gaps will be key to ensuring longer-term financial sustainability. This makes the case for a continued focus on service reform, based on strong engagement with communities, more important now than ever.

4.2 Given the report's Scotland-wide coverage, not all of its recommendations are of direct relevance to Edinburgh but much of the content nonetheless resonates with the Council's own circumstances.

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<sup>1</sup> This total includes sums with corresponding additional commitments, meaning that the underlying level of core revenue grant funding for Local Government increased by around 1%.

## Specific references or areas of particular relevance to Edinburgh

- 4.3 **Paragraphs 7 to 10** and **Exhibit 1** indicate the broad composition of councils' funding and income over the period from 2019/20 to 2021/22. While differences across years are reflective of COVID-related disruption and/or business grant reliefs, in all cases, Edinburgh's balance of funding reflects relatively higher levels of Council Tax, Non-Domestic Rates and customer and client receipts, with a correspondingly reduced level of General Revenue Grant funding given the needs basis of the overall Local Government Finance Settlement. As with other councils across Scotland, an increasing proportion of this external grant funding is either formally ring-fenced or provided with the expectation it will be spent on specific services.
- 4.4 **Paragraph 11** details an overall improvement in in-year collection rates for Council Tax during 2021/22, such that rates broadly returned to pre-pandemic levels. This position was consistent with that in Edinburgh, where the in-year collection rate improved from 96.0% in 2020/21 to 96.8% in 2021/22, marginally below the 97.0% achieved in 2019/20. The in-year collection rate achieved continued to represent, by some margin, the highest of the four city authorities, maximising the availability of resources to support frontline service delivery.
- 4.5 **Paragraphs 17 to 20** provide a high-level overview of Scottish Government funding levels during the year, with the overall real-terms growth set out largely comprising additional sums, with related commitments, for education and health and social care. The Council's underlying like-for-like core grant funding settlement for 2021/22 showed an increase of 2% in cash terms.
- 4.6 **Exhibit 5** summarises councils' relative budget savings gaps at the time of budget-setting. Edinburgh's gap, at £31.1m, was broadly in line with the Scottish average of 3% of net expenditure. A savings programme to address this requirement on a recurring basis was developed and approved by Council in February 2022. Of these savings, 89% by value were then delivered as shown in **Exhibit 6**, continuing the improving trend of recent years and close to the Scotland-wide average of 94% noted in Paragraph 23.
- 4.7 While the position for 2022/23 will not be confirmed until May 2023, the level of savings delivery is expected to have continued the improving trend apparent in recent years, linked to the putting in place of more robust scrutiny at the savings inception, implementation and delivery stages. It should be acknowledged, however, that the majority of these approved savings in 2022/23 are of a corporate nature, meaning that sustaining these levels of delivery will become more challenging when a greater proportion requires to come from frontline services.
- 4.8 In common with the majority of other councils, as shown in **Exhibit 7** the Council's level of reserves increased in 2021/22. As of 31 March 2022, the General Fund reserves had increased to £257.205m, a movement of £36.172m from the preceding year. This sum reflected the net in-year application of COVID-related funds of £14.518m, offset by increases in sums set aside for specific investments of £31.680m and various, primarily statutory, other funds (including the Council Tax

Discount Fund, Devolved School Management Fund and the Council's General Fund) of £19.010m.

- 4.9 Of these total usable reserves, around a third were COVID-related and earmarked to support specific initiatives or offset continuing income shortfalls, or additional expenditure, assumed within the budget framework. The revenue budget update report elsewhere on today's agenda assumes full application of these COVID-related sums over the period to 2026/27.
- 4.10 **Paragraphs 28 to 32** consider the in-year impact of the pandemic and inflationary pressures on councils' capital programmes. While the actual level of capital expenditure reported was also a product of year-on-year variation in planned spend, the Council's gross capital expenditure in 2021/22 was 30% higher than in 2020/21, primarily due to a gradual resumption of relevant projects following the pandemic. Significant delays were nonetheless experienced due to the scarcity of key construction materials and staff taking time to return from furlough, as well as the new standard operating practices on-site reducing productivity leading to elongation of the capital programme. While some of this slippage is expected to have been naturally occurring, the majority was COVID related, with the lost time gradually recovered across the programme as a whole.
- 4.11 **Paragraphs 33 and 34** provide an overview of councils' debt levels during the year, noting a slight increase across Scotland as a whole. Edinburgh's own debt levels mirrored this position, with a year-on-year increase of 0.2%. Full related provision for financing charges is, however, included in the revenue budget framework and the actual level of external debt is lower than the Capital Financing Requirement (CFR) as the Council has adopted a position of under-borrowing, as set out in the Treasury Strategy.
- 4.12 **Paragraphs 35 to 39** contain an overview of in-year investment returns for Scotland's Local Government Pension Funds.
- 4.13 The remaining section of the Audit Scotland report looks at **councils' financial standing and outlooks as of the time of setting 2022/23 budgets** in February 2022. The Council undertook a comprehensive realignment of its reserves policy as part of setting the 2021/22 budget, almost doubling the size of its unallocated general reserve and reprioritising a number of other existing earmarked reserves in recognition of the on-going expenditure and income impacts of the pandemic. The 2022/23 budget was set against this backdrop.
- 4.14 A five-year timeframe was also adopted with regard to revenue budget-setting, albeit with significant gaps remaining in later years of the framework. The planning assumptions underpinning future years' funding gaps are subject to on-going review and an assessment of the implications of the Scottish Government's recently announced Budget for 2023/24 is included elsewhere on today's agenda.
- 4.15 In general terms, however, the Council continues to face significant financial pressures resulting from increased demand for services, inflation and legislative reform, as well as the on-going financial impacts of the pandemic. These factors are set against a backdrop of core grant funding (accounting for around three quarters

of the Council's overall income) that is not increasing. While opportunities for efficiencies will be examined in the first instance, members will therefore likely need to make increasingly difficult choices about the Council's priorities, including considering service reductions, across all service areas to maintain expenditure in line with available income.

- 4.16 **Paragraphs 43 to 47** summarise the main elements of the Scottish Government's Resource Spending Review announced in May 2022, with an essentially unchanged planning allocation for local government over the period from 2023/24 to 2026/27. While each year's budget is subject to separate annual Parliamentary consideration, the overall funding allocations for Local Government, when account is taken of funding for new or expanded commitments, are consistent with this baseline assumption.
- 4.17 The remaining paragraphs of the report summarise the background to councils' budget-setting processes for 2022/23. Edinburgh's budget gap was slightly lower than the Scottish average, with around a third of this requirement addressed through a 3% increase in Council Tax rates and the remainder through the identification of recurring savings, the majority of which were in corporate budgets.

## **5. Next Steps**

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- 5.1 Publication of the Financial Bulletin will be complemented by the issuing of the *Performance Overview* report in May 2023 and a subsequent report will therefore be brought forward to both the Finance and Resources and Governance, Risk and Best Value Committees.

## **6. Financial impact**

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- 6.1 There is no direct impact arising from the report's contents but the report reminds officers and members of the importance of a number of aspects of sound financial management in underpinning longer-term sustainability.

## **7. Stakeholder/Community Impact**

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- 7.1 There is no direct impact arising from the report's contents.

## **8. Background reading/external references**

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- 8.1 [Revenue Budget 2021/22: outturn report](#), Finance and Resources Committee, 8 September 2022
- 8.2 [City of Edinburgh Council – 2021/22 Annual Audit Report to the Council and the Controller of Audit](#), Finance and Resources Committee, 10 November 2022

## **9. Appendices**

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One – Local Government in Scotland – Financial Bulletin 2021/22



Local government in Scotland

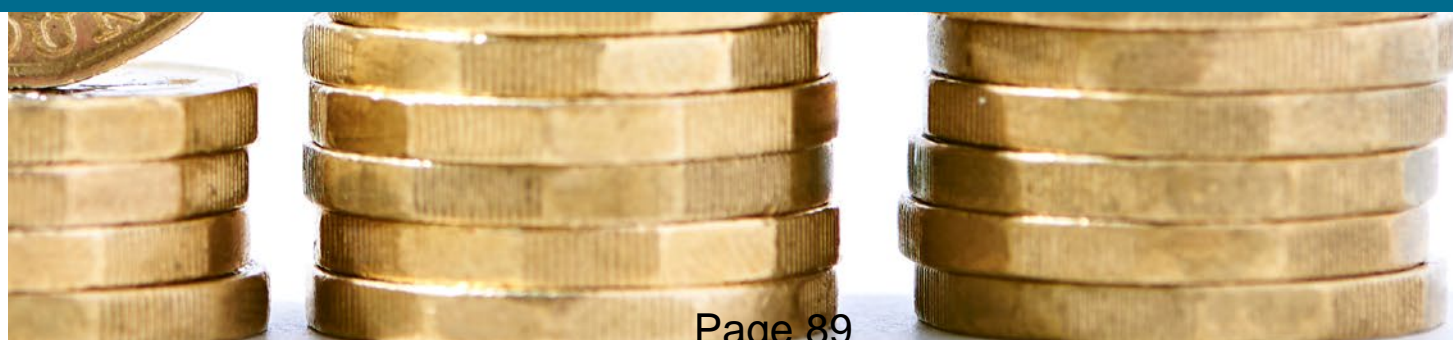
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# Financial bulletin 2021/22



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
January 2023



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## **Audit team**

The core audit team consisted of: Blyth Deans, Adam Bullough, Chris Lewis and Martin Allan under the direction of Carol Calder.

# Key messages

## Local government finances for 2021/22

- 1** Despite additional Covid-19 funding, councils continued to face significant financial challenges during 2021/22, requiring significant savings to deliver balanced budgets and increasingly difficult choices to be made about spending priorities.
- 2** In 2021/22, councils' savings performance continued to improve and total usable reserves increased, which councils have used to contribute towards meeting budget gaps arising from service demand and budget pressures.
- 3** In 2021/22, Scottish Government revenue funding to councils increased by 5.3 per cent in real terms. This represented the first real-terms increase on the 2013/14 revenue funding position since 2015/16 (excluding one-off Covid-19 money). In 2021/22, revenue funding levels for local government and other parts of the Scottish Government budget (excluding Covid-19 funding) have converged back to a level similar to eight years ago.
- 4** An increasing proportion of local government funding is now either formally ring-fenced or provided with the expectation it will be spent on specific services. We calculate this to be 23 per cent of total revenue funding in 2021/22. Ring-fenced and directed funding helps support delivery of key Scottish Government policies but removes local discretion and flexibility over how these funds can be used by councils.

- 5 Councils have noted that Covid-19 and inflationary costs are having an impact on capital projects. If these issues persist, they will present risks to councils' capital programmes which form a necessary component of modernising services to deliver improved outcomes for local communities.

## **Outlook for local government finances**

- 6 Councils face the most difficult budget-setting context seen for many years with the ongoing impacts of Covid-19, inflation and the cost of living crisis. They will need to continue to make recurring savings and also make increasingly difficult choices with their spending priorities, including, in some cases, potential service reductions.
  - 7 Two-thirds of councils intend to use reserves to help bridge the 2022/23 gap between anticipated expenditure and revenue (budget gap) of £0.4 billion but this reliance on non-recurring reserves is not sustainable in the medium to long term. Delivering recurring savings and reducing reliance on using reserves to fill budget gaps will be key to ensuring longer-term financial sustainability. This makes the case for a continued focus on service reform, based on strong engagement with communities, more important now than ever.
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# About this report

- 1.** This bulletin provides a high-level independent analysis of the financial performance of councils during 2021/22 and their financial position at the end of that year. It also sets out some of the longer-term financial challenges facing councils in the context of the Scottish Government's Resource Spending Review and the cost of living crisis.
- 2.** The Accounts Commission's wider local government overview report will be published in May 2023 and will include further analysis of the financial information presented in this bulletin along with wider commentary on the financial and performance challenges facing local government.
- 3.** Our primary sources of information for the financial bulletin are councils' 2021/22 audited accounts, including management commentaries and the 2021/22 external annual audit reports, where available. We have supplemented this with data collected as part of a data set request issued to local auditors in October 2022.
- 4.** The Covid-19 pandemic has again created challenges that have affected the preparation of this report. The rescheduling of audit timetables meant that audited accounts did not require certification until 30 November 2022. Ten sets of accounts were certified by the revised deadline, with a further 16 signed off thereafter. As at 20 December 2022, five councils' accounts are still to be certified; therefore, analysis in this report is based on 27 sets of audited accounts and five sets of unaudited accounts.
- 5.** We refer to 'real-terms' changes in this bulletin. This means that we are showing financial information from past and future years at 2021/22 prices, adjusted for inflation so that they are comparable. To make that comparison we use gross domestic product (GDP) deflators to adjust for inflation, which are published quarterly by HM Treasury. GDP deflators are the standard approach adopted by both the UK and Scottish governments when analysing public expenditure. As a result of the way that GDP is calculated, Covid-19 resulted in volatility across 2020/21 and 2021/22. To compensate for this, and to provide meaningful comparisons between years, we have used an average GDP growth rate across 2020/21 and 2021/22 in our calculations to separate inflation (changes in prices) from changes in outputs and those largely attributable to Covid-19 spending.
- 6.** We also refer to figures in 'cash terms' in this bulletin. When we use this term it means that we are showing the actual cash or money paid or received.

# 1. Councils' financial summary 2021/22

## Total revenue funding and income

**7.** Total revenue funding and income to councils was £20.3 billion in 2021/22, a £0.3 billion (or one per cent) decrease on the previous year in real terms (one per cent increase in cash terms) ([Exhibit 1, page 7](#)). The majority (55 per cent) of this funding comes from the Scottish Government, with the remaining balance from other sources, see Exhibit 1 for a full breakdown.

**8.** Councils have received a range of new and additional funding amounting to £1.3 billion in 2020/21 and £0.5 billion in 2021/22 to support them in dealing with the financial impacts of the Covid-19 pandemic. This additional Covid-19 funding has decreased as a proportion of overall council funding as the pandemic has progressed, from six per cent of total funding received in 2020/21 to three per cent in 2021/22.

**9.** The Scottish Government also provided councils with £90 million to allow them to freeze council tax levels in 2021/22.

**10.** Excluding Covid-19 related funding, revenue funding and income saw a £0.5 billion (or three per cent) real-terms increase in 2021/22 on the previous year, from £19.3 billion to £19.8 billion.

### **The average Council Tax collection rate across Scotland increased during 2021/22. It is now more in line with pre pandemic levels**

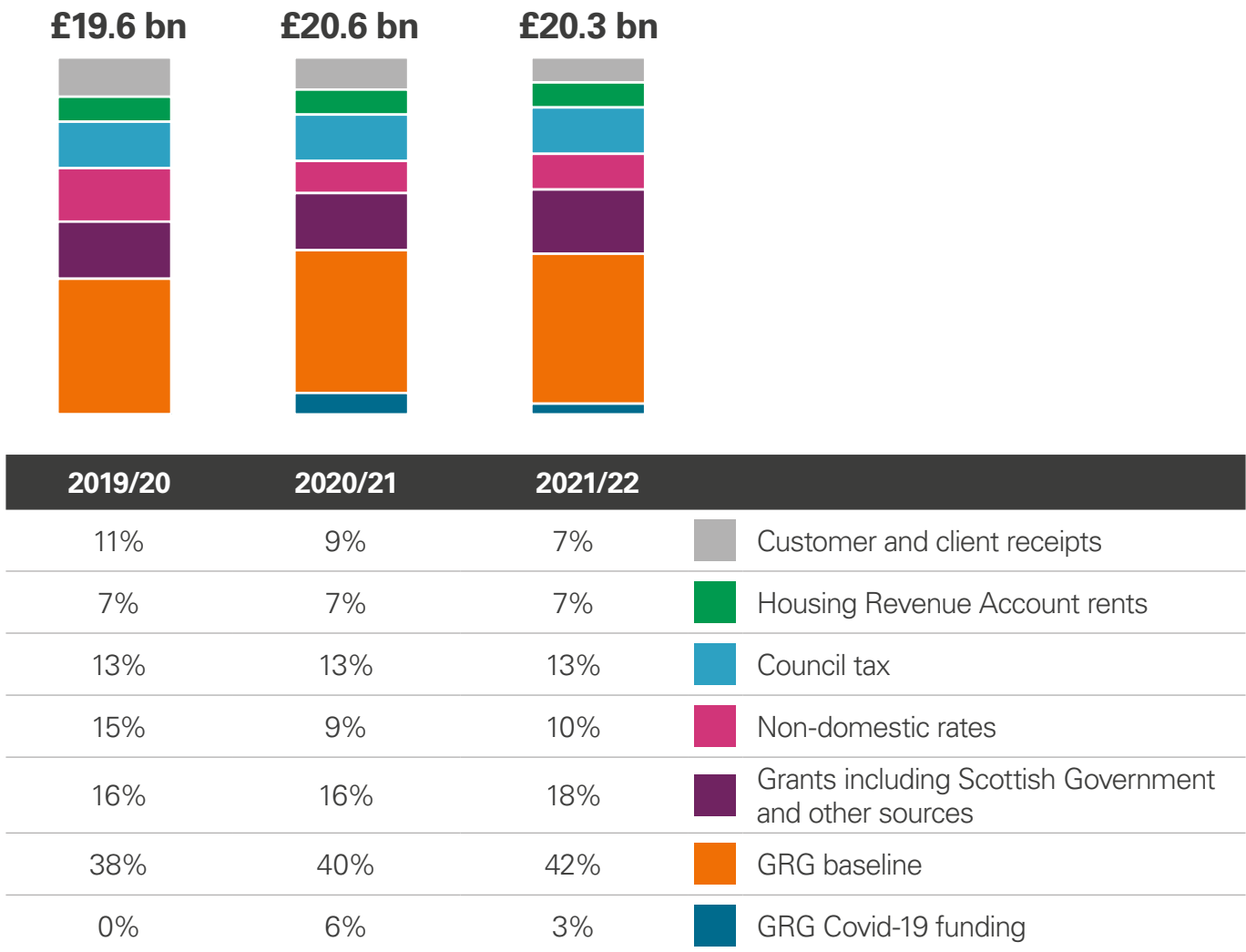
**11.** The in-year collection rate (for 2021/22 charges) increased from an average of 94.8 per cent in 2020/21 to 95.7 per cent, which is broadly in line with pre-pandemic collection rates (95.8 per cent in 2019/20). Collection rates rose across all councils apart from Midlothian which remained static and Orkney which fell by 2.5 per cent. The total amount of council tax billed, taking account of council tax reductions, was £2.7 billion. Of this total, £2.6 billion was collected by 31 March 2022.

Revenue funding and income saw a 3 per cent real terms increase in 2021/22, once Covid-19 related funding is excluded

## Exhibit 1.

### Sources of funding and income 2019/20 and 2021/22

Total revenue funding and income to councils was £20.3 billion in 2021/22, a £0.3 billion (or one per cent) decrease on the previous year in real terms (one per cent increase in cash terms).



Source: Audited financial statements 2019/20, 2020/21 and 2021/22

## Scottish Government funding

**12.** In 2021/22 councils received total revenue funding of £12.1 billion from the Scottish Government. This consisted of General Revenue Grant funding of £8.7 billion; Non-Domestic Rates distribution (NDR) of £2.1 billion, specific grants of £0.8 billion and non-recurring Covid-19 funding of £0.5 billion. Total revenue funding to councils from the Scottish Government increased by 1.1 per cent in cash terms and decreased by 1.6 per cent in real terms in 2021/22 compared to the previous year ([Exhibit 2, page 8](#)).

## Exhibit 2.

### Changes in Scottish Government revenue funding in 2021/22

Scottish Government revenue funding fell by 1.6 per cent in real terms in 2021/22, although when non-recurring Covid-19 funding is taken out there is an increase of 5.3 per cent.

	2020/21 £ million	2021/22 £ million	Cash change %	Real terms change %
General revenue grant	8,099	8,682	7.2	4.4
Non-domestic rate income	1,868	2,090	11.9	8.9
Specific revenue grants	710	776	9.3	6.5
Non-recurring Covid-19 funding	1,254	515	-58.9	-60.0
<b>Total revenue funding</b>	<b>11,931</b>	<b>12,063</b>	<b>1.1</b>	<b>-1.6</b>
Total revenue excluding Covid-19	10,677	11,549	8.2	5.3

Source: Finance circulars and Scottish Government budget documents

**13.** When non-recurring Covid-19 funding is excluded, the increase in funding from the previous year is 8.2 per cent in cash terms and 5.3 per cent in real terms.

### An increasing proportion of local government funding is now either formally ring-fenced or provided with the expectation it will be spent on specific services

**14.** Within the £12.1 billion Scottish Government revenue funding, an element is identified by the Scottish Government as specific revenue grants, set out in the annual settlement to councils. This ring-fenced funding, totalling £0.8 billion in 2021/22 (£0.7 billion in 2020/21), must be used to fund identified policies, such as:

- Early Learning and Childcare Expansion (£546 million)
- Pupil Equity Fund (£120 million)
- Criminal Justice Social Work (£86 million).

**15.** In addition to specific revenue grants, other funding is directed for national policy initiatives, though not formally ring-fenced, this funding is provided with the expectation that it will be spent on specific services.



**16.** Collectively, ring-fenced and directed funding totalled £2.7 billion, representing 23 per cent of total revenue funding (18 per cent in 2020/21). £1.61 billion of this was allocated at the start of the year with a further £1.04 billion allocated throughout the year through budget revisions ([Exhibit 3, page 10](#)). A large amount of this was to support elements of education and social care service provision.

### **2021/22 funding levels from the Scottish Government to local government (excluding Covid-19 funding) increased in real terms for the first time since 2015/16 and converged with other Scottish Government revenue funding**

**17.** In previous overview reports, we have commented that Scottish Government funding to local government has not kept pace with relative increases in the levels of funding allocated to other parts of the Scottish Budget. Previous overview reports have also highlighted that for many years now councils have had to make efficiency savings, redesign services, and use reserves to meet budget gaps arising from service demand and budget pressures.

**18.** Revenue funding from Scottish Government to local government between 2013/14 and 2021/22 increased by 6.1 per cent (in real terms) whereas Scottish Government revenue funding to other parts of the Scottish Government budget increased by a significantly higher figure of 27.2 per cent over the same period. This, and previous differences in relative funding, has largely arisen as a result of Scottish Government policy to protect funding for the NHS.

**19.** Over the period 2013/14 to 2021/22, after two years of relatively static funding local government saw its real-terms revenue funding fall between 2015/16 and 2020/21 (excluding Covid-19 funding) with 2021/22 being the first year of real-terms growth (excluding Covid-19 funding) since 2015/16. In 2021/22 funding levels for local government and other parts of the Scottish Government budget (excluding Covid-19 funding) have converged back to a level similar to eight years ago.

**20.** The large increases in the Scottish budget in 2020/21 and 2021/22 were a result of Covid-related **Barnett consequentials**. Given these were exceptional sources of funding we have analysed the underlying Scottish Government and local government revenue funding position with Covid-19 funding excluded ([Exhibit 4, page 11](#)). Under this analysis, over the same period, Scottish Government revenue funding to local government increased by 1.6 per cent and Scottish Government revenue funding to other parts of the Scottish Government budget increased by 0.8 per cent.


#### **Barnett consequentials**

The Barnett formula is the way the UK Government ensures that a share of additional funding – allocated only to England – is provided fairly to Scotland, Wales, and Northern Ireland. The formula delivers a fixed percentage of additional funding allocated in England to services which are devolved. Each devolved administration can allocate these funds as it believes appropriate.

## Exhibit 3.

### Ring-fenced elements of Scottish Government revenue funding

The proportion of funding which is ring-fenced and directed or provided for specific services has increased, with around £1 billion allocated during the year in 2021/22.

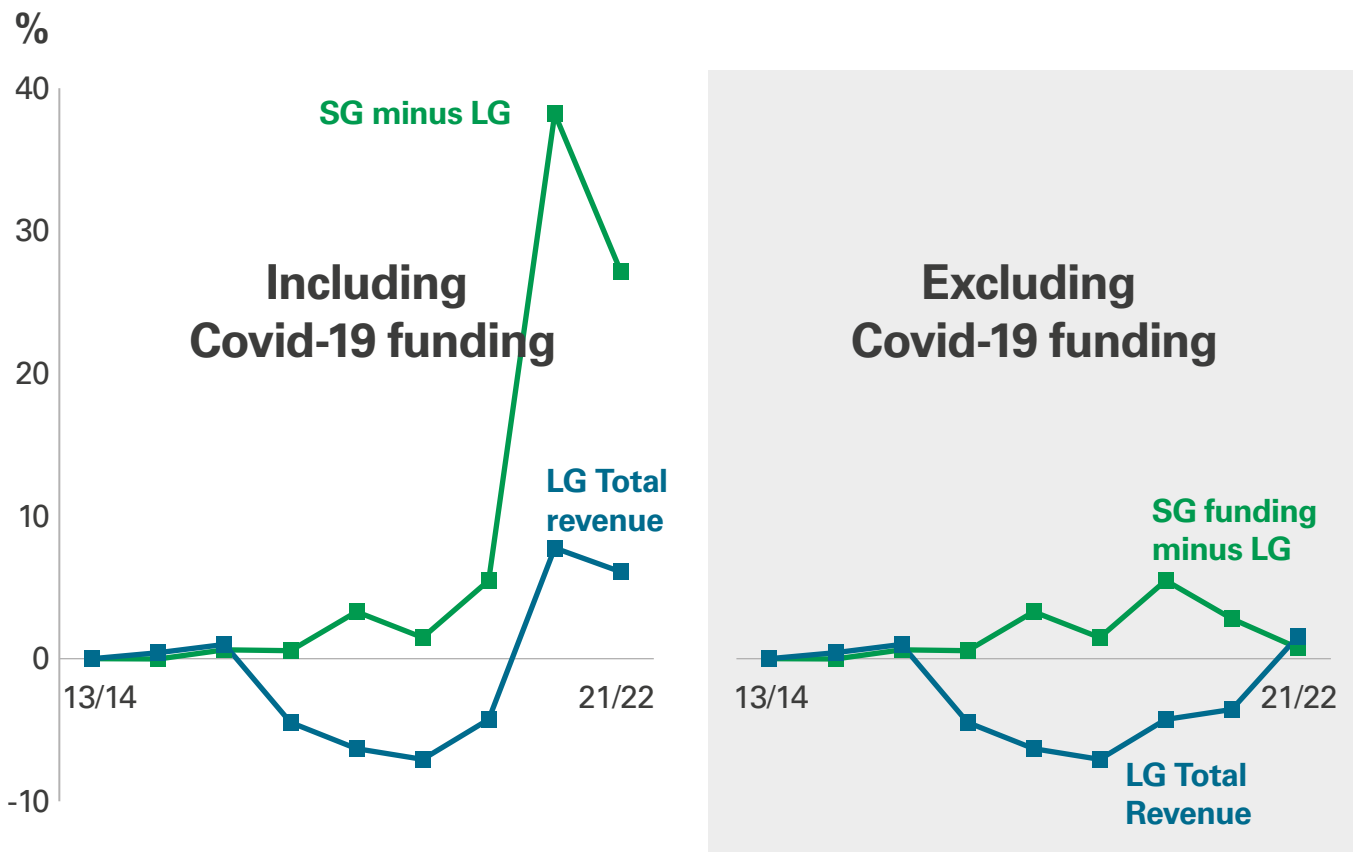
 Source	2020/21 £ million	2021/22 £ million
Specific Revenue Grant from finance circular	709.8	775.9
Measures outlined in initial circular narrative	606.3	347.4
Transfers from other portfolios in Scottish Budget	188.1	488.1
Redeterminations in further circulars	48.0	544.8
Transfers from other portfolios in Autumn budget revision	350.5	395.7
Transfers from other portfolios in Spring budget revision	42.9	104.0
<b>Total ring-fenced/expected to be spent on specific services</b>	<b>1,945.5</b>	<b>2,655.8</b>
Total revenue funding	10,667.8	11,549.0
<b>Percentage ring-fenced/expected to be spent on specific services</b>	<b>18.2%</b>	<b>23.0%</b>

Source: Scottish Local Government Finance Circulars and budget documents. Some elements of funding appear in circulars and Scottish Budget so have been removed to avoid double counting.

## Exhibit 4.

### A comparison of real-terms changes in revenue funding in local government and other Scottish Government areas (including and excluding Covid-19 funding)

Revenue funding from Scottish Government to local government between 2013/14 and 2021/22 increased by 6.1 per cent when Covid-19 funding is included, and by 1.6 per cent when Covid-19 funding is excluded.



Source: Finance circulars and Scottish Government budget documents

## Council budgets and outturn 2021/22

### In 2021/22, budget gaps were largely consistent with previous years

**21.** In 2021/22, Scotland's 32 councils had a budgeted net expenditure of £15.2 billion. At the time of budgeting, councils identified **budget gaps** totalling £0.4 billion (three per cent), which was broadly consistent with the gap identified in the two previous years (£0.5 billion in 2020/21 and 2019/20). The budget gap at a council level varied between one per cent and 22 per cent ([Exhibit 5, page 12](#)).

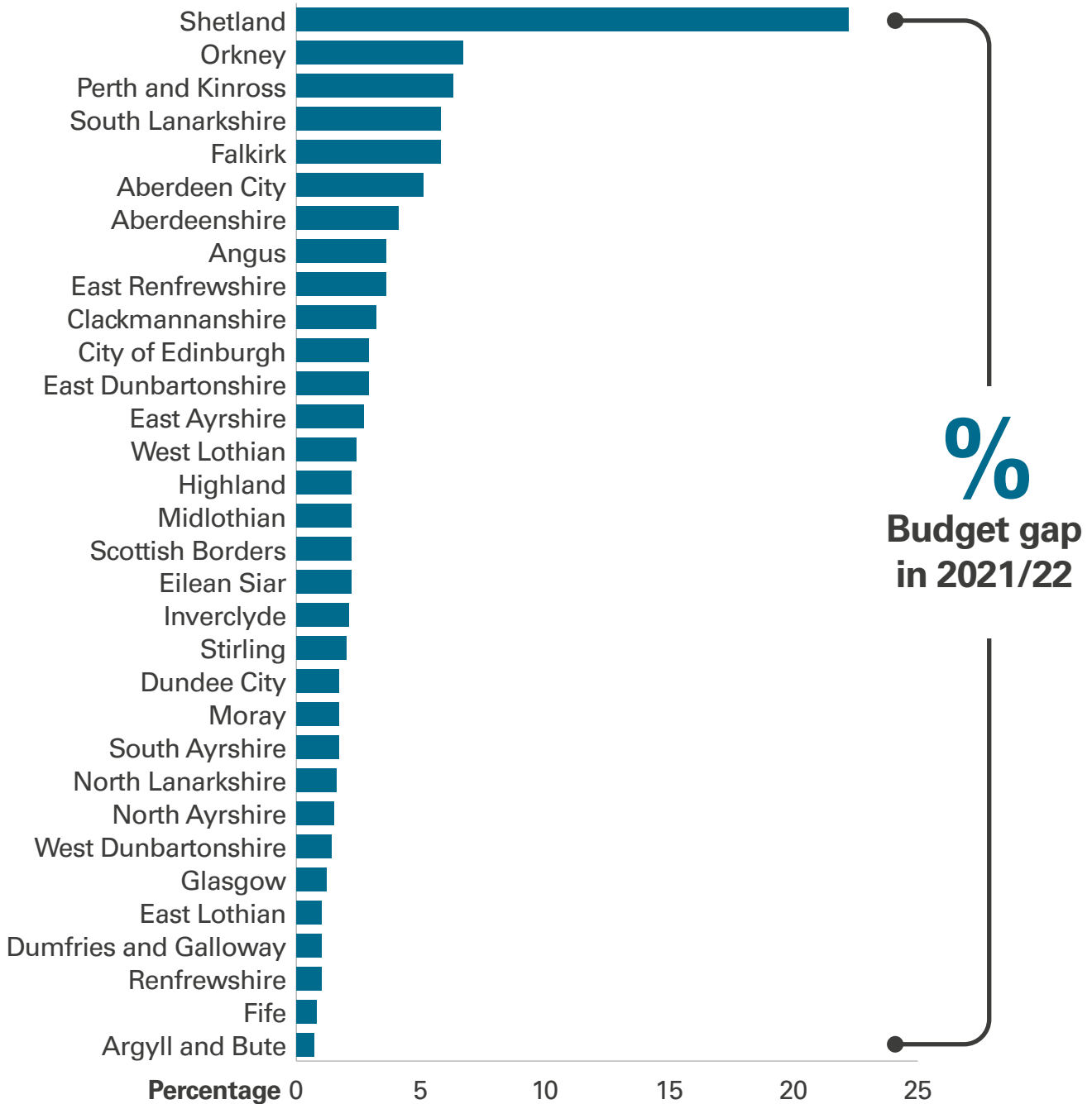
#### Budget gap

This describes the difference between anticipated expenditure and revenue at the time of setting the budget.

## Exhibit 5.

### Budget gap as a proportion of net cost of services for all 32 councils in 2021/22

The budget gap at a council level varied between one per cent and 22 per cent.



Source: Council budget papers, Auditor data return

**22.** Recurring savings were expected to contribute 37 per cent of the £0.4 billion budget gap in 2021/22 along with Scottish Government funding to allow councils to freeze council tax (20 per cent), use of reserves (17 per cent), non-recurring savings (eight per cent), financial flexibilities (four per cent) and a range of other specific actions (12 per cent).

### **Savings performance improved in comparison to previous years**

**23.** Councils had set themselves savings targets totalling £0.2 billion in 2021/22. Ninety-four per cent of these savings were achieved (84 per cent in 2020/21), with 76 per cent on a recurring basis. Fourteen councils achieved their savings targets in full on a recurring basis, whereas five councils had over half of their savings being delivered on a non-recurring basis. Four councils had no savings targets in place for 2021/22 ([Exhibit 6, page 14](#)).

### **Total usable reserves increased by £0.3 billion to £4.1 billion in 2021/22**

**24.** In 2021/22, almost three quarters of councils (23) reported an increase in usable reserves. This compares to all 32 councils reporting an increase in 2020/21, largely as a result of additional Covid-19 funding carried forward. Total usable reserves now stand at £4.1 billion, representing an increase of £0.3 billion (seven per cent) on the previous year. This compares to an increase of £1.2 billion in 2020/21 compared to 2019/20. [Exhibit 7 \(page 15\)](#) details the increase in councils' usable reserves during 2021/22.

**25. General fund reserves**, excluding Housing Revenue Account (HRA), have increased by £0.3 billion to £2.7 billion. The vast majority of this relates to increases in committed balances (that is reserves have been allocated for a specific purpose) which increased by £0.3 billion to £2.3 billion in 2021/22, and is more than half of the total usable reserves balance. Uncommitted reserves (money not earmarked for a specific purpose) have decreased from £0.5 billion in 2020/21 to £0.4 billion in 2021/22. These reserves are used to mitigate the financial impact of unforeseen circumstances. [Exhibit 8 \(page 16\)](#) shows the nature and value of usable reserves in 2021/22.

#### **General fund reserves**

This is the main revenue account which summarises the cost of all services provided by a council.

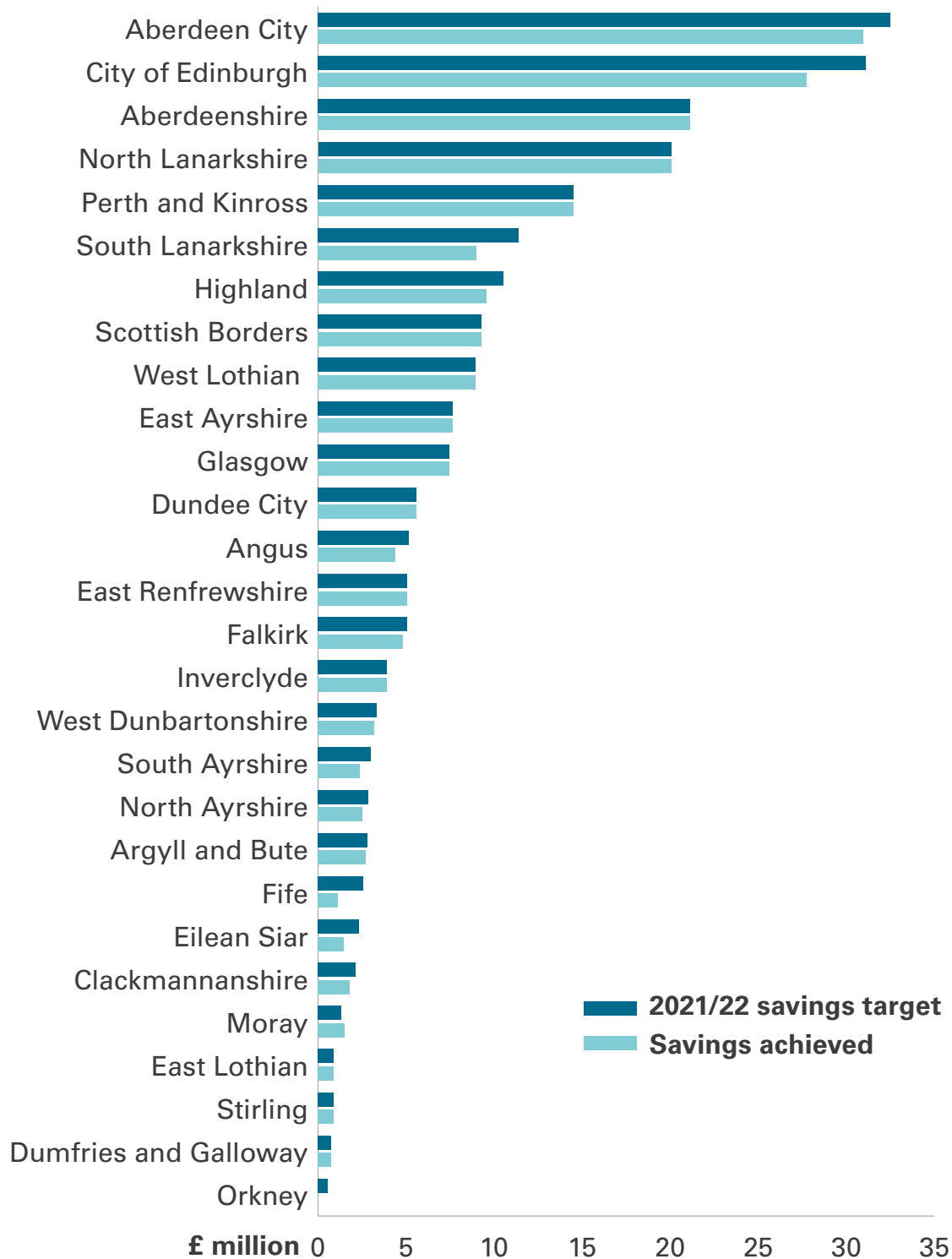
### **Councils have improved the way in which Covid-19 funds are disclosed in their accounts, but the level of detail varies**

**26.** Elements of Covid-19 funding that have been carried forward in general committed and uncommitted reserves total £0.6 billion, 23 per cent of the total general fund balance. However, at a council level this varies between 49 per cent of the total general fund balance (Moray and West Lothian) to eight per cent (Dumfries and Galloway), ([Exhibit 9, page 17](#)).

## Exhibit 6.

### Councils' savings targets compared with savings achieved in 2021/22

Fourteen councils achieved their savings targets.



Note: Excludes East Dunbartonshire, Midlothian, Renfrewshire and Shetland due to not having savings targets in place for 2021/22.

Source: Audited financial statements 2021/22

## Exhibit 7.

### Changes in councils' usable reserves during 2021/22

Twenty-three councils increased their usable reserves.

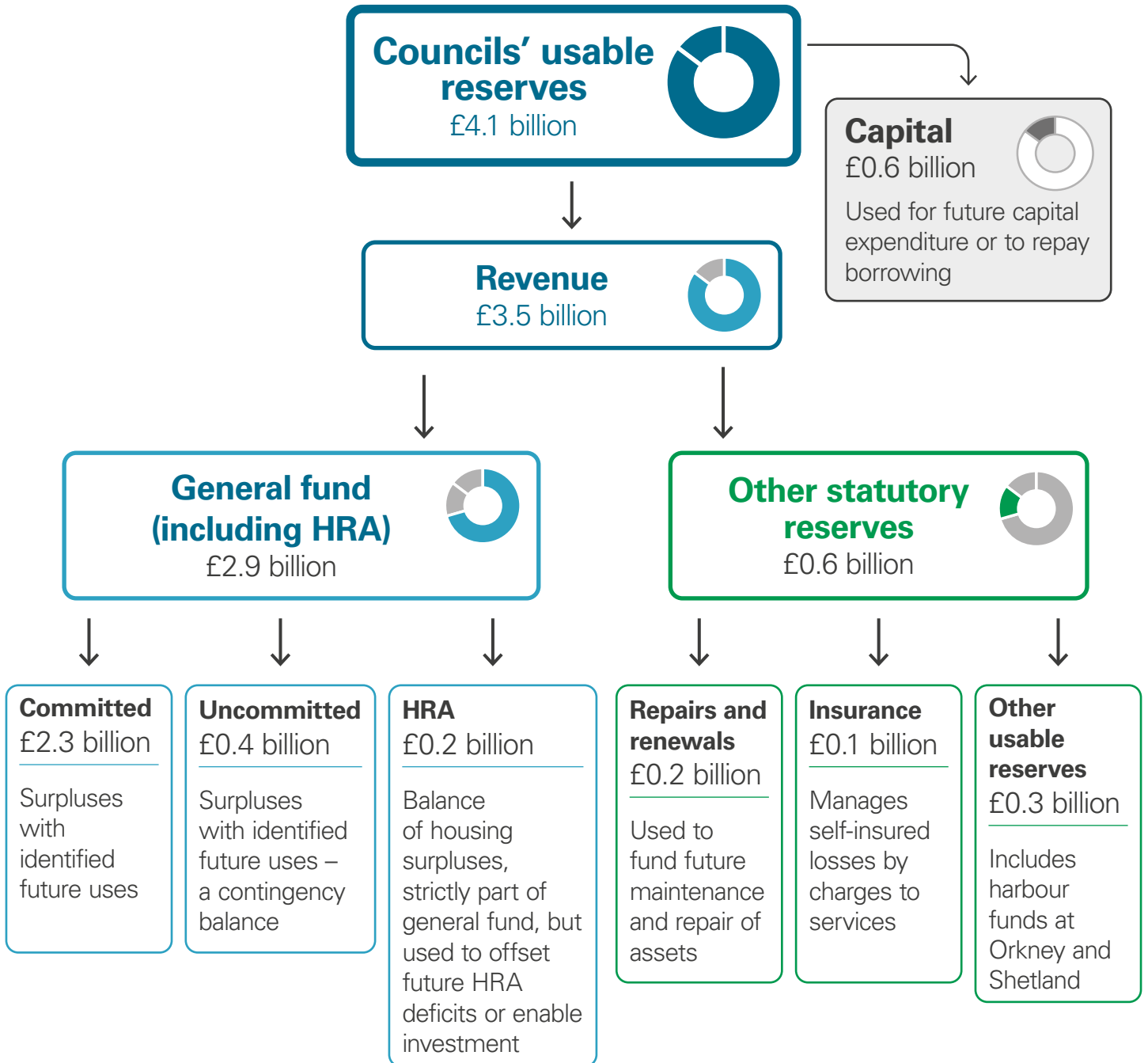


Source: Audited financial statements 2021/22

## Exhibit 8.

### The relative size and nature of councils' usable reserves

In 2021/22, usable reserves held by councils totalled £4.1 billion.

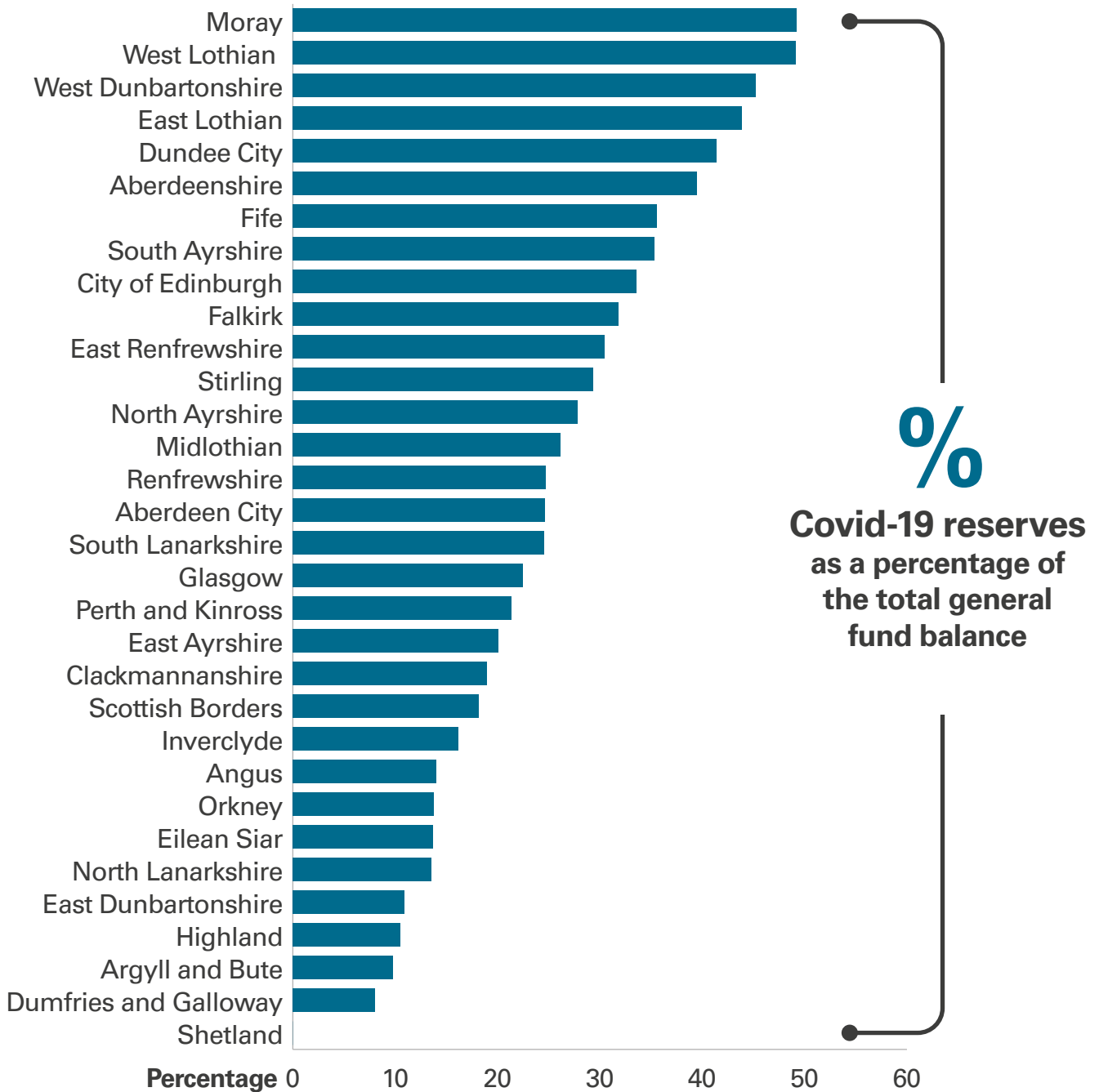


Source: Audited financial statements 2021/22



## Exhibit 9.

### Total Covid-19 reserves as a percentage of the total general fund balance for 2021/22



Note: Excludes Shetland as they do not have any Covid-19 related reserves carried forward.

Source: Audited financial statements 2021/22

**27.** In last year's [Local government in Scotland: Financial overview 2020/21](#) we noted that within the general fund, councils' accounts had not always clearly identified the element arising from Covid-19 funding and recommended that elements of Covid-19 funding that are being carried forward into general reserves should be clearly identified. Councils have improved the way in which Covid-19 reserves are disclosed in their accounts. However, this varies, with nine councils only providing a single line narrative and the remaining councils providing varying levels of detail as to how the funds have been allocated (eg, education, housing, business support, mental health and equalities). Eilean Siar and Aberdeen City had the most detailed breakdowns.

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## Capital

### Capital expenditure increased in 2021/22 though was still below the level in 2019/20

**28.** Capital spending across Scotland increased by £0.7 billion in 2021/22, from £2.4 billion in 2020/21 to £3.1 billion ([Exhibit 10, page 19](#)). Capital spending in 2019/20 was £3.6 billion.

**29.** Twenty-six councils (81 per cent) reported higher capital expenditure in 2021/22 than in 2020/21. Only six councils spent less on their capital programmes in 2021/22 than 2020/21.

**30.** The main sources of capital financing are still government grants. These were largely unchanged from 2020/21 (£1.1 billion in 2021/22 compared to £1.2 billion the previous year), however, the overall increase in capital expenditure means that an increasing amount is financed by borrowing.

### Covid-19, inflationary costs and shortages in construction materials had an impact on capital projects

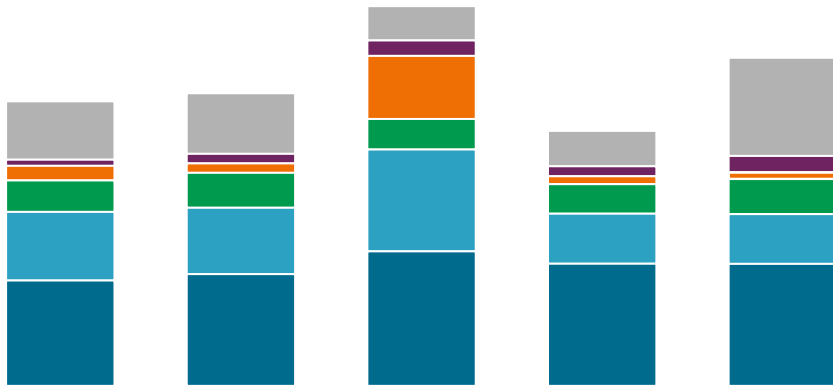
**31.** Auditors in councils reported slippage against capital projects and cited Covid-19, inflationary costs and shortages in construction materials as reasons for this. If these issues persist they will present risks to councils' capital programmes which are a necessary component of modernising services to deliver improved outcomes for local communities. There were some exceptions, for example in West Lothian where expenditure on capital was £141.3 million, an increase of £14.8 million against its original budget. Acceleration of £13.1 million for new developer-funded schools at Winchburgh was the most notable example.

Capital  
spending  
across  
Scotland  
increased in  
2020/21 to  
£3.1 billion

## Exhibit 10.

### Capital expenditure analysed by sources of finance 2017/18 to 2021/22

Capital expenditure increased in 2021/22 although an increasing proportion was funded through an increase in borrowing.



2017/18	2018/19	2019/20	2020/21	2021/22	
21%	21%	9%	14%	30%	An increase in borrowing
2%	3%	4%	4%	5%	Other contributions and Public Private Partnership (PPP)
5%	3%	17%	3%	2%	Capital receipts
11%	12%	8%	12%	11%	Capital Funded from Current Revenue (CFCR)
24%	23%	27%	20%	15%	Internal Loans fund repayments available to reinvest
37%	38%	35%	48%	37%	Government grants
<b>2,687</b>	<b>2,749</b>	<b>3,605</b>	<b>2,408</b>	<b>3,099</b>	<b>Total expenditure (£ million)</b>

Source: Audited financial statements 2017/18 – 2021/22

Further information about how councils may borrow money to fund capital expenditure can be found at [Local government borrowing: factsheet](#).

**32.** Slippage against capital projects was noted at some councils in 2021/22:

- **Dundee City Council:** Capital works costing £57 million were completed in 2021/22 against a budget of £117 million, representing slippage of 51 per cent. This was highlighted as a risk to the council delivering against strategic objectives.
- **East Dunbartonshire Council:** General services capital spending was £69 million compared with an initial budget of £96.3 million, which was subsequently revised downwards to £76.1 million for projects impacted by Covid-19. The main area of slippage was related to a new additional support needs school (£3.5 million) which has been rescheduled to 2022/23. Housing capital expenditure totalled £15.9 million against a revised budget of £17.5 million.
- **East Lothian Council:** The general services capital budget for 2021/22 was £97.7 million. A significant element of the £32.7 million underspend has been reprofiled to 2022/23. In addition to the issues and challenges arising from Covid-19, supply chain problems and the war in Ukraine were reported as having increased certain costs as well as the council's risk exposure for capital investment. The HRA capital budget for 2021/22 was £29.7 million. The overspend of £1.2 million reflects accelerated new build council housing, the costs of which have been partially offset by additional grant funding above the budgeted figure.

### **Net debt has increased by £0.2 billion since 2020/21**

**33.** Total net debt (total debt less cash and investments) has increased across councils by £0.2 billion to £16.4 billion. Fifteen councils have increased their net debt in 2021/22. This compares to eight councils in 2020/21.

**34.** Councils' total debt has increased by £0.3 billion to £19 billion; this may be related to the increased need to borrow to fund capital expenditure, with 19 out of 32 councils having increased long-term borrowing from the previous year and 15 councils with increased short-term borrowing compared to the previous year.

## Local government pension funds

### 2021/22 Pension Fund investment returns, although largely positive, were 62 per cent lower than in the previous year

**35.** Ten of the 11 main Scottish Local Government Pension Funds experienced positive investment returns in 2021/22. Orkney Islands Pension Fund recorded a loss on investment activity, representing 2.7 per cent of the net investment assets brought forward into 2021/22.

**36.** Although Pension Fund investment returns were largely positive, net returns on investments were 64 per cent lower than in 2020/21 (in cash terms). The net returns on investments, as a proportion of the brought forward net investment assets total, varied between a reduction of 2.7 per cent and an increase of 11 per cent in individual funds.

### Scottish Pension Fund's funding positions have generally improved since the last triennial valuation

**37.** Scottish Pension Funds recorded a cumulative **funding level** of 104 per cent, ranging from 92 per cent to 118 per cent, per the triennial actuarial review figures as at 31 March 2020. At the time of this valuation, four of the 11 Scottish Local Government Pension Funds recorded liabilities as being greater than assets. Although four of the funds recorded liabilities in excess of assets, the 2020 position represented an improvement since the 2017 triennial valuation.

**38.** Auditors reported that the Covid-19 pandemic had a significant impact on Scottish Pension Fund's funding position and asset valuations, as indicated in the **triennial valuation** as at 31 March 2020. Auditors have indicated that since the valuation, asset values have largely recovered.

**39.** Preparation is under way for the next triennial valuation covering the period to 31 March 2023. Any changes to employer contributions as a result of the next valuation will not take effect until 2023/24.

#### Funding Level

This describes the pension fund assets as a proportion of the liabilities, arising from pension benefits payable.

#### Triennial valuation

Every three years an actuarial valuation is carried out to monitor the assets of the fund against the liabilities of the pension benefits payable.

## 2. Councils' financial outlook

### Councils are having to deal with a number of significant financial challenges and will need to make some difficult decisions with their spending priorities

**40.** In last year's [Local government in Scotland: Financial overview 2020/21](#) we noted that the longer-term funding position for councils remained uncertain, with significant challenges ahead as councils continued to manage and respond to the impact of Covid-19 on their services, finances and communities.

**41.** At a time when councils and their communities are still feeling the impact of the Covid-19 pandemic, councils are now having to deal with the cost of living crisis and inflationary pressures. Councils consistently identified short- and long-term cost pressures in their initial 2022/23 budget papers, including:

- pay inflation and living wage costs
- costs associated with Covid-19 recovery
- energy inflation
- non-pay inflation (including cost of materials, construction costs and contract inflation)
- demand for and price sensitivity of chargeable services and the related impact on income from fees and charges.

**42.** Common themes across management commentaries from councils unaudited accounts for 2021/22 are that councils continue to face significant financial challenges going forward and will need to deliver consistent recurring savings and use reserves to deal with the immediate and on-going financial impacts. They also note that elected members will need to make increasingly difficult choices, which could include having to consider service reductions. Further commentary and analysis on the future funding position of councils and the associated challenges will be included in the wider local government overview being published in May 2023.

[Local government in Scotland: Financial overview 2020/21](#)

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### **The future funding settlements set out in the Scottish Government's Resource Spending Review reflects flat cash funding settlements for 2022/23 to 2025/26**

**43.** In May 2022 the Scottish Government published the first multi-year Resource Spending Review (RSR) in Scotland since 2011, outlining its resource spending plans to the end of this Parliament in 2026/27. The RSR assumes an overall cash-terms increase to the Scottish Government spending envelope of £5.7 billion over the period 2022/23 to 2026/27. The estimated increase in local government funding over this period would be £0.1 billion. This reflects flat cash funding levels for 2022/23 to 2025/26, with a small uplift in 2026/27. However, the outlook of the RSR may look different after the Scottish Government's 2023/24 budget.

**44.** The Fraser of Allander Institute [reported](#) in May 2022 that the RSR provides welcome insight on government priorities, and highlights a scale of challenges facing public services. However, spending plans are expressed at 'level 2' for the four years of the Spending Review period. That means financial information is at a less detailed level than public bodies would ideally like for planning purposes. It also noted that at the time of their review the RSR implies that the local government budget will decline by seven per cent in real terms between 2022/23 and 2026/27. The Convention of Scottish Local Authorities (COSLA) has expressed concerns that a flat cash settlement will result in fewer jobs and cuts to services.

**45.** Following the RSR, in December 2022, the Scottish Government presented their [proposed spending and tax plan for 2023/24](#) to the Scottish Parliament. In this updated position, the Scottish Government sets out that there will be an increase of over £570 million in additional revenue and capital funding available to councils for 2023/24. They also confirmed that they would not seek to freeze or set a cap on council tax increases, giving council's full flexibility to vary rates locally.

**46.** The recent Scottish Parliament Information Centre (SPICe) [publication](#) reports that, once adjustments are made for the in-year funding councils will receive for free school meals, the additional funding for 2023/24 was just under £640 million. SPICe report that this will represent a £223 million real terms increase in funding, based on 2022/23 prices.

**47.** COSLA had previously estimated a [£1 billion gap](#) for councils in 2023/24 and argue that the uplift amounts to £71 million once national policy commitments are taken into account. They welcome the flexibility to set their own council tax rates but state that the scope to do this will be limited due to the cost of living crisis.

## Budgets for 2022/23

### **Councils intend to bridge the budget gap of £0.4 billion for 2022/23 with planned savings and reserves, but the reliance on non-recurring reserves is not sustainable in the medium to long-term**

**48.** At the time of budgeting, councils identified budget gaps totalling £0.4 billion in real terms, which represented three per cent of the 2021/22 net cost of services. This is consistent with the gap identified in the previous years. The 2022/23 estimated budget gap as a proportion of 2021/22 net cost of services varied across councils from an anticipated surplus of 0.2 per cent to a gap of 23 per cent ([Exhibit 11, page 25](#)).

**49.** The majority of the estimated budget gap for 2022/23 was planned to be funded through the following ([Exhibit 12, page 26](#)):

- agreed recurring savings (36 per cent)
- use of reserves (32 per cent)
- increases in Council Tax (16 per cent).

**50.** Sixty-six per cent of councils intended to use reserves to help bridge the 2022/23 budget gap, however, the use of reserves is not sustainable in the medium to long term. The achievement of recurring savings and a movement away from the reliance and use of non-recurring reserves will be key to ensuring longer-term financial sustainability. This makes the case for a continued focus on service reform, based on strong engagement with communities, more important now than ever.

## 2022/23 funding settlement

### **Scottish Government revenue funding in 2022/23 decreased by 0.1 per cent in real terms when non-recurring funding elements are excluded**

**51.** In [paragraphs 43 to 47](#) we have outlined the longer-term Scottish Government spending plans which were set out in the RSR. The initial local government revenue settlement from the Scottish Government in 2022/23, before taking into account non-recurring elements, increased by 3.9 per cent (cash terms) from 2021/22 to £12.0 billion. This was a real terms decrease of 0.1 per cent ([Exhibit 13, page 27](#)).

**52.** Non-recurring Covid-19 funding provided to councils in 2021/22 was £0.5 billion, the last year of this funding. In 2022/23, an additional £0.25 billion has been allocated to reduce council tax bills.

**53.** Total revenue funding in 2022/23 was £12.3 billion. This is a 2.4 per cent real-terms reduction on the 2021/22 position.

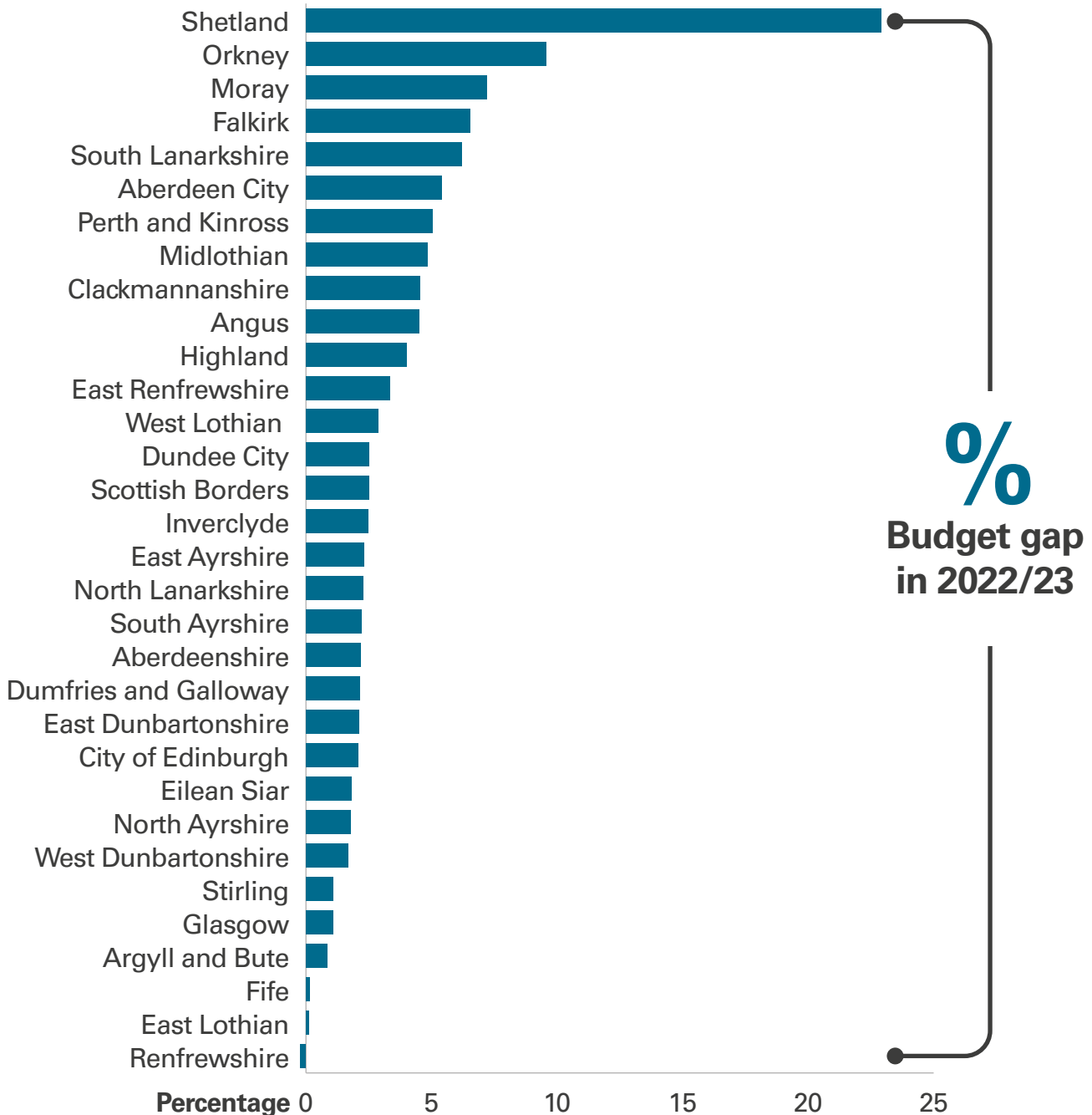
Councils identified budget gaps totalling £0.4 billion (3%) in real terms, of the 2021/22 net cost of services



## Exhibit 11.

### Budget gap as a proportion of net cost of services for all 32 councils in 2022/23

The budget gap at a council level varied between a 0.2 per cent surplus and a 22 per cent gap.

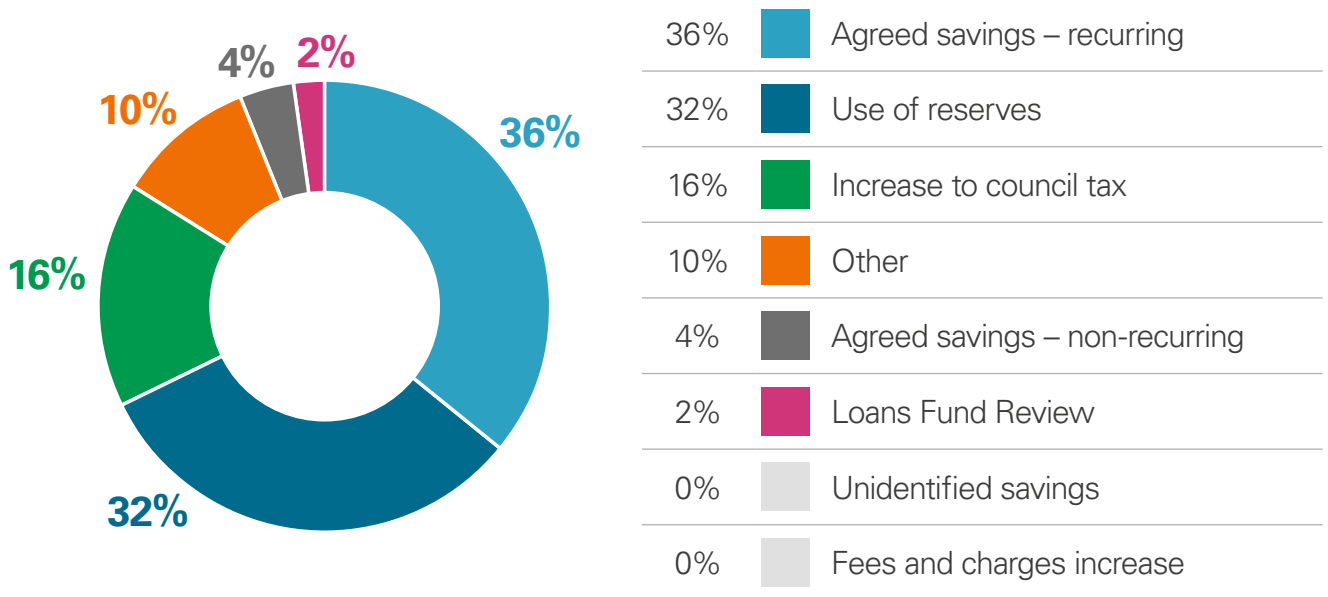


Source: Council budget papers, Auditor data returns

## Exhibit 12.

### Aggregate analysis of all 32 councils' proposed ways to meet the budget gap for 2022/23

The majority of the estimated budget gap for 2022/23 was planned to be funded through agreed recurring savings, use of reserves and increases in Council Tax.



Source: Auditor data returns

## Exhibit 13.

### Changes in Scottish Government initial revenue funding from 2021/22 to 2022/23

Total revenue funding will fall by 2.4 per cent in real terms in 2022/23.

	2021/22 £ million	2022/23 £ million	Cash change %	Real terms change %
General revenue grant	8,682	8,450	-2.7	-6.5
Non-domestic rate income	2,090	2,766	32.3	27.2
Specific revenue grants	776	785	1.1	-2.8
Non-recurring Covid-19 funding	515			
Cost of living funding		250		
<b>Total revenue funding</b>	<b>12,063</b>	<b>12,250</b>	<b>1.5</b>	<b>-2.4</b>
Total revenue excluding Covid-19/ cost of living	11,548	12,001	3.9	-0.1

Source: Finance circulars and Scottish Government budget documents

**54.** Scottish Government funding will not include Covid-specific allocations from the UK Government in 2022/23, however, there will be an increase in the overall Scottish Government budget. If we remove Covid-19 funding in 2021/22 from our analysis, the Scottish Government budget is set to increase by seven per cent in real terms, as opposed to a real-terms cut in local government funding of 0.1 per cent. However, if we include Covid-19 funding in the 2021/22 Scottish Budget, in 2022/23 it falls in real terms by ten per cent, a bigger fall than local government.

## Capital funding

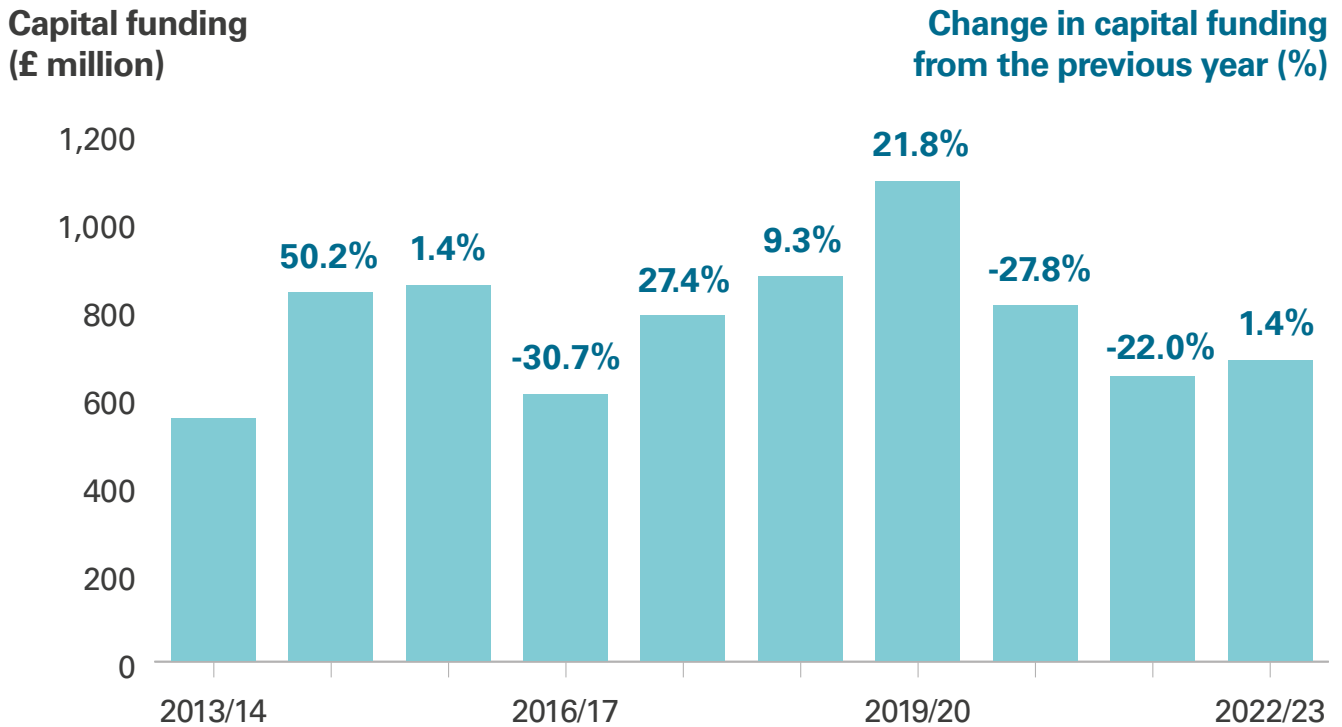
### The Local Government capital settlement in 2022/23 increased from £649 million in 2021/22 to £685 million

**55.** Capital funding has increased by 1.4 per cent in real terms between 2021/22 and 2022/23. Capital funding had experienced significant increases up to 2019/20 before falling in 2020/21 and 2021/22. Real-terms total capital funding has now returned to levels closer to those seen in 2016/17 ([Exhibit 14, page 28](#)).

## Exhibit 14.

### Real-terms Scottish Government capital funding between 2013/14 and 2022/23

Scottish Government capital funding will increase slightly in 2022/23, but this follows two years of decreases over 20 per cent.



Source: Finance circulars and Scottish Government budget documents

**56.** Higher interest rates and inflationary costs will present risks to councils' capital programmes going forward. The affordability of capital spend will be significantly impacted by changes in interest rates. Some councils have anticipated costs will double, which has meant they will need to consider the affordability of their capital programmes going forward.

# Local government in Scotland

## Financial bulletin

### 2021/22

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## Finance and Resources Committee

10.00 a.m., Tuesday, 7 February 2023

### Accounting for Service Concessions

Executive/routine  
Wards  
Council Commitments

#### 1. Recommendations

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- 1.1 The Finance and Resources Committee is asked to note the content of this report and refer it to Council to approve the following recommendations:
- 1.1.1 The Council exercises flexibility on accounting for Service Concessions, effective from 1 April 2023, as permitted under Finance Circular 10/2022;
  - 1.1.2 The retrospective benefit of £95.208m to the end of 2022/23 is transferred into the General Fund, from the Capital Adjustment Account, and its use considered as part of the budget setting process;
  - 1.1.3 Notes that adoption of the guidance will extend the repayment period over a longer timeframe, past the date when government grant support will cease;and
  - 1.1.4 Agrees, for this reason, that future benefits which will accrue under the revised accounting arrangements are ring-fenced to help towards future years' costs.

**Richard Carr**

Interim Executive Director of Corporate Services

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E-mail: [hugh.dunn@edinburgh.gov.uk](mailto:hugh.dunn@edinburgh.gov.uk) | Tel: 0131 469 3150

## Accounting for Service Concessions

### 2. Executive Summary

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- 2.1 The report sets out the outcome of the review of accounting for the Council's service concession arrangements in light of financial flexibilities introduced by the Scottish Government. Adoption of the opportunities available under these financial flexibilities is subject to approval at a meeting of the Council. The report will be considered by Council at its meeting on 9<sup>th</sup> February. Use of retrospective benefits arising from the proposed changes, if approved, will be considered at the Council's budget meeting on 23<sup>rd</sup> February 2023.

### 3. Background

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- 3.1 The Revenue Budget 2022/27 Framework: progress update report to the Finance and Resources Committee on 16<sup>th</sup> June 2022 updated members on the progress with the request from local government for a service concession financial flexibility. The request sought to allow, in accounting terms, the principal element of debt repayments to be spread over the (longer) life of the asset and not the contract term, with the effective "credit" from prior years being treated as overpayments to be made available to fund expenditure.
- 3.2 The report advised that the Scottish Government had confirmed that the flexibility would be made available to councils. Use of these flexibilities is subject to both (i) robust local consideration to ensure such use is prudent, sustainable and affordable over the life of the asset and (ii) explicit approval by Council. The flexibilities may only be applied to existing concession arrangements. The Scottish Government issued Finance Circular 10/2022 setting out further details.
- 3.3 The Council has five service concessions that fall within scope for consideration, noting the flexibilities, if adopted, must be applied to all concessions in scope. The Council cannot choose to apply the flexibilities to some schemes and not others.
- 3.4 The five service concessions within scope are detailed in Appendix 1. Under the accounting arrangements for these service concessions, the Council added £337m of assets to its balance sheet, creating a lease liability of the same value. This amount excludes capital contributions that the Council made as part of the contractual arrangements.



- 3.5 The unitary charge, or contractual payment, made to the providers comprises three elements – payment for services provided, repayment of debt and interest payable. The element relating to repayment of debt is used to write down the lease liabilities over the contract term(s).
- 3.6 At the end of the contract period, the lease liabilities will be fully repaid and the assets are transferred into Council ownership.
- 3.7 As at 31 March 2023, the Council expects to have outstanding lease liabilities of circa £221m arising from these contracts.
- 3.8 Advice and support has been sourced from Link Asset Services for the work undertaken on service concessions.

## 4. Main report

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- 4.1 The Council has four service concession arrangements for the provision of education services, as detailed in Appendix 1. The current arrangements provide for repairs and maintenance to be carried out during the life of the contracts and the assets are expected to be in a good condition when ownership transfers to the Council at the end of the contractual periods in compliance with contract conditions.
- 4.2 Under the new guidance issued by the Scottish Government, councils now have the option to account for the payment for the assets over their useful life, rather than over their contractual period. Other education buildings funded through the capital programme have an asset life of 50 years. It is therefore proposed to extend the repayment period for each of the education service concessions to 50 years, on a consistency basis.
- 4.3 Furthermore, had these assets been provided through the capital programme at the time of construction, the debt repayments would have been calculated on an annuity basis. For consistency purposes, it is also proposed to adopt an annuity repayment method for these assets
- 4.4 The Council is not proposing to change the asset life for the waste facility at Millerhill due to this being an operational asset subject to technology and legislative risk but is proposing, on a consistent accounting basis, to adopt the annuity repayment method.
- 4.5 Members are asked to note that this proposal does not change the amount that will be paid to the service concession providers each year, nor the contract term over which these payments will be made.
- 4.6 Details of the current and proposed repayment profiles are set out in Appendix 2.
- 4.7 The guidance provides councils with the opportunity to apply these changes retrospectively. This allows the Council to revisit the repayments that have been made and restate them over the revised useful life, on the annuity basis proposed. This creates an overpayment situation, which currently sits in unusable reserves (*Capital Adjustment Account*). The Council is permitted to move the overpayment from unusable reserves to its General Fund balance.

- 4.8 Adopting the Scottish Government guidance provides the Council with a retrospective gain of £95.208m as at 31<sup>st</sup> March 2023. Council will be asked to approve the release of this retrospective gain into the General Fund and to subsequently consider its use as part of the budget setting process.
- 4.9 Members should note that the level of reserves held, and the use thereof, is considered as part of the capital financing requirements and inform the Council's Treasury Strategy.
- 4.10 Further savings will be generated in future years through the use of extended asset lives, and the adoption of annuity-based repayments. Extension of asset lives, however, will require the Council to budget for repayments after the end of the service concession contractual periods as the Level Playing Field Support funding provided by the Scottish Government towards debt and interest costs will cease at the end of the contractual periods. The Council's longer financial planning will require to provide for repayments as they fall due. For this reason, it would be prudent for the Council to ring fence and set aside future savings as they arise to help mitigate these costs and anticipated increased repairs and maintenance expenditure in future years.
- 4.11 Members are advised that the Service Director: Finance and Procurement, in his capacity as s95 officer, confirms that the proposals set out in this report, including the set-aside of future years' savings to mitigate increased costs, is consistent with the requirements for the proposal to be prudent, sustainable and affordable. Use of the retrospective gain of £95m should be applied on a prudent basis, recognising the significant incremental funding gaps over the full period of the framework. As reported to members on 10 November 2022, a five-year period for application of the flexibility is considered appropriate.

## **5. Next Steps**

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- 5.1 Subject to the agreement of the Committee, the report will be referred to Council for approval, as required under the Scottish Government guidance.
- 5.2 Should approval be given, the Council will adopt the accounting changes set out in this report as part of its revenue budget strategy.
- 5.3 The Council's Annual Treasury Strategy will consider any impact on the Capital Financing Requirement.
- 5.4 The applicable accounting policies will be updated in the Financial Statements from financial year 2023/24 onwards.

## **6. Financial impact**

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- 6.1 Adopting the Scottish Government guidance by extending the asset lives of the educational schemes assets and using an annuity repayment basis results in a retrospective gain of £95.208m as at 31 March 2023, together with further savings in future years until the end of the current PPP service concession contracts, as noted in 4.10 above.

- 6.2 Extending the asset lives will result in repayments being due after the end of the contractual periods when Level Playing Field Support will also cease. These costs will require to be included in the Council's revenue budget framework as they fall due.
- 6.3 The retrospective benefit is on an accounting basis. Using this retrospective gain as part of the revenue budget framework will increase the Council's Capital Financing Requirement (CFR). Funding the CFR is considered as part of the Council's Annual Treasury Strategy which is reported in March each year to the Council.
- 6.4 Use of the retrospective gain will have an opportunity cost in terms of interest earned on credit balances. For example, use of £20m of gain in 2023/24 would result in foregone interest of £0.6m, assuming an interest rate of 3%. This loss of interest earned on credit balances will be managed within the overall loan charges / investment income budget included in the financial framework.
- 6.5 Level Playing Field Support (LPFS) provided by the Scottish Government towards contractual debt repayments and interest costs will cease at the end of the original contractual period. The Council receives circa £20m of LPFS funding per annum.
- 6.6 The current and proposed repayment position is summarised in the following table, with tables on a concession-by-concession basis shown in Appendix 2.

<b>Year</b>	<b>Current repayment £m</b>	<b>Revised repayment £m</b>	<b>(Reduction) / cost £m</b>	<b>NPV at 3.5% £m</b>
Pre 2023/24	115.566	20.358	(95.208)	(95.208)
Due within one year	9.009	2.374	(6.635)	(6.411)
Due within 2 – 5 years	41.728	11.429	(30.299)	(26.825)
Due within 6 – 10 years	64.528	20.065	(44.463)	(33.772)
Due within 11 – 25 years	106.023	131.066	25.043	5.386
Due within 26 – 40 years	-	135.225	135.225	46.446
Due within 41 – 50 years	-	16.337	16.337	3.641
<b>Total</b>	<b>336.854</b>	<b>336.854</b>	<b>-</b>	<b>(106.743)</b>

- 6.7 Council is required to demonstrate that implementing these changes is sustainable and prudent. Retention of future years' savings, as noted in 4.10 above will provide funding towards costs arising after the contractual repayment periods end. Adopting an annuity basis for repayment matches the costs of repaying debt to the useful life of the asset and is an approved repayment basis in line with accounting standards.
- 6.8 At the end of the original contract period, the existing budget, less the LPFS funding, will become available to the Council to meet future costs of school facilities and maintenance that were provided under the PPP contracts and costs arising from the change in accounting treatment proposed.

## **7. Stakeholder/Community Impact**

- 7.1 There is no direct relevance to the report's contents.

## **8. Background reading/external references**

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8.1 [Local government finance circular 10/2022](#)

8.2 [Revenue Framework 2022-27 Progress Update June 2022](#)

## **9. Appendices**

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Appendix 1 In-scope service concessions

Appendix 2 Summary of current and proposed repayment profiles

## In-Scope Service Concessions

Service Area	Provider	Assets provided under arrangement	Year (Contract entered into)	Original Write Down Period	Total amount to be repaid, excl. interest
Waste Disposal	FCC	Provision of residual waste treatment at Millerhill. Joint arrangement with Midlothian Council, on an 80 / 20 basis	2016	26 years Ends 2044/45	£25.090m
Education	Edinburgh Schools Partnership	Provision of school buildings, maintenance and other facilities Ten primary, five secondary and two special schools, one close support unit and one community wing	2001	32 years Ends 2033/34	£80.332m
Education	Axiom Education Ltd	Provision of school buildings, maintenance and other facilities Two primary and six secondary schools	2007	31 years Ends 2038/39	£160.011m
Education	Hub South East Scotland	Provision of a new building for James Gillespie's High School	2013	28 years Ends 2041/42	£33.854m
Education	QHS DBFMCO Ltd	Provision of a new building for Queensferry High School	2018	25 years Ends 2044/45	£37.567m

Note: The above amounts exclude any capital contributions made by the Council towards the overall project costs.

Finance and Resources Committee – 7 February 2023

**PPP1**

The summary position for the PPP1 scheme (Edinburgh Schools Partnership) shows the repayment of the £80.332m debt liability for the current 32-year contract period compared to the calculation based on a 50-year annuity and highlights the following:

<b>Current position</b>		<b>Principal repayments based on a 50-year annuity @ 8.968%</b>		
<b>PPP principal repayments</b>	<b>Current repayment £000</b>	<b>Revised repayments £000</b>	<b>(Reduction) / cost £000</b>	<b>NPV 3.5% £000</b>
<b>Pre 2022-23</b>	38,308	5,636	(32,672)	(32,672)
<b>2022-23</b>	2,596	605	(1,991)	(1,924)
<b>Yrs 2 to 5</b>	15,074	3,014	(12,060)	(10,650)
<b>Yrs 6 to 10</b>	21,018	5,561	(15,457)	(11,889)
<b>Yrs 11 to 25</b>	3,336	41,836	38,500	19,284
<b>Yrs 26 to 40</b>		23,680	23,680	9,167
<b>Total</b>	<b>80,332</b>	<b>80,332</b>	<b>-</b>	<b>(28,684)</b>

- The statutory adjustment for the cumulative repayment of debt liability up to 31 March 2023 is a £32.672m reduction.
- Further annual reductions totalling £31.415m from 2023/24 to 2033/34 when the contract expires
- In the period between 2034/35 to 2051/52 the revised profile will result in a total of £64.087m of higher costs than the current repayment profile (ranging from £1.557m in 2034/35 to £6.703m in 2051/52)
- These higher costs can be partly mitigated by setting aside the £31.415m of annual reductions arising between 2023/24 and 2033/34 in a ring-fenced fund.
- The rescheduling of all the charges gives an NPV saving of £28.684m

## PPP2

The summary position for the PPP1 scheme (Axiom Education Ltd.) shows the repayment of the £160.011m debt liability for the current 31-year contract period compared to the calculation based on a 50-year annuity and highlights the following:

Current position		Principal repayments based on a 50-year annuity @ 5.895%		
PPP principal repayments	Current repayment £000	Revised repayments £000	(Reduction) / cost £000	NPV 3.5% £000
Pre 2022-23	67,383	13,178	(54,205)	(54,205)
2022-23	4,286	1,348	(2,938)	(2,839)
Yrs 2 to 5	17,146	6,232	(10,914)	(9,683)
Yrs 6 to 10	29,203	10,094	(19,109)	(14,383)
Yrs 11 to 25	41,993	55,169	13,176	2,230
Yrs 26 to 40		73,990	73,990	25,619
<b>Total</b>	<b>160,011</b>	<b>160,011</b>	<b>-</b>	<b>(53,261)</b>

- The statutory adjustment for the cumulative repayment of debt liability up to 31 March 2023 is a £54.205m reduction.
- Further annual reductions totalling £58.332m from 2023/24 to 2038/39 when the contract expires
- In the period between 2039/40 to 2057/58 the revised profile will result in a total of £112.537m of higher costs than the current repayment profile (ranging from £3.369m in 2039/40 to £9.446m in 2057/58)
- These higher costs can be partly mitigated by setting aside the £58.332m of annual reductions arising between 2023/24 and 2038/39 in a ring-fenced fund.
- The rescheduling of all the charges gives an NPV saving of £53.261m

## James Gillespie's High School

The summary position for James Gillespie's High School shows the repayment of the £33.854m debt liability for the current 28-year contract period compared to the calculation based on a 50-year annuity and highlights the following:

Current position		Principal repayments based on a 50-year annuity @ 8.205%		
PPP principal repayments	Current repayment £000	Revised repayments £000	(Reduction) / cost £000	NPV 3.5% £000
Pre 2022-23	5,499	692	(4,807)	(4,807)
2022-23	852	112	(740)	(716)
Yrs 2 to 5	3,796	547	(3,249)	(2,879)
Yrs 6 to 10	5,513	976	(4,537)	(3,435)
Yrs 11 to 25	18,194	6,781	(11,413)	(7,293)
Yrs 26 to 40		22,129	22,129	6,839
Yrs 41 to 60		2,617	2,617	639
<b>Total</b>	<b>33,854</b>	<b>33,854</b>	<b>-</b>	<b>(11,652)</b>

- The statutory adjustment for the cumulative repayment of debt liability up to 31 March 2023 is a £4.807m reduction.
- Further annual reductions totalling £23.625m from 2023/24 to 2041/42 when the contract expires.
- In the period between 2042/43 to 2063/64 the revised profile will result in a total of £28.433m of higher costs than the current repayment profile (ranging from £0.500m in 2042/43 to £2.618m in 2063/64)
- These higher costs can be partly mitigated by setting aside the £23.625m of annual reductions arising between 2023/24 and 2041/42 in a ring-fenced fund.
- The rescheduling of all the charges gives an NPV saving of £11.652m



## Queensferry High School

The summary position for Queensferry High School shows the repayment of the £37.567m debt liability for the current 25-year contract period compared to the calculation based on a 50-year annuity and highlights the following:

Current position		Principal repayments based on a 50-year annuity @ 6.301%		
PPP principal repayments	Current repayment £000	Revised repayments £000	(Reduction) / cost £000	NPV 3.5% £000
Pre 2022-23	2,958	374	(2,584)	(2,584)
2022-23	970	141	(829)	(801)
Yrs 2 to 5	4,419	656	(3,763)	(3,331)
Yrs 6 to 10	6,258	1,082	(5,176)	(3,933)
Yrs 11 to 25	22,962	6,168	(16,794)	(9,417)
Yrs 26 to 40		29,146	29,146	7,822
<b>Total</b>	<b>37,567</b>	<b>37,567</b>	<b>-</b>	<b>(12,244)</b>

- The statutory adjustment for the cumulative repayment of debt liability up to 31 March 2023 is a £2.584m reduction.
- Further annual reductions totalling £28.283m from 2023/24 to 2044/45 when the contract expires.
- In the period between 2045/46 to 2069/70 the revised profile will result in a total of £30.867m of higher costs than the current repayment profile (ranging from £0.539m in 2046/47 to £2.618m in 2069/70)
- These higher costs can be partly mitigated by setting aside the £28.283m of annual reductions arising between 2023/24 and 2044/45 in a ring-fenced fund.
- The rescheduling of all the charges gives an NPV saving of £12.244m

## Millerhill

The summary position for Millerhill shows the repayment of the £25.090m debt liability for the current 26-year contract period compared to the calculation based on a 26-year annuity and highlights the following:

Current position		Principal repayments based on a 50-year annuity @ 6.301%		
PPP principal repayments	Current repayment £000	Revised repayments £000	(Reduction) / cost £000	NPV 3.5% £000
Pre 2022-23	1,417	478	(939)	(939)
2022-23	305	169	(136)	(132)
Yrs 2 to 5	1,293	979	(314)	(283)
Yrs 6 to 10	2,537	2,352	(185)	(132)
Yrs 11 to 25	19,538	21,112	1,574	583
<b>Total</b>	<b>25,090</b>	<b>25,090</b>	<b>-</b>	<b>(903)</b>

- The statutory adjustment for the cumulative repayment of debt liability up to 31 March 2023 is a £0.939m reduction.
- Further annual reductions totalling £2.220m from 2023/24 to 2043/44 when the contract expires.
- In financial year 2044/45 the revised profile will result in a total of £3.160m of higher costs than the current repayment profile.
- These higher costs can be partly mitigated by setting aside the £2.220m of annual reductions arising between 2023/24 and 2043/44 in a ring-fenced fund.
- The rescheduling of all the charges gives an NPV saving of £0.903mm

## Finance and Resources Committee

10.00am, Tuesday, 7 February 2023

### Housing Revenue Account (HRA) Budget Strategy 2023/2024 – 2032/2033

Executive/routine Wards Council Commitments	Executive All
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#### 1. Recommendations

- 1.1 It is recommended that Finance and Resources Committee:
  - 1.1.1 Notes the outcome of the annual review of the Business Plan and the annual rent consultation; with just over half of tenants (53%) voting for a third rent freeze and the remainder supporting a 2.5% (31%) and 5% (16%) increase;
  - 1.1.2 Notes that officers recommend that rents be increased by 2.5% in 2023/24 and that a Tenant Hardship Fund will be established to support tenants experiencing financial hardship; including those who cannot access benefits;
  - 1.1.3 Notes the impact of two years rent freezes and increasing costs and that (based on 2.5% rent increases over the next 10 years) around 81% of existing homes can be brought up to Energy Efficiency Standard for Social Housing (ESSH2) standards over the lifetime of the business plan and that only those new homes in design development (c.2,200 social rented homes) can be delivered;
  - 1.1.4 Notes the impact on the capacity of the capital investment programme if rents are frozen by a third year or if rents are increased by 5% in 2023/24, as set out in the Financial Impact section;
  - 1.1.5 Notes that in December 2022, COSLA leaders agreed a Statement of Intent to keep the rental and fee increases to an average of less than £5 a week across the country. A 2.5% rent increase is equivalent to an average of £2.55 a week with a 5% increase equivalent to an average £5.10; and
  - 1.1.6 Agrees to refer the 2023/2024 budget, draft 10-year capital investment programme, and the rent levels for 2023/2024 set out in Appendices 3 and 4 to the Council budget meeting for approval.

**Paul Lawrence**

Executive Director of Place

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## Housing Revenue Account (HRA) Budget Strategy 2023/2024–2032/2033

### 2. Executive Summary

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- 2.1 The 30-year HRA Business Plan is reviewed annually to make financial provision for delivery of day-to-day services to tenants and capital investment in new and existing homes. The Business Plan is seeking to support the delivery of Council commitments, including more Council homes and net zero carbon.
- 2.2 On [24 February 2022](#), Council approved a rent freeze for the second year in a row equating to £179m loss of income over the lifetime of the 30-year business plan from the two rent freezes. Since then, the impact of the Ukrainian war, as well as the long-term impact of the pandemic has seen costs in the construction sector increase by around 30%. The cost-of-living crisis and inflationary rises have meant that the day-to-day delivery of core landlord services are costing almost 20% more than last year's business plan. This reduces the capacity to borrow to invest in improving existing homes and neighbourhoods and building new affordable homes.
- 2.3 Delivery of the EESSH2 programme is expected to reduce energy demand for the average home by 76% providing significant savings for tenants whilst supporting carbon reduction. Based on average fuel bills (October 2022 price cap) a household in a two-bed flat could save over £1,000 a year, after a home has been brought up to EESSH2 standards. However, based on increasing costs it will not be possible to deliver improvements to all our Council homes without significantly increasing rents and securing additional financial support from Scottish Government.
- 2.4 As part of this year's budget consultation tenants were asked whether they would support a 0%, 2.5% or 5% rent increase to help fund investment. It was noted that none of these options would be enough to deliver the original plan. However, it is recommended that a 2.5% rent increase be implemented in 2023/2024. After two years of freezes any increase in rents would be a positive step in getting the business plan to a position to be able to deliver Council commitments, whilst keep rents affordable and any increases well below inflation.
- 2.5 Just over half of tenants supported a rent freeze for a third year in a row. Almost 70% of those who voted for a rent freeze get help with paying their rent with Benefits set to be increased by CPI (10.1%) in April 2023. Therefore, any increase in rents would be covered through a proportionate increase in benefits (assuming tenants' circumstances have not changed). 47% of tenants agreed that rents should be increased in 2023/24, with almost a third (31%) of respondents voting for a 2.5% increase and 16% supported a 5% increase.

- 2.6 The report (para 4.9 to 4.12) and Appendix 5 sets out the support available to tenants to help with paying rent and other bills; including additional resources for the Energy Advice Service and a new early intervention contact system to alert housing officers to tenants who are having difficulty managing their rent account. A new Tenant Hardship Fund will be established to provide support to tenants experiencing financial hardship; including those who cannot access benefits. A report will be brought to Housing, Homelessness and Fair Work Committee setting out how the Fund will be managed.
- 2.7 The one-year revenue budget (Appendix 3) and Draft 10-year Capital Investment Programme (Appendix 4) are predicated on annual rent increases of 2.5%. This would mean that over the lifetime of the business plan 81% of existing homes could be brought up to EESSH2 standards. Those homes in design and development would be completed over the next 10 years (c.2,200 social rented homes), but no new homes would be progressed without rent increases and additional Scottish Government grant funding. Should rents be increased by more than 2.5% or should there be a significant increase in grant funding then the pipeline can be progressed and accelerated in future years.
- 2.8 If a third rent freeze was approved, 8.3% per annum rent increases would be required over the following five years (from 2024/2025 onwards) in order to be able to deliver EESSH2 by 2040 and to build 5,000 homes for social rent by 2034.
- 2.9 A longer-term rent strategy will need to be put in place from 2024/2025 onwards to ensure that the HRA remains financially stable, and to ensure the Council delivers on statutory requirements, including EESSH2. Almost 60% of tenants said they would support a longer-term rent setting strategy, with the three-year period being the most selected option.

### **3. Background**

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- 3.1 On 24 February 2022, Council received a report proposing a below inflation 1.8% rent increase in 2022/2023 (2% per annum thereafter) to enable the revised £2.9b 10-year investment programme to deliver Council commitments, including 10,000 Council-led new affordable homes by 2027 and net zero carbon by 2038/39 (eight years later than originally planned). In light of the ongoing cost of living crisis, Council agreed to freeze rent for a second year in a row instead.
- 3.2 The report also highlighted that a minimum of 2.5% per annum rent increases would be required over the subsequent four years (2023/2024 to 2026/2027) to mitigate the loss of income caused by the second rent freeze and to achieve the long-term investment plan based on the assumptions at the time.
- 3.3 As part of the 2022/23 Programme for Government, the First Minister announced on 6 September 2022 that emergency legislation would be introduced to freeze rent with immediate effect till at least 31 March 2023 and a moratorium on evictions. The Cost of Living (Tenant Protection) (Scotland) Act 2022 was passed at the Scottish Parliament and came into force on 28 October 2022. The legislation introduced a rent increase cap, which was set at 0%, until 31 March 2023. It also gave Scottish Ministers the ability to extend the rent increase cap beyond March 2023 for two additional periods of six months.
- 3.4 On [22 September 2022](#), City of Edinburgh Council agreed a Motion on “Rent Freeze” from the Labour Administration; incorporating an addendum from the SNP Group and an amendment from the Green Group.

- 3.5 On 29 September 2022, Housing Homelessness and Fair work received a report setting out the implications for the HRA of rising costs and rent freezes and agreed to consult tenants on their main financial challenges. Committee was asked to note that the third rent freeze would mean that the Council will not be able to deliver statutory energy efficiency commitments and expand the Council's housebuilding programme without significant rent increases in future years and substantial Scottish Government subsidy.
- 3.6 On 24 November 2022, Scottish Government issued a call for evidence from landlords and tenants on the impact of the rent cap measures for tenants and the implications for landlord service delivery, business and investment plans.
- 3.7 In December 2022, COSLA published a Statement of Intent, prepared in consultation with the Association of Local Authority Chief Housing Officers (ALACHO) and approved by COSLA leaders. Comments were also invited from SOLACE and Directors of Finance. The statement included the following in relation to rent increases *'During these difficult times, as providers of social housing and Gypsy/Traveller pitch or site provision, we intend to keep the rental and fee increases to an average of less than £5 a week across the country.'*
- 3.8 On 21 December 2022, Scottish Government confirmed they would not freeze rents for social landlords beyond March 2023.

## 4. Main report

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- 4.1 The 30-year HRA Business Plan 2023/2024 - 2052/2053 is the financial framework that underpins the Housing Service. The budget is prepared annually following consultation with tenants and the regular review of the 30-year HRA Business Plan (the Business Plan) and the 10-year Capital Investment Programme. It is shaped by statutory compliance and government targets, tenants' priorities and council commitments, as well as life cycle and health and safety.
- 4.2 The Business Plan seeks to make financial provision for the ongoing delivery of core commitments to:
- 4.2.1 Continue to deliver and improve housing management and maintenance services and support tenants to sustain tenancies;
  - 4.2.2 Increase the supply of social rented Council homes by 5,000 homes by 2034 supporting the Council's ambition to reach 25,000 new affordable homes;
  - 4.2.3 Deliver the Scottish Government's requirement for social housing to meet the ESSH2 standard working towards a target of all Council Homes being brought up to this standard by 2040;
  - 4.2.4 Deliver improvements to mixed tenure blocks to make all blocks with Council tenancies warm, energy efficient, modern and secure;
  - 4.2.5 Deliver an area-based approach to design and management of our wider estates aligned to investment in new and existing homes; and
  - 4.2.6 Support and enable large scale regeneration in the city; including the regeneration of Granton waterfront.
- 4.3 The pandemic had an immediate impact on delivery of the capital programme with site closures and additional health and safety measures resulting in elongated programmes and increased costs. These challenges have been compounded by

supply chain disruption, shortages of materials, labour, contractor availability leading to sharp increases in costs. The subsequent war in Ukraine and cost of living crisis linked to volatility in the energy market has meant that the cost of day-to-day delivery of our core landlord services has increased alongside increases in borrowing costs for capital works.

- 4.4 Capital investment is funded through a combination of prudential borrowing, Scottish Government grant funding, capital receipts, in-year revenue surplus and/or sinking fund built up in previous years. The servicing of capital borrowing from previous years accounts for 34% of all expenditure. The financial capacity of the HRA to fund the long-term delivery has deteriorated significantly. The previous two rent freezes have meant a £6m reduction in income per annum (£179m over the business plan). Every £1 million revenue can fund around £16m in capital borrowing.
- 4.5 The assumptions used in the Business Plan have been reviewed and updated to reflect the latest operating environment. Therefore, unless rents are increased significantly or there is a substantial injection of grant funding from Scottish Government to support energy efficiency investment, we will not be able to deliver on the commitments within the timescales set out in 4.2 above. The scale of mitigations required are set out in the Financial Impact section below.

#### **Tenant Consultation**

- 4.6 Each year the Housing Service consults tenants on the annual budget strategy and any associated rent increases. Almost 90% of tenants supported the overall investment plan, which focuses on investing money in building more social housing and making homes warmer and cheaper to run by making them more energy efficient.
- 4.7 As part of this year's budget consultation tenants were asked whether they would support a 0%, 2.5% or 5% rent increase to help fund the plan. However, one of these options would not be enough to get the business plan back on track, after two years of freezes any increase in rents would be a positive step in getting the business plan back on track, whilst keep rents affordable and any increases well below inflation.
- 4.8 Around 10% of tenants felt that rents were not value for money. 64% of respondents were aware of the previous two-year rent freezes. Just over half of tenants supported a rent freeze for a third year in a row. Almost 70% of those who voted for a rent freeze get help with paying their rent. Therefore, any increase in rents should be covered through a proportionate increase in benefits. 47% of tenants agreed that rents should be increased in 2023/2024. Almost a third (31%) of respondents voted for a 2.5% increase and 16% supported a 5% increase.

#### **Help with Rent**

- 4.9 95% of all income to the HRA comes from tenants' rents. Many of our tenants have seen their household income reduced (or interrupted) as a result of the pandemic, requiring help from welfare benefits, such as Universal Credit, to pay for their rents. The cost-of-living crisis further increased the financial pressures of our tenants, which in turn affects rent collection.
- 4.10 Between 70% and 80% of tenants each year receive assistance with their rent payment responsibilities through Housing Benefit or the housing element of Universal Credit. Working age benefits and pension credits are set to go up by CPI (10.1%) in April 2023. Tenants on partial benefit may see a minimal additional

contribution if the rent charge is increased, as benefits are based on a person's income and ability to pay. Therefore, any increase in the rent charge would be proportionately covered by an increase in the benefit received if there are no other changes in the household circumstances.

- 4.11 In addition to rent levels tenants were asked questions in relation to wider cost of living issues. The results are summarised in appendix 2. The major of respondents highlighted that food (70%) and energy bills (77%) were becoming increasingly difficult to pay for. 23% of tenants said they had been consciously reducing their energy usage to save money. 31% of tenants also commented that their home quickly becomes cold once their heating has been turned off.
- 4.12 Since 2018 the Housing Service has had a dedicated energy advice service which offers in depth advice and support helping tenants to ensure they are heating their homes in the most effective way, support with preventing or managing fuel debt, accessing social funds and the Warm Homes Discount and other advice on positive behavioural changes. In the last six months, the Energy Advice Service has received 60% more referrals for support than the same period last year. The service is currently in the process of expanding to recruit two additional advisors to both meet with current demand and projected growth in demand.
- 4.13 35% of tenants surveyed said they were finding rent more difficult to pay for. Around a third (31%) sought additional help, with over half of those tenants speaking to their housing officer. The second and third most popular places for support were the Council's Income Maximisation Service and Citizens Advice Bureau.
- 4.14 The Council introduced a new early intervention system in October 2022 which alerts housing officers that tenants may be experiencing difficulties in paying rent. This will enable housing officers to have early conversations with tenants and prevent tenants getting into higher levels of debt.
- 4.15 A Scottish Government Tenant Grant Fund is in place to prevent homelessness for Private and Social tenants with rent arrears accrued as a result of the pandemic. A dedicated team (consisting of one Housing Officer and two Housing Assistants) was put in place to provide information, support and grant awards to tenants who find themselves at risk of homelessness and ensure that tenants are signposted to the right financial help and advice. Updated guidance has recently been issued by the Scottish Government to extend awards from the fund to cover rent arrears arising because of the cost of living crisis. Officers are reviewing criteria before inviting further funding requests.
- 4.16 A multi-disciplinary team has also been put in place to help Council tenants who are at serious risk of court action and are not engaging with their housing officer. The team consists of a housing/homelessness specialist, a debt advisor and income maximisation officer supervised by a team leader. With specialised representation from housing, family and household support, adult protection, children and families social work services and family group decision making. The team actively reaches out to tenants, offering joined up, intensive support, with the aim of keeping the tenant in their home.
- 4.17 Fees and charges for additional services provided as part of tenancies (e.g. stair cleaning, communal heating, furnished tenancies, etc) have been frozen for the last seven years. The majority of these charges cannot be covered by benefits and therefore provide a direct financial saving to tenants. The stair cleaning, core furnished tenancy and ground maintenance charges in new build developments will



be increased in line with any rent increase this year, these are mandatory tenancy conditions and therefore covered by benefits.

- 4.18 For the last five years, Council rents have increased by an average of 1.2%. The average council rent (two-bedroom flat) is 46% below Local Housing Allowance and 62% below the average market rents in the city. Along with the City of Edinburgh Council, three local authority landlords (Aberdeen, East Lothian and Midlothian) had a rent freeze for a second year in a row in 2022/2023. All other local authorities increased rent by between 1% and 3.1%. The 2023/2024 rent increase proposals for 25 of the 26 Local Authority landlords in Scotland are now available. Only five landlords so far are giving the option of a rent freeze (including Edinburgh). Rent increase proposals range from 0% to 7%.
- 4.19 Alongside a recommendation to increase rents by 2.5% officers are proposing that a Tenant Hardship Fund be set up to help tenants experiencing financial hardship; including those who cannot access benefits. Administration of the fund will be similar to Discretionary Housing Payment. The exact criteria and administration of the scheme will be reported to Housing, Homelessness and Fair work committee in March 2023.
- 4.20 Whilst legislation requires social landlords to consult with their tenants for any rent increase, a longer-term commitment can be put in place to help better plan investment and give tenants some certainty on what rent they will be paying over a number of years. Previously, the Council did have agreement on a rent structure (inflation + 2.7%) to meet statutory commitment of bringing homes up to meet the Scottish Housing Quality Standard. Almost 60% of tenants said they would support a longer-term rent setting strategy, with the three-year period being the most selected option. A longer-term commitment on rents is needed to enable officers to plan investment and to deliver the EESSH2 programme and increase the supply of Council homes.

### **Making homes easier to heat**

- 4.21 All social landlords are required to bring homes up to the very ambitious EESSH2. The original target of 2032 has been put on hold and Scottish Government are currently carrying out a review of the standard and associated timescales. The outcome of the review is expected to be known in late Spring/ early Summer. The cost and complexity of meeting this standard in existing homes has had a huge impact on business plans across all social landlords and their capacity to meet statutory commitments, as well as, building more homes.
- 4.22 Whilst this will improve the energy efficiency of homes, reduce carbon and heat demand, which in turn will reduce energy costs, the whole house retrofit costs are currently estimated to be around £56,000 per home. It is estimated that by meeting EESSH2, existing energy demand required to heat the home could be reduced by average to 76%. Based on average fuel bills (October 2022 price cap) a household in a two-bed flat could save over £1,000 a year, after a home has been brought up to EESSH2 standards. A 2.5% rent increase would be the equivalent of an average annual increase of £132.60.
- 4.23 From 2023/2024 onwards capital investment will enable a new approach to energy efficiency/retrofit; focussing on a whole house retrofit (WHR) approach covering larger area-based programmes. The first stage of this includes full whole block retrofit and wider upgrades and improvements to four multi-storey blocks and one low rise area-based scheme. In addition to this, eight multi-story blocks will move into design and development with the majority of these moving to site start in

2024/2025. A further low-rise area-based programme will also move into design and development (with a 2024/2025 anticipated site start).

- 4.24 Overall, the design and development process for WHR and wider improvement/upgrade works is lengthy and extremely detailed with numerous building elements needing careful consideration to ensure the right solution for the building and tenants is developed. The design and development process can take between 12-18 months, along with lengthy engagement and sign off from planning, building control and procurement. Therefore, the ability to plan budgets over a longer term is critical to the overall success of the programme.
- 4.25 The Mixed Tenure Improvement Service (MTIS) continues to work alongside owners to enable fabric repairs and energy efficiency works to progress. The MTIS Programme will move into its final year of works in Wester Hailes in 2023/2024. To date a total of 911 homes including 233 private and 678 Council homes in Phases 1 to 8 are either complete or currently undergoing works to retrofit and improve the blocks.
- 4.26 Phases 9 to 11 are being planned at Murrayburn, Dumbryden and Hailesland targeting a further 380 homes over the final year of the programme. The MTIS programme is being expanded to targeted other areas of the city to enable more Council homes to be brought up to EESSH2.
- 4.27 In January 2022, Scottish Government announced £200m for Social Housing Net Zero Heat Fund (SHNZHF) for all of Scotland over the next five years. The fund is project specific and distributed on a first come first serve basis. Successful projects could claim between 50% and 100% of the total costs.
- 4.28 The SHNZHF has an average annual budget of £40m for all of Scotland. Based on the draft capital programme (predicated on a 2.5% rent increase) set out in appendix 4, it is estimated that spend of c.£128m over the next five years would be required to bring almost 2,300 Council homes up to EESSH2.
- 4.29 The Energy Efficient Scotland: Area-based Scheme (EES:ABS) funding from Scottish Government has been integral in driving forward investment in mixed tenure blocks. Private owners in extreme fuel poverty receive a maximum grant of £13,500 (for flats) to £18,000 (for detached houses) through the scheme. However, even with this funding, the costs to private owners in some of Edinburgh's most deprived areas are likely to be significant.
- 4.30 In November 2022, the Housing Convenor wrote to the Cabinet Secretary for Social Justice, Housing and Local Government setting out the cost challenges associated with EESSH2 and asking that Scottish Government Resource Planning Assumptions (RPAs) similar to the Affordable Housing Supply Programme be provided to help council's meet this ambitious standard, without having to pass all the costs onto tenants who are already struggling. The letter also highlighted the need for additional funding and support for owners to continue to drive much needed investment across mixed tenure blocks and reduce the financial constraints that prevent many private owners from progressing with these works.

#### **Building new affordable homes**

- 4.31 As set out above the scale of investment required in meeting statutory energy efficiency commitments of existing homes is putting increasing financial pressure on our ability to build more affordable homes. That said, housing need and demand pressures in Edinburgh have never been greater and so building new affordable homes in the city remains a priority.

- 4.32 Within the Council's housebuilding programme, there are currently 613 new affordable homes on site and under construction (301 for social rent and 312 for mid-market rent) and a further 1,055 homes in design and pre-construction stage (727 for social rent and 328 for mid-market rent). This does not include homes being delivered for private sale or market rent through Council led developments.
- 4.33 The amount of grant funding benchmark made available for each affordable home increased in 2021, however, the increases in construction costs has meant that it has had a limited impact on viability, as it only represents around 35% of the cost of an affordable home.
- 4.34 The HRA can only support delivery of around 2,200 homes for social rent on sites that have been identified as part of the Strategic Housing Investment Programme (SHIP 2023-2028), which was approved by Housing, Homelessness and Fair Work Committee in December 2022. The SHIP is reviewed annually.
- 4.35 The Business Plan assumes that around £120m of Scottish Government grant funding will be required to support the delivery of only the social rented homes in the new build programme over the next five years (based on a 2.5% rent increase). Over the next three years Edinburgh's starting allocation for building both the Council and Housing Associations social and mid-market rented homes is £136m.
- 4.36 The Council House Building team has a future pipeline programme of over 4,000 homes (including social rent, mid-market rent and homes for sale). Most of these are in early concept stages and some sites still remain in third party ownership/are still operational. Should rents be increased by more than 2.5% or should there be a significant increase in grant funding then this pipeline can be progressed and accelerated in future years to support the ambition to reach 25,000 affordable homes.

## **5. Next Steps**

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- 5.1 Depending on the decision at the special Council budget meeting on 23 February 2023, council officers will work through the impact of the agreed 2023/2024 rent level on the capital investment programme. The detailed 2023/24 Capital Investment Programme will be reported to Housing, Homelessness and Fair Work Committee for approval in March 2023.
- 5.2 The criteria and administration of a Tenant Hardship Fund to support tenants experiencing financial hardship; including those who cannot access benefits, will be developed. A report on the proposed fund will be reported to Housing, Homelessness and Fair work committee in March 2023.
- 5.3 Officers will continue to work with Scottish Government to maximise grant funding for both the new build programme and the transition to net zero carbon. Any additional funds could potentially be used to accelerate investment.

## **6. Financial impact**

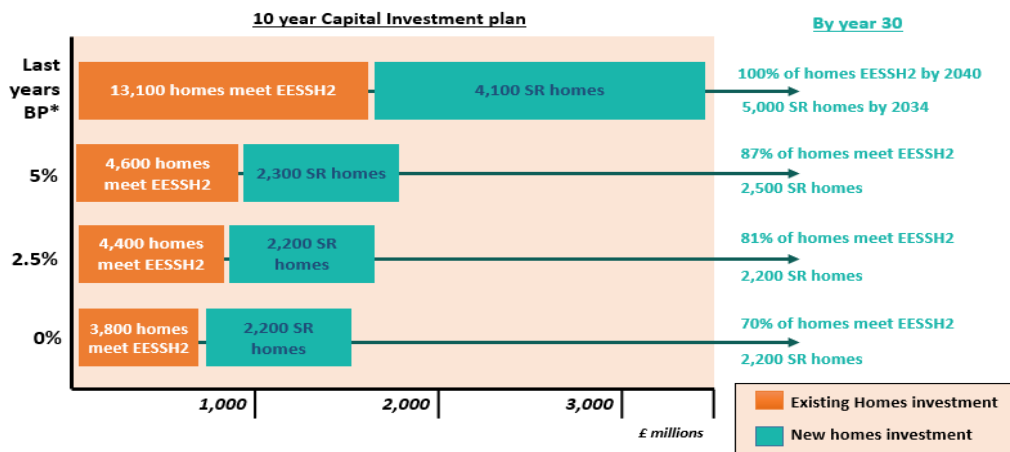
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- 6.1 The last HRA Budget Strategy approved by the Council in February 2022 included a 10-year £2.9b capital programme and £1.2b revenue programme. Following a review of the Business Plan assumptions (as set out in the HRA budget strategy report 2023/24 to 29 September HH&FW committee), in order to deliver the same outcomes over the next 10 years it is projected to cost £3.5b in capital (20%

increase on last year's plan) and £1.4b in revenue (17% increase on last year's plan). Key changes listed below have resulted in a significant increase in HRA expenditure. These include:

- 6.1.1 **Cost of delivering services** (inflationary increases, staff cost increases, and electricity costs). Inflation is currently assumed to be 3% over the next three years (in line with General Fund planning assumptions) and electricity costs for operating Housing Service workplaces are estimated to increase by 29% in 2023/2024, while Employee Costs Inflation has been updated to align Council's General Fund business plan (3% for three years);
  - 6.1.2 **Cost of borrowing to fund capital investment.** The assumption for pooled interest rate for capital borrowing has been increased from 3.8% to 4.78%. For every 0.1% increase, debt servicing costs would increase by an average of c.£19m over the 30-year plan period based on the latest draft investment programme;
  - 6.1.3 **Delays in financial efficiencies** coming from the Housing Service Improvement Plan are now expected to take longer to be realised due to the pandemic;
  - 6.1.4 **New build programme cost increases.** Increasing cost in materials, workforce and land. There is a 28% increase in assumed Council housebuilding build cost (excluding land costs) per home based on the most competitive tender prices for recent housing projects. Although the affordable housing grant was increased in 2021/2022, however, it still leaves a considerable gap when compared to the increase in assumed development costs; and
  - 6.1.5 **Bringing existing homes up to EESSH2.** Detailed design principles work is well underway and able to inform more accurate cost assumptions. The average whole house retrofit costs to achieve EESSH2 standards has increased from £30,000 to £56,000 per home.
- 6.2 The impact of the increasing costs set out above, as well as the reduction in income as a result of two consecutive rent freezes, means that the business plan has a lot less money to spend on capital investment. Three scenarios have been modelled based on the proposed rent increases that formed part of the tenant consultation exercise.
- 6.3 The graph below sets out the impact on the 10-year and 30-year capital investment programmes based on proposed rent increases. None of the proposed scenarios (0%, 2.5% or 5%) would be able to get the business plan back on track.

**Figure 1: Impact on 10-year capital investment programme**



6.4 All tested scenarios show that significant interventions would be required to be able to deliver the original 10-year capital investment programme that would see all homes meet EESSH2 by 2040 and 5,000 new homes for social rent by 2034. One of the following or a combination of the following measures would need to be implemented:

6.4.1 **Increasing rents:** Rents would have to be increased by 7.8% per annum for the following five years (2024/2025 to 2028/2029) in order to be able to deliver on current commitments. If there was a rent freeze for a third year in a row, this would increase to 8.3% p.a. for five years;

**OR**

6.4.2 **Increase government funding:** Funding of c.£64m per annum until 2040 would be required to support the delivery of EESSH2 and enable rent increases to be limited to 2.5% from 2023/2024 onwards. It is estimated that the SHNZHF has an average annual budget of £40m for all of Scotland and the Council will need to submit bids for a share of this funding.

6.4.3 An additional £190m in grant funding for new build would also be required over the next 12 years to deliver the original commitment of 5,000 homes of social rent by 2034.

**OR**

If rents are not increased or significant grant subsidy received, then the capital investment programme set out in appendix 4 would be implemented.

6.4.4 **Stopping the new build programme:** All the homes currently in design and development would be taken forward (c.2,200 social rented homes), but no new homes would be brought into the programme.

**AND**

6.4.5 **Reducing energy efficiency investment in existing homes:** The programme would have to reduce by c.30%. Which would mean an elongation of the programme to be delivered over 30 years instead of the original 17 years (by 2040) and a reduction in the number of homes that meet the statutory compliance of EESSH2 (total of 81% by 2053, including those already met the standards to date).

6.5 There is already an ambitious service efficiency target as part of the Housing Service Improvement Plan and therefore any additional revenue saving would have

to come through service reduction. A small contingency, c.10% of operating expenditure, has been built up to date to deal with any emergencies or unforeseen circumstances.

- 6.6 It is proposed that payments to tenants in financial hardship will be funded from HRA reserves but, it is important to note that all the scenarios set out above assume that any in year surpluses or reserves (sinking funds) are applied to the capital investment programme to reduce the need to borrow in current and future years. Therefore, if the reserves were to be used for anything else (i.e. to mitigate the impact of a rent freeze in the short term or to support tenant hardship) this would have a detrimental effect on the capacity of the capital investment programme in the medium to long term. Unless rents were further increased, or additional grant funding acquired to compensate then the outputs set out in Figure 1 above could not be achieved.
- 6.7 Every £1 million from reserves used to directly fund the capital programme would save c.£0.7 million in servicing borrowing over the business plan period (30 years). In 2023/2024 alone this could save the business plan over £11.9 million in debt servicing costs.
- 6.8 As per Scottish Government guidance, the HRA cannot actually be allowed to remain in deficit in any given year. A contribution from the Council's General Fund would be required. It is therefore prudent budget management to reduce the need to borrow to keep the HRA in as financially stable a position as possible.
- 6.9 Should rents be increased in 2023/2024, it is proposed that a Tenant Hardship Fund be set up. The fund will be used to support tenants experiencing financial hardship; including those who cannot access benefits. All attempts will be made to maximise access to benefits and to supporting tenants from getting into debt with the Tenant Hardship Fund acting as a "safety net" for tenants impacted by the rent increase. The ongoing uptake of the Fund will be monitored to help inform future provision.

## **7. Stakeholder/Community Impact**

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- 7.1 Each year the views of tenants are sought on the HRA budget strategy, investment plan, services and associated rent levels. On 22 September 2022, City of Edinburgh Council agreed that the annual planned consultation on rent strategy should be refocused on tenants' main financial challenges, which includes rent, energy, effective insulation and food.
- 7.2 The consultation was developed with input from Edinburgh Tenant's Federation (ETF) and Tenant Information Service (TIS). It comprised of 23 questions covering a range of issues including: specific cost of living concerns, accessing advice services, rent increase options, long-term rent setting, the investment plan, value for money and overall service satisfaction.
- 7.3 On 24 October 2022, the HRA Budget strategy was approved for publication by the Consultation Advisory Panel. The Consultation ran from 31 October until 23 December 2022.
- 7.4 Tenants could respond to the consultation survey online through the Consultation and Engagement Hub. This was promoted through the Tenant's Courier newsletter which goes to every tenant and through email footers and targeted social media

posts. Registered Tenant Organisations (including Living Rent) also received an email prompt to complete the survey and promote it to tenants within their groups.

- 7.5 In addition, the rent consultation has been complimented by the annual Tenant's Survey of 1,000 Council tenants, carried out by an independent third party, procured by the Council. The Council provides a random sample of tenants contact details, weighted by locality and property type to be representative of the made up of our tenants.
- 7.6 On 30 November 2022 officers also attended a meeting with members of the ETF executive committee to present and promote the 2023/2024 HRA Budget Consultation.

## **8. Background reading/external references**

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- 8.1 [Housing Revenue Account \(HRA\) Budget Strategy \(2022-23\)](#) - City of Edinburgh Council, 24 February 2022.
- 8.2 [Mixed Tenure Improvement Service Pilot Progress](#) - Finance and Resources Committee, 3 March 2022.
- 8.3 [2022/23 Housing Revenue Account \(HRA\) Capital Programme](#) - Housing Homeless and Fair Work Committee, 24 March 2022.
- 8.4 [Update on the Housing Service Improvement Plan](#) - Housing Homeless and Fair Work Committee, 4 August 2022.
- 8.5 [Housing Revenue Account \(HRA\) Budget Strategy 2023/24](#) - Housing Homeless and Fair Work Committee, 29 September 2022.
- 8.6 [Strategic Housing Investment Plan \(SHIP\) 2023-28](#) - Housing, Homeless and Fair Work Committee, 1 December 2022.

## **9. Appendices**

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- 9.1 Appendix 1: Core Business Plan Assumptions.
- 9.2 Appendix 2: 2023/24 Council Rent Consultation Results.
- 9.3 Appendix 3: Housing Revenue Account Budget 2023/24 (Draft).
- 9.4 Appendix 4: Draft 5 Year & 10 Year HRA Capital Investment Programme.
- 9.5 Appendix 5: Summary of crisis support available for tenants.

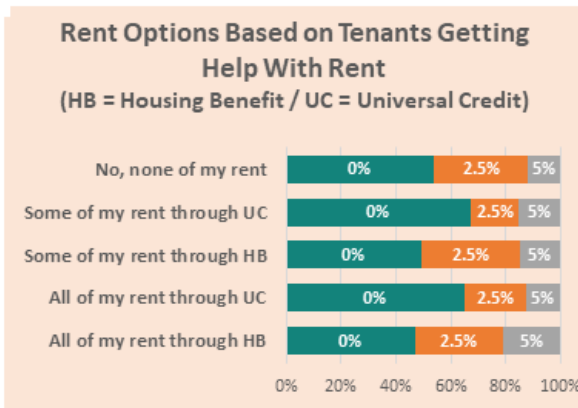
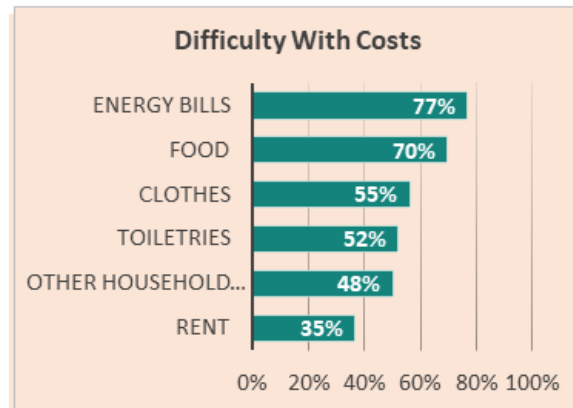
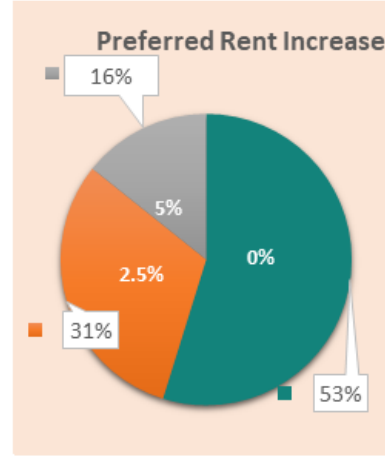
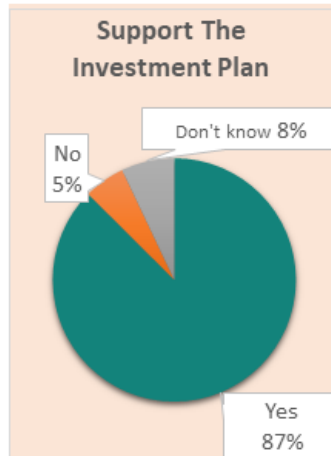
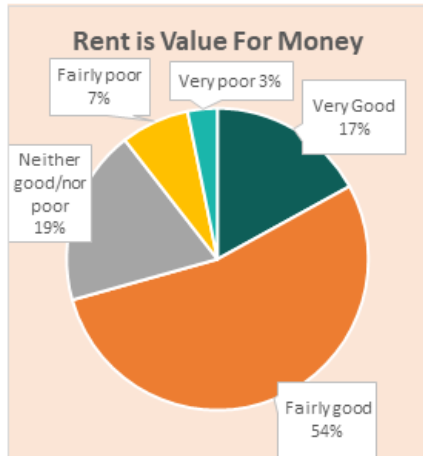
## Appendix 1: Business Planning High Level Assumptions

Input	2023/24	Note
<b>Inflation (Operating Costs)</b>	<b>3%</b>	This assumption aligns with that in the Council's General Fund business plan. It assumes 3% for three years before returning to the Bank of England inflation target of 2%.
<b>Inflation (Employee Costs)</b>	<b>3%</b>	This assumption aligns with the Council's General Fund business plan. The core budget has been reviewed to take account of projected vacancies, overtime and spinal column point increases.
<b>Rent Increase</b>	<b>2.5%</b>	Tenants were consulted on three rent increase options in 2023/24: 0%, 2.5% and 5%. The 2.5% option has been used as baseline to develop a one-year revenue budget and 10-year capital programme.
<b>Net Rental income</b>	<b>96.26%</b>	Total projected rental income, minus written off former tenant arrears and rent loss due to empty homes.
<b>Former tenant arrears write off and bad debt provision</b>	<b>2.00%</b>	<p>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.</p> <p>The write off assumed in 2023/24 is expected to be similar to that in 2022/23. The bad debt provision has reduced slightly as current tenancy arrears have stabilised post Covid-19 pandemic.</p> <p>Where arrears are written off for accounting purpose, the Council will still pursue recovery action if there is a material change of circumstance (i.e. the debtor is traced, or they become solvent).</p>
<b>Rent lost on empty homes</b>	<b>1.74%</b>	An assumption of 0.65% based on long-term average performance is applied over the 30-year business plan period. This higher figure is assumed in 2023/24 but is anticipated to reduce over 2023/24 as the backlog of empty homes is tackled. A work plan and project team is now in place to reduce the turnaround time by developing ICT systems, improving processes and working practices and drawing in additional resources through external contractors and overtime with a clear focus on reducing baseline void turnover duration.
<b>Fees and charges increase</b>	<b>0% &amp; 2.5%</b>	<p>Fees and charges for additional services provided with tenancies have been frozen for the last seven years. It is assumed that those charges which cannot be covered from benefits (i.e. communal heating, heat with rent and contents insurance) will continue to be frozen in 2023/24.</p> <p>Those charges which can be covered through benefits (i.e. stair cleaning, ground maintenance in new build developments and core furnishing) will be increased in line with any rent increase. A 2.5% assumption has been applied to the draft one-year revenue budget set out in appendix 3.</p>
<b>Debt level</b>	<b>£434m</b>	Debt level increased from £411 million at 31 March 2022. This was to support the capital investment programme in 2022/23.
<b>Interest on debt (pooled rate)</b>	<b>4.78%</b>	The Council does not borrow for specific projects, borrowing is pooled in a consolidated loans fund and the interest rate shared across all projects. The assumed rate has increased from 3.8% to 4.78%; for every 0.1% increase, debt servicing costs would increase by an average of c.£19m over the 30-year plan period.



## Appendix 2: 2023/24 Council Rent Consultation Results

This year's rent consultation ran for 12 weeks between 31 October and 23 December 2022. Summary below of the 1,036 responses received



The major of respondents highlighted that food (70%) and energy bills (77%) were becoming increasingly difficult to pay for. 23% of tenants said they had been consciously reducing their energy usage to save money. 31% also commented that their home quickly becomes cold once their heating has been turned off.

Just over half of tenants supported a rent freeze for a third year in a row. Almost 70% of those who voted for a rent freeze get help with paying their rent. Therefore, any increase in rents would be covered through a similar increase in rents (assuming their circumstances have not changed).

64% of respondents were aware of the previous two-year rent freezes.

Almost 60% of tenants said they would support a longer-term rent setting strategy, with the majority agreeing a three-year period would be most suitable.

For the last five years, Council rents have increased by an average of 1.2%.

Only four landlords so far are giving the option of a rent freeze (including Edinburgh). Rent increase proposals range from 0% to 7%.

## Appendix 3: Housing Revenue Account Budget 2023/24 (Draft)

	Projected Outturn 2022/23 (£m)	Proposed Budget 2023/24 (£m)	Movement (£m)	Note
<b>Net Income</b>	<b>103.169</b>	<b>105.734</b>	<b>2.565</b>	1
<b>Expenditure</b>				
Housing Services	35.862	37.294	1.432	2
Property Maintenance	25.094	24,942	-0.152	3
Debt Charges	36.905	36.676	-0.229	4
Strategic Housing Investment	5.308	6.822	1.514	5
<b>Total Expenditure</b>	<b>103.169</b>	<b>105.734</b>	<b>2.565</b>	

The proposed budget for 2023/24 shown above reflects a proposed 2.5% rent increase.

### 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 income from interest, service charges and costs recovered in relation to communal heating schemes and owner occupiers. The net income is expected to be increased by just less than 2.5% if the proposed rent increase of 2.5% is approved. This is mainly due to the freeze on service charges. An assumption has been made that the void rent loss rate will improve in 2023/24 as a result of the work plan and project team that have been put in place to reduce the turnaround time of void properties. The average weekly rent would increase by £2.55 in the event of a 2.5% rent increase.

### Note 2.

"Housing Services" includes core housing management services, tenant and community services like energy advice and community gardens. It includes employee costs, central support costs and recharges, premises and other expenditure linked to service delivery and their corresponding inflationary increases. The employee costs have been reviewed to reflect the expected pay awards and spinal column point changes. An inflation rate of 3% has been assumed for all costs (in line with General Fund budget assumptions) apart from electricity, where inflation is expected to be higher (29%). The draft budget also includes £1.0 million for the continued development of the Housing Service Improvement Plan (HSIP) and £2.9 million for the enabling work of large-scale regeneration.

### Note 3.

"Property Maintenance" includes responsive repairs, estates maintenance, routine gas servicing and the costs associated with bringing empty homes back into use. A saving of £0.8 million has been incorporated in the draft budget for grounds maintenance as a result of careful management of the contractor providing maintenance of HRA land. This saving is partly offset by an increase in expected repairs and maintenance in line with increases in the overall number of homes and inflationary increase on estate management/maintenance expenditure.

### 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). This is in line with the capital investment plan set out in Appendix 4 in relation to resource planning. As a result of prudent treasury management, net debt levels are expected to have increased by only £53 million over the last five years, whilst delivering nearly £406 million of capital investment over the same period.

### 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 main reason for the reduction is the result of a higher rate of increase in expenditures than incomes. The Strategic Housing Investment Fund is an amalgam of the Repairs and Renewals Fund and the Council Tax Discount Fund.

It is important to note that all scenarios considered for the 23/24 HRA Business Plan assume that any in year surpluses or reserves (sinking funds) have been applied to the capital investment programme to reduce the need to borrow in current and future years.

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

The 2023/24 Draft Budget and business plan are based on the assumptions set out in Appendix 1. Below is the outline draft five-year Capital Investment Programme and summary 10-year investment strategy based on annual rent increases of 2.5%. Inflation has been included in the figures where appropriate. The programme will be revised up or down depending on the final rent increase agreed in 2023/24.

The resources 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
	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	Total	2028/29 to 2032/33 £m	Total
<u>Programme Expenditure</u>								
New Homes Development*	99.090	109.200	127.123	149.064	137.969	622.446	271.086	<b>893.532</b>
New Home Land Costs	2.000	3.000	0.000	4.875	4.875	14.750	0.000	<b>14.750</b>
Tenant's Homes & Services & Maintenance	12.567	10.505	10.646	12.312	12.026	58.056	65.682	<b>123.738</b>
External Fabric and Estates & Acquisitions	59.704	56.420	53.286	54.916	53.997	278.323	294.695	<b>573.018</b>
<b>Total Expenditure</b>	<b>173.361</b>	<b>179.125</b>	<b>191.055</b>	<b>221.167</b>	<b>208.867</b>	<b>973.575</b>	<b>631.463</b>	<b>1605.038</b>
<u>Programme Resources</u>								
Prudential Borrowing	64.681	99.574	36.943	62.442	101.619	365.259	269.585	<b>634.844</b>
Capital Funded from Revenue / Reserve	20.300	15.300	15.300	15.300	15.300	81.500	91.300	<b>172.800</b>
Capital Receipts and Contributions	14.520	23.147	23.862	45.096	41.697	148.322	167.521	<b>315.843</b>
Receipts from LLPs*	45.809	23.541	87.948	60.839	33.026	251.163	26.175	<b>277.338</b>
Scottish Government Subsidy (Social)	26.131	15.643	26.042	36.530	16.265	120.611	72.082	<b>192.693</b>
Scottish Government Subsidy (Acquisition)	1.920	1.920	0.960	0.960	0.960	6.720	4.800	<b>11.520</b>
<b>Total Funding</b>	<b>173.361</b>	<b>179.125</b>	<b>191.055</b>	<b>221.167</b>	<b>208.867</b>	<b>973.575</b>	<b>631.463</b>	<b>1605.038</b>

\*The budget for new build housing includes the upfront capital costs for the Council led development of all affordable homes, including homes for mid market and affordable market that will be purchased by the Council's LLP (Edinburgh Living). This has no impact on the HRA as interest payments are deferred until the homes are purchased. £69 million of the £277 million anticipated receipts from the LLP by year ten is for homes already under construction and due to complete in the next two years. Please note these receipts go beyond current approved levels of on-lending, approval will be sought to expand the programme in future years.

## Appendix 5: Summary of crisis support available for tenants

The Council has worked with key agencies to deliver a network of crisis support to tackle the impacts of the cost of living crisis. The Council adopted a cash-first approach for people facing financial hardship, whilst also offering a range of holistic support and advice.

Below sets out some of the significant financial support activities that all tenants in the city have access to and have benefitted from throughout 2022/23. In addition, there are range of Council tenant specific interventions, which are also set out below:

- **Scottish Welfare Fund:** a total of £600,000 additional funds has been made available to provide immediate financial support for people in food, energy or other cost of living crises in Edinburgh. This investment provides the capacity needed to ensure that Edinburgh's Scottish Welfare Fund (SWF) can meet demand and ensure accessibility. Edinburgh has operated this flexible fund at low priority, increasing overall access. For period April – August 2022 SWF have awarded 8,687 awards to households totalling £3,291,951
- **Child Payments & Free School Meals:** in this financial year £3.2m has been paid to over 8,600 families. The final payment in December 2022 was increased from £130 to £260. The Scottish Social Security Agency will take responsibility for these payments under the Scottish Child Payment system. Scottish Government also provided funding to Local Authorities to administer payments to children in receipt of FSM to mitigate the negative impacts of the cost of living. Payments of £100 were made to almost 8,400 children, totalling £840,000. Following Full Council on 25 August 2022 a further £100 payment was made to eligible families. Families also continue to receive payments in lieu of FSMs in an attempt to combat holiday hunger. This year families have received funding of £2.50 per day, per child, totalling over £1m in support.
- **Educational Maintenance Allowance:** financial support for 16-19 year olds in low income households to support continued learning beyond school leavers age.
- **Free bus travel:** available for young people under the age of 22 using National Entitlement Card
- **Cost of Living Award:** as part of the Scottish Government budget for 2022/23 the Finance Secretary announced a one-off Cost of Living Award of £150.00 to households living in a dwelling and liable for Council Tax (band A to D), and those with a valuation banding of E where a Disabled Persons Reduction applied. All bands where Council Tax Reduction was in place were liable for the payment as well as some exempt categories. Almost 147,000 payments were made to Council Tax accounts at a value of £22m.

As part of the City of Edinburgh Council's budget for 2022/23 a financial payment of £150.00 was included to be made to citizens who were in receipt of Council Tax Reduction or Second Adult Rebate on 1 April 2022. Almost 32,000 payments were made to households totalling £4.8m.

- **Additional grant funds to support families experiencing difficulty with energy costs:** a total of £100,000 of funding was provided to Home Energy Scotland (HES) to fund payment of energy crisis grants of up to £1,000 to low-income households in Edinburgh. A further £100,000 has been made available to support this activity and is being distributed through food bank providers. The first tranche of payments totalling £52,000 was paid to providers city wide. A further payment is anticipated before the end of the financial year.
- **Additional support for people in food crisis or poverty related hunger:** in 2022/23, to date £209,000 has been made to provide direct food support for people in food crisis and the remaining payment is due in March 2023. This includes support for food banks, food pantries and community food groups.
- **Support for people in or at risk of Council Tax arrears:** a new Council Tax Liaison Team has been created who will intervene on low level new Council Tax debt to support

citizens to avoid debt loading and falling further into arrears by using proportionate payment plans.

- **Council Tax Reduction Scheme:** the Customer Team continue to support low-income citizens to meet their council tax liability. The Council has been allocated funding of £28.8m for 2022/23. Currently around 32,000 households are in receipt of this important financial support.
- **Discretionary Housing Payments (DHP):** the DHP budget from the Scottish Government is allocated in two streams: Under Occupancy Mitigation and Other DHPs. The allocation for Edinburgh for 2022/23 is as follows:
  - Under Occupancy mitigation - The first tranche of funding is £3.85M or 80% of the expected cost.
  - Other DHPs - This includes assistance for those affected by the Benefit Cap and Local Housing Allowance reforms. The funding for Other DHPs is £2.08m.

There have been 7,617 DHP applications considered up to 31 December 2022, of which 558 were refused. Over £4.9m of this year fund has already been paid, with a further £1.3m committed to support vulnerable citizens meet their rental commitments. Additional funding from Scottish Government has been provided from January 2023 to fully mitigate the benefit cap for impacted citizens from 01 January 2023.

- **Community Outreach:** a regular programme of activity to increase access to Council and state benefits is ongoing. This outreach has been particularly successful in schools, with parent consultation sessions regularly supported to provide advice and guidance to parents, as well as sessions for staff to identify need.
- **The Tenant Grant Fund:** funded by Scottish Government to prevent homelessness for private and social tenants with rent arrears as a result of the Pandemic. A dedicated team (consisting of 1 Housing Officer and 2 Housing Assistants) was put in place to provide information, support and grant awards to tenants who find themselves at risk of homelessness and ensure that tenants are signposted to the right financial help and advice. This support may include access to community care grants and crisis grants from the Scottish Welfare Fund, with those who apply for either also having access to emergency food and clothing support. The fund is available to those who have exhausted all other options for support, including income maximisation and access to other grants or funds. Updated guidance has recently been issued by the Scottish Government to extend awards from the fund to cover rent arrears arising because of the cost of living crisis. Officers are reviewing criteria before inviting further funding requests. To date 234 Council tenants, 186 RSL tenants and 47 PRS tenants had been awarded a payment or had a decision pending.
- **Specialist Multi-disciplinary Team to prevent homelessness:** a multi-disciplinary team has also been piloted to help Council tenants who are at serious risk of court/eviction action and are not engaging with their housing officer. The team consists of a housing / homelessness specialist, a debt advisor and income maximisation officer supervised by a team leader. With specialised representation from housing, family and household support, adult protection, children and families social work services and family group decision making. The team actively reaches out to tenants, offering joined up, intensive support, with the aim of keeping the tenant in their home.
- **Dedicated energy advice service for Council tenants:** since 2018 the Housing Service has had a dedicated energy advice service which offers in depth advice and support helping tenants to ensure they are heating their homes in the most effective way, support with preventing or managing fuel debt, accessing social funds and the Warm Homes Discount and other advice on positive behavioural changes. In the last six months, the Energy Advice Service has received 60% more referrals for support than the same period.

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