Finance and Resources Committee

10.00am, Thursday, 24 September 2020

Revenue Budget 2020/21 – progress update

Item Number	
Executive/routine	**Executive**
Wards	**All**
Council Commitments	

1. Recommendations

1.1 Members of the Finance and Resources Committee are recommended to note:

1.1.1 the interim update on the Council's revenue budget framework, with the residual in-year funding gap reducing to £12.2m;

1.1.2 the progress in both developing a Scotland-wide income compensation scheme and exploring further financial flexibilities that may offer opportunities to manage the in-year costs of the pandemic over a longer time period;

1.1.3 the commentaries provided in respect of each of the Council's Arm's-Length External Organisations, the combined effect of which is a loss of income, or need for additional support, to the Council for the period to March 2021 of £27m, including the confirmed loss of the Lothian Buses dividend in 2019/20;

1.1.4 the additional details provided on use of the Council's Spend to Save fund during 2019/20 and related opportunities to support a Green Recovery; and,

1.1.5 that a further update, including measures to achieve in-year financial balance, will be presented to the Committee's next meeting on 29 October 2020.

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Report

Revenue Budget 2020/21 – progress update

2. Executive Summary

2.1 The report provides an interim update on the Council's 2020/21 revenue budget, with a particular focus on the Council's Arm's-Length External Organisations (ALEOs), pointing to a reduction of £5m in the anticipated in-year funding gap to £12.2m. Progress in developing a Scotland-wide income compensation scheme and exploring other potential financial flexibilities is also outlined.

2.2 The report additionally provides requested details on the recent and potential use of the Council's Spend to Save fund to support a Green Recovery.

3. Background

3.1 On 27 August 2020, members of the Committee considered an update on the Council's 2020/21 revenue budget, indicating a remaining £17.2m shortfall between net cost pressures across the Council and its Arm's-Length External Organisations and confirmed or anticipated sources of funding. Whilst a full update, including measures to achieve in-year financial balance, will be presented to the next meeting of the Finance and Resources Committee on 29 October, this interim report apprises members of changes emerging since the end of August.

3.2 Included within the £89.6m of net expenditure pressures set out within the 27 August report were £31m relating to the Council's ALEOs. Although a confidential briefing had previously been circulated to members of the Policy and Sustainability and Finance and Resources Committees, on 25 August 2020 the City of Edinburgh Council agreed a composite motion requesting that a further update be brought to today's meeting, setting out the current assessment of the pandemic on its ALEOs, with, wherever possible, relevant detail being included, and discussed, as part of the Committee's main agenda. Representatives of the ALEOs concerned will also be in attendance.

3.3 At the last meeting of the Finance and Resources Committee, members also noted that further details would be provided to this meeting on projects supported through the Council's Spend to Save fund during 2019/20. In addition, following agreement by Council on 28 July 2020 of a Green Group addendum on the potential role of Spend to Save and other energy efficiency-related funding in supporting a Green

Recovery, the report provides details of revenue funding sources available and the associated conditions of use.

4. Main report

Changes in net expenditure pressures

4.1 At the Committee's last meeting, members approved the extension until 2029 of the Council's current partnership agreement with CGI for the delivery of ICT and Transformation services. This extension will deliver cashable savings of £12m over the term of the extended contract, as well as £2.1m of savings in subsequent inflation-based uplifts and other changes. Calculated on a pro-rated basis, while the attendant detail is being finalised, £0.95m of this saving is anticipated to be available to offset wider Council pressures in 2020/21.

4.2 The majority of the remainder of this report focuses on the financial impacts of the pandemic on the Council's ALEOs, with the detail set out in Paragraphs 4.9 to 4.24. While a number of assumptions remain unchanged from those considered by the Finance and Resources Committee on 27 August, the estimated in-year support requirement for both Edinburgh Leisure and Edinburgh Trams has reduced by £2m to £6m, revising the £31m previous ALEO-wide estimate to £27m.

4.3 Taken together, the above-mentioned changes result in a further decrease, at this stage, of the in-year shortfall to £12.2m[1]. Executive Directors continue to examine means of reducing this gap further, including identifying savings arising, where relevant, from continuing suspension or delays in the resumption of budgeted activity levels. Whilst, at a more general level, it is inherently difficult to forecast with accuracy given the unprecedented nature of current events, the potential for material movements in net pressures in such areas as parking charges, property rental income and homelessness services remains and a more detailed update, along with potential measures to achieve financial balance, will therefore be presented to the Committee's next meeting on 29 October.

Sources of funding

4.4 The report to the Committee's previous meeting referenced on-going work around the development of an income compensation scheme for councils in Scotland. Although based upon similar principles to the equivalent scheme in England, at their meeting on 28 August, COSLA Leaders agreed to request that a Scottish scheme, currently under discussion with the Scottish Government, additionally seek to address losses of income through ALEOs. Information received from councils, including the Council's submission, has been anonymised and aggregated and will now form the basis of the scheme's detailed development.

4.5 Whilst, given the Council's particular reliance on income, any scheme seeking to address direct and indirect (i.e. through ALEOs) income shortfalls is to be welcomed, it should be emphasised that the quantum of funding available is

[1] The £12.2m also reflects £3m of as-yet unmitigated pressures within the Place Directorate.

likely to be considerably lower than the actual income losses incurred and, as such, provide only partial mitigation. At their August meeting, COSLA Leaders also agreed that, rather than being used to supplement the available level of resource for an income compensation scheme, the £49m of Barnett Consequentials announced on 23 July should instead be allocated on the basis of councils' respective shares of Grant-Aided Expenditure (GAE) and Special Islands Needs Allowance (SINA). Although, as of the time of writing, the Council's precise allocation remains to be confirmed, based on previous comparable announcements, a sum of around £3.832m is anticipated. This share is consistent with assumptions contained within the update to the Committee on 27 August, with the potential for an upside relative to current assumptions should the remaining sum available (estimated at £90m) be allocated in proportion to actual income losses suffered.

Financial flexibilities

4.6 On 23 July, members of the Policy and Sustainability Committee agreed a motion seeking a two-year waiver on the interest element of councils' existing Public Works Loan Board (PWLB) borrowing and the Council Leader subsequently wrote to the Chancellor on this basis. Although no specific response has yet been received, it is understood that similar requests around deferrals of loan principal and interest made through COSLA have not been successful, with the Chancellor considering such moves unnecessary and focusing, instead, on the provision of additional grant funding support.

4.7 While the measures concerned do not require express UK Government approval, COSLA Leaders have also agreed to progress, jointly with the Scottish Government, an approach to the UK Government on four specific other financial flexibilities, including aligning, in accounting terms, PPP capital and interest payments more closely to the related asset life, that could be made available to councils in Scotland. Subject to confirmation of their permissibility, officers will continue to model their potential applicability to the Council, with an update then provided to the Committee's meeting on 29 October.

Audit Scotland publication: COVID-19 – Implications for public finances in Scotland

4.8 Members of the Committee may also find the above briefing, outlining the UK and Scottish Governments' fiscal response, emerging risks and the public audit response to the pandemic, to be of interest.

Impact of the pandemic on the Council's ALEOs

4.9 The £31m referenced within the report to the Finance and Resources Committee on 27 August was comprised as shown below. Given the number of expenditure and income variables involved, relevant public health guidance and emerging sources of funding, however, the position is subject to regular review and the following sections of the report examine the latest position in respect of each ALEO in turn, as to how they may impact on the Council.

	£m
Lothian Buses	12
Edinburgh Leisure	8
Edinburgh Trams	8
Contingency for continuing support, October to March	3
	31

Lothian Buses

4.10 The projection above assumed the full loss to the Council of the planned £6m dividend payable in respect of Lothian Buses' 2019 and 2020 financial years (reflected respectively within the Council's 2019/20 and 2020/21 accounts). This planning assumption remains unchanged at this time.

4.11 At the height of the lockdown, passenger numbers reduced by around 90% in line with guidance on critical service worker-only travel. Financial support was, however, provided for around 1,900 staff through the Coronavirus Job Retention Scheme (CJRS). In recognition of the impact reduced demand placed on the viability of local services for key workers, the Scottish Government, through Transport Scotland, additionally agreed to maintain concessionary travel reimbursement and Bus Service Operator Grant payments at the levels forecast prior to the impact of COVID-19. Despite this support, for the period to the end of June, the company was incurring a significant operating loss every four-week period. Since that time, passenger volumes have gradually increased as service coverage has been extended, although remain some 60% below normal levels, alongside increases in variable costs of operation.

4.12 As with all of the Council's ALEOs, a key determinant of the extent of any additional required support from the Council going forward is therefore the speed at which income levels recover as furloughing support is phased out. This, in turn, is influenced by public health advice, attitudes to use of public transport and the Scottish Government's routemap.

4.13 Given these dependencies, agreement has previously been reached with the Scottish Government to provide specific financial support, addressing residual net losses incurred in the eight-week period until mid-August during which network capacity was significantly increased but with continuing social distancing in place. Further support, on a similar basis, has now additionally been agreed until the beginning of November. There is, nonetheless, the potential for net calls upon the Council beyond this period and members will be kept apprised of additional details as these become available.

Edinburgh Leisure

4.14 The financial impacts on Edinburgh Leisure will similarly be influenced by the timing of the Scottish Government's routemap and the nature of the associated required hygiene and social distancing measures. A comprehensive update is included elsewhere on this meeting's agenda, pointing to an overall in-year requirement of up to £6m, a reduction of some £2m on the position reported to the Committee's previous meeting. It should be noted that a need for additional support in 2021/22 above the annual contracted payment is likely.

Edinburgh Trams

4.15 As with Lothian Buses, Edinburgh Trams has played a crucial role in providing essential capacity and connectivity both during, and as part of the emergence from, lockdown. At the height of the pandemic, revenue reduced by some 98% compared to business plan projections and even as of the end of July, income remained at only 15% of expected levels. Following the re-introduction of more frequent services with effect from 24 August and greater on-board ticket examination, revenue levels have increased but still remain around 75% below budgeted levels.

4.16 Following detailed discussions, the Scottish Government has confirmed the provision of up to £9m of emergency funding to Edinburgh Trams and Glasgow Subway, covering the period from July to September, in recognition of the organisations' crucial role in supporting Scotland's recovery from the pandemic. The precise level of funding to be provided to Edinburgh Trams will take account of actual costs incurred, fare revenue received and existing support available through the CJRS but is estimated at up to £4m.

4.17 Discussions are continuing with Transport Scotland concerning required financial support beyond this period given on-going social distancing, home-working, remote learning across much of the further and higher education sector and continuing low city-centre footfall. In this regard, members may be aware of the UK Government's announcement on 8 August of the provision of additional financial support of up to £37.4m to five tram and light rail operations in England, an announcement expected to give rise to Barnett Consequentials. At this stage, however, the Council's projections assume a net call, comprising unpaid invoices, of £6m (a reduction of £2m from the projected position reported to the Committee on 27 August), based on in-year cashflow and projected passenger volumes for the remainder of the year.

4.18 Looking to future years, while projections are inherently speculative given the range of factors outside ET's direct control, in the absence of an effective vaccine, reduced patronage levels may continue at least into the medium-term, if not beyond with implications on cashflow and ability to pay invoices from the Council.

Edinburgh International Conference Centre (EICC) and Capital Theatres (CT)

4.19 Discussions are also continuing with the respective Boards of the EICC and CT concerning required financial support. The nature of each company's venues and operations (particularly observance of social distancing requirements) makes resumption of operations inherently more difficult.

4.20 The EICC and the company's administrative offices have been closed since 18 March. In order to secure the longer-term viability of the company, the majority of staff were placed on furlough leave in April and May, with these arrangements still in place pending a phased re-opening of the building from late September. The company has also sought to maximise in-year rental income through enforcement of cancellation fees where applicable whilst encouraging, wherever possible, rescheduling of events in 2021 and 2022.

4.21 As Scotland's largest theatre charity, the pandemic has also hit CT hard, with a 90% reduction in its income since March due to lost ticket sales and trading income. As of late August, almost 53,000 tickets with a value of over £2.5m had been refunded, with the postponement of the 2020 pantomime resulting in a further income loss of £2.3m. Support has, however, been provided through the CJRS, with the majority of staff continuing to be furloughed.

4.22 At this stage, it is being assumed that each company will make use of general and earmarked reserves to offset the main income impacts and thus there will be no direct additional call upon the Council. However, the funds available to CT for the refurbishments of the King's Theatre will be severely depleted. In late August 2020, CT received £0.168m from the National Lottery Heritage Fund to support its three venues – the Festival Theatre, King's Theatre and The Studio – maintaining its buildings in a safe condition and meeting other essential utilities and insurance costs. It will, in addition, continue to examine all potential opportunities for support through the £97m of funds made available by the Scottish Government to enable the survival and continuing viability of arts venues in Scotland.

Transport for Edinburgh (TfE)

4.23 TfE has been directed to continue to operate by drawing upon its reserves. Since 1 April 2020, this has resulted in its reserves being depleted by £0.142m to cover expenditure. Furloughing has, however, been utilised where possible and other cost savings delivered. TfE income has furthermore reduced and is expected to be no more than £0.060m for 2020. Liabilities of some £0.120m will be met by other, largely Scottish Government, grants to support on-going project delivery.

Contingency for continuing support, October to March

4.24 In light of the remaining uncertainty outlined in the preceding sections and the potential for further national or more localised lockdowns in the event of a resurgence of the virus, a £3m contingency has also been included at this stage. The level and nature of this contingency will continue to be reviewed as the resumption of services, and related demand, are confirmed.

Spend to Save annual report, 2019/20

4.25 In considering the report on the Council's revenue outturn at the meeting of the Finance and Resources Committee on 27 August, it was noted that a summary of activity supported through the fund would be reported to this meeting, with these details included in **Appendix 1**.

Potential funding sources to support "Green Recovery"

4.26 In addition, following agreement by Council on 28 July 2020 of an addendum on the potential role of Spend to Save and other energy efficiency-related funding in supporting a Green Recovery, details of revenue funding sources available and the associated conditions of use are included in **Appendix 2**.

5. Next Steps

5.1 The cost and income impacts of the coronavirus pandemic will continue to be actively tracked and refined as additional clarity is received on the timing and nature of relaxation of current lockdown restrictions. These estimates will be shared with COSLA and form part of liaison and negotiation with the Scottish and UK Governments around the provision of corresponding funding.

5.2 Executive Directors have brought forward measures to offset savings delivery shortfalls and residual service pressures, with a £3m residual pressure remaining in Place. The impact of these measures, alongside any further available non-service savings, will continue to be regularly reported to elected members. Measures to close the gap further, with the aim of achieving in-year balance, will be brought to the Finance and Resources Committee on 29 October.

5.3 While a broad routemap for the recovery phase has been set out by the Scottish Government, the speed and nature of this process (including the potential for further lockdowns) remains, by its nature, unclear. A slower recovery is, however, likely to add further to the funding gap due to continuing income losses for a range of Council services and, in particular, its ALEOs.

6. Financial impact

6.1 The report notes a number of significant expenditure pressures, both in respect of Council services and impacts on the activities of the Council's ALEOs. While a number of potential funding sources and other measures have been identified to address, at least in part, these shortfalls, it is likely that the affordability of the wider budget framework will require to be re-assessed, including the impacts of COVID-19 on the Council's capital investment programme. A report on this latter aspect will be brought to the next meeting of the Committee.

6.2 Initial analysis of the underpinning assumptions and savings approved for delivery as part of the 2021/22 and 2022/23 revenue budget indicates a number of measures, delivery of which may now require to be reassessed. These include the assumed on-going receipt of the Lothian Buses dividend and future increases in Council Tax and other fees and charges levels.

6.3 These sums have the potential to increase further should in-year pressures (including greater demand in such areas as homelessness) and shortfalls in savings delivery not be managed on a sustainable basis in future years. In addition, due to the wider economic outlook and consequent increase in public expenditure and reduction in taxation revenues, there may be implications for future years' revenue funding settlements.

7. Stakeholder/Community Impact

7.1 The scale and coverage of the impacts linked to the pandemic will require extensive and continuing engagement with key stakeholders as the city enters the recovery phase.

8. Background reading/external references

8.1 Revenue Budget 2020/21 – period three position, Finance and Resources Committee, 27 August 2020

8.2 Revenue Monitoring 2019/20 – outturn report, Finance and Resources Committee, 27 August 2020

8.3 Finance Update, Edinburgh Integration Joint Board, 24 August 2020

8.4 Fair Work and the Living Wage in Adult Social Care, Edinburgh Integration Joint Board, 24 August 2020

8.5 Revenue Budget 2020/21 Update, Policy and Sustainability Committee, 23 July 2020

8.6 Revenue Budget 2020/21 Update, Policy and Sustainability Committee, 25 June 2020

8.7 Revenue Budget 2020/21 Update, Policy and Sustainability Committee, 28 May 2020

9. Appendices

One - Spend to Save Fund Annual Review, 2019/20

Two - Potential upfront revenue funding sources to support a "Green Recovery"

Appendix 1

Spend to Save Fund Annual Review, 2019/20

As with most aspects of Council activity, supported schemes have latterly been affected by the COVID-19 pandemic and this has, to an extent, slowed their progress.

While, given the timing of their approval, the projects concerned are also at varying stages of completion, progress on supported initiatives in the period to 31 March 2020 was as follows:

LED in public spaces (£0.300m approved in June 2018)

Three specific projects totalling £0.028m were completed through the Spend to Save fund during the year, being internal lighting upgrades in Inch View Care Home and the City Chambers and an aisle lighting upgrade in the Usher Hall.

The Energy and Sustainability Team also has access to reinvested SALIX funding from the earlier RE:FIT scheme, the payback conditions of which are, in some cases, better aligned to the savings profiles of energy efficiency projects. As a result, some £0.2m of projects were additionally supported through this route in 2019/20.

Usher Hall Public Address System (£0.080m approved in June 2018)

Initial on-site testing of systems was provided by suppliers during Spring 2019, with further tests then undertaken in Autumn 2019 and revised bids requested. Subsequent progress has, however, been delayed by COVID-19 restrictions.

Usher Hall Marketing Poster Boards (£0.120m approved in June 2018)

The scheme requires planning approval which has been sought and this has delayed implementation somewhat. Progress has latterly furthermore been delayed by necessary prioritisation of other COVID-related activity.

Lagganlia Snow Sports (£0.040m approved in August 2018)

The Lagganlia Snowsports Base went to tender in late 2019 and returns were received in January 2020. A preferred contractor was appointed to secure a best-value design. Due to the pandemic resulting in the temporary closure of the centre and potentially affecting future income generation opportunities, however, this process remains live.

Subject to the above caveats, overall project costs will be met from the remaining Boyd Anderson fund balance of £101,000 and the above Spend to Save allocation, with the balance being met from the Outdoor Learning earmarked reserve.

Leith Academy 3G pitch (£0.197m approved in May 2019)

The pitch is now in place and available for pupils to use but there is currently no community access until the Council decides to re-open schools for use outside core school provision. The associated repayments schedule will be reviewed accordingly.

Overall fund movement

In addition to the above expenditure calls on the Fund, repayments were received from a number of previously-supported schemes during the year, including the Edinburgh International Climbing Arena, Craiglockhart Tennis Courts and RE:FIT projects, resulting in a year-end balance of £2.736m.

Appendix 2

Potential upfront revenue funding sources to support a "Green Recovery"

Spend to Save

The Council's Spend to Save fund was established to provide upfront revenue investment to support the taking forward of projects that will deliver savings in subsequent years. This investment is then repaid according to savings profiles agreed upon approval of the project concerned, allowing the fund to support eligible schemes on an on-going basis.

Applications for use of spend to save funding should meet three main criteria:

(i) the expenditure should be one-off (i.e. non-recurring) in nature;

(ii) the nature and value of the investment should be clearly shown, along with an indication of how it contributes to delivery of one or more of the Coalition's commitments or Council strategic outcomes;

(iii) the benefits of the investment, both financial and (where applicable) non-financial should be clearly shown, along with an indication of the anticipated savings expressed in current-day prices. In general terms, the resulting payback period should be no longer than five years, although equally as important is the robustness of the underlying business case.

As of 31 March, the overall Spend to Save fund balance stood at £2.736m. Based on the net impact of planned drawdowns and repayments, up to £2m could potentially be made available over the coming months to support eligible projects, including those supporting a Green Recovery.

SALIX

From 2004 until 2016, the Council operated a £1.2m Central Energy Efficiency Fund (CEEF). This fund allowed the Council to invest in energy efficiency projects across its operational property estate on a "revolving loans fund" basis, whereby the fund balance was reimbursed from subsequent energy savings. When, in March 2016, the Scottish Government removed the associated conditions around the use of CEEF, the Council approved the transfer of the available balance of £0.8m to create a new SALIX fund which operates under similar terms. The Scottish Government match-funded the Council's contribution to create a £1.6m ringfenced fund for Council use which was instrumental in taking forward the RE:FIT programme across ten of the Council's schools and operational buildings.

Resultant savings from the RE:FIT projects are reinvested in the SALIX fund, allowing further qualifying projects to be undertaken. Since the fund's inception, a number of subsequent projects have been supported, including an upgrade of the screens within the Council's CCTV Monitoring Facility, Waverley Court BEMS improvement works and full lighting upgrades within Edinburgh Bus Station, the Assembly Rooms, Waverley Court and Bankhead Depot. In 2019/20, £0.217m of projects were supported through reinvested SALIX savings, with an intention to achieve a similar figure or higher this year. As such, the potential for this funding to act as an *additional* source is limited.

There is a potential option for the Council to expand the amount of funding available through match-funding with the Scottish Government to create a larger fund. However, any funding, assuming it could be identified given the pressures on both the revenue and capital budgets, would be bound by the fund criteria (whereby at least 75% of the resulting savings must be paid back into the fund to support subsequent eligible schemes) and consideration would also need to be given to how the Council would resource the scaling-up of spend, given existing commitments. Consideration is, however, being given to how SALIX investment might be better aligned with the Asset Management Works programme.

Other revenue funding sources

Given the tightness and as-yet unbalanced nature of the revenue budget framework, further opportunities for revenue-based investment are limited. In view of the extent of reliance on the use of reserves in addressing the projected shortfall in the current year, the remaining reserves are either statutorily ring-fenced or already earmarked for other purposes and, as such, this approach is not recommended.

Within the capital programme, anticipated increases in costs of scheme completion and substantial additional spend linked to the Council's net-zero carbon target will place further strain on a ten-year programme that is already unbalanced. On this basis, as with the revenue budget, financial sustainability is unlikely to be achieved without a wholesale review and prioritisation of the Council's activity, with reduction or cessation of services required to allow for increased investment in preventative activity and retained commitments.