

Finance and Resources Committee

10.00am, Thursday, 4 March 2021

Revenue Budget 2020/21 and 2021/26 Budget Framework Update

Executive/routine Wards Council Commitments	Executive
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1. Recommendations

- 1.1 Members of the Finance and Resources Committee are recommended to note that:
 - 1.1.1 in light of the confirmation of further in-year pandemic-related funding for local authorities, a balanced overall position continues to be forecast; and,
 - 1.1.2 following the setting of a balanced one-year revenue budget by Council on 18 February 2021, a further briefing will be provided to all members once any further implications of the approved Scottish and UK Budgets for the budget framework are known.

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Report

Revenue Budget 2020/21 and 2021/26 Budget Framework Update

2. Executive Summary

- 2.1 This short report updates members on the position in respect of the current year's revenue budget which, following the confirmation of further pandemic-related funding for local authorities, continues to reflect a projected balanced overall outturn. The report also briefly sets out the outcome of the Council's budget-setting meeting and its impact on subsequent years of the revenue budget framework.

3. Background

- 3.1 Members of the Committee have considered a series of detailed in-year revenue budget monitoring reports, the most recent of which was presented on 21 January 2021. Based upon the provisional initial funding allocation from the income compensation scheme, a balanced overall position was forecast as of that time, albeit this remained dependent upon a £7m in-year contribution from the Council's earmarked reserves. While this balanced position was welcomed, in view of the recent tightening of COVID-related restrictions and consequent impact on key income streams (particularly parking), it was agreed that a further update would be provided to members of the Committee at this meeting.
- 3.2 Following confirmation on 28 January 2021 of the provisional Local Government Settlement and the availability of £14.2m of additional funding relative to planning assumptions (but with remaining gaps in subsequent years of the framework), members of Council then approved a balanced one-year revenue budget for 2021/22.

4. Main report

- 4.1 Given the comparatively late stage in the year and the prudent assumptions on service disruption adopted in previous reports, overall projections of the expenditure and income impacts of the pandemic on the Council's activity remain largely unchanged.

Parking and other service income

- 4.2 The month eight update to the Committee's meeting on 21 January 2021 did, however, highlight the potential, based on existing trends, for reductions in parking-related income to exceed the remaining level of in-year risk provision. As of 21 February, since the imposition of tighter restrictions, weekly parking income levels have shown average year-on-year reductions of around 55%. Assuming broad continuation of these trends, the total loss of parking income, alongside reductions in other key income streams not already specifically incorporated within service projections, can be contained within the overall £3m risk contingency included in previous forecasts.

Arm's Length External Organisations (ALEOs)

- 4.3 The projections contained within the report to the Committee's meeting on 21 January also included total cumulative ALEO support, or income losses, of £21m. While, where relevant, the impact of current restrictions on patronage continues to be actively monitored, in view of the earlier securing of financial support for Lothian Buses and Edinburgh Trams for the period from July 2020 to March 2021 inclusive and a significant business interruption insurance payment for Edinburgh Leisure, no further changes are proposed at this stage.

Approved savings/management of residual pressures

- 4.4 Executive Directors also continue to develop implementation plans to deliver savings measures required to mitigate residual pressures and savings shortfalls within their respective service areas. A balanced (or better) position in core activity is now being forecast by both the Communities and Families and Resources Directorates, as well as the Chief Executive's Service. The position for the Place Directorate remains broadly unchanged from the £0.5m net pressure reported to the Committee's January meeting but with a number of specific risks and potential offsetting mitigations under active review.

Coronavirus Job Retention Scheme (CJRS)

- 4.5 The Council has now submitted to HMRC claims totalling £0.764m in respect of furloughed staff for the period up to and including January 2021. In total, 111 staff are currently furloughed, comprising 38 staff within the Council's outdoor centres and 73 Culture employees furloughed since 1 February. Based on these staffing numbers, the full-year income projection from this source has been revised slightly upwards to between £0.950m and £1m. The furlough of Council employees has continued to be undertaken in partnership with the recognised trade unions.

Homelessness funding

- 4.6 Members of the Committee have previously been advised of work underway to seek financial support for additional homelessness-related costs incurred by the Council during the pandemic given the corresponding inclusion, and subsequent potential

funding through Mobilisation Plans, of relevant costs for other councils where these services fall within the remit of the relevant Integration Joint Board.

- 4.7 While the Head of Finance has on a number of separate occasions raised this issue, both through COSLA and directly with the Scottish Government, to ensure that a consistent approach is adopted in funding for homelessness services (rather than being dependent on the body incurring the expenditure), no formal response has been received to date.

Independent review of Council's whistleblowing and organisational culture

- 4.8 The Council is continuing to progress an independent inquiry into (a) matters connected to the death of a Council employee and (b) our whistleblowing arrangements and organisational culture.
- 4.9 Members have previously approved the use of up to £0.6m from the Council's earmarked reserves in 2020/21 to offset relevant costs incurred during the year. At this stage, it is anticipated that this provision will address these costs in full. It is more difficult, however, to quantify the potential costs of the inquiry as a whole, although the volume of evidence submitted and considered to date significantly exceeds that underpinning the original cost estimates. Given the time-based nature of the engagement, it is therefore likely that additional sums will be required in 2021/22, with agreement needing to be reached as to the appropriate balance between the scope and coverage of the review and the associated cost. Any further proposed spend in excess of the level approved to date will be brought back for members' consideration.

Provision of additional funding

- 4.10 Since the Committee's last meeting, a significant number of further funding-related announcements have been made as follows:
- (i) **Income Compensation Scheme** – a further £110m will be provided Scotland-wide in 2020/21, with the Council's anticipated share being £21.8m. This is in addition to the £18m of funding previously confirmed through this source;
 - (ii) **Non-recurring additional COVID funding, including for lost income¹** – an additional £275m will be provided in 2020/21 although may be carried forward to be offset against pressures in the new year, with distribution subject to future consideration by COSLA Leaders. The Council's anticipated minimum share is £21.8m (should a generic needs basis be adopted) but with the potential for this to increase significantly should any element be allocated with reference to remaining unrecognised income losses;

¹ This funding formed part of the Cabinet Secretary for Finance's allocation of the additional £1.1 billion of Barnett Consequentials initially announced by the UK Treasury on 15 February.

- (iii) **City Centre Recovery Fund** – a one-off allocation for Edinburgh of up to £0.530m, subject to incurring spend by 31 March – potential uses include city centre marketing, support for urban business environment, consideration of property repurposing and digital enhancements;
- (iv) **Education recovery** – further confirmed Scotland-wide funding of £40m for logistical support, including cleaning, PPE and facilities management for the remainder of the academic year;
- (v) Doubling of COVID-related support in 2020/21 for the **Financial Insecurity and Flexible Level 4 Funds** (equating to a Scotland-wide increase of £20m in each case); and,
- (vi) **COVID Spring Hardship Payment** – additional £100 payment for each child/young person in receipt of free school meals, including in Early Years settings. These payments should, wherever practicable, be made alongside specific Free School Meals (FSM) provision for the Easter break.

4.11 Of the funding streams above, only (i) and (ii) would likely be available to be offset against general existing COVID-related pressures, with the others entailing additional expenditure liabilities.

4.12 While the above funding sources are one-off in nature, due to the timing of their receipt there is likely to be a significant increase in the level of the Council's reserves as of the year-end, with these sums carried forward into 2021/22 to be offset against relevant liabilities. Directors of Finance have emphasised to both the Scottish Government and the Accounts Commission the importance of interpreting year-end reserves levels within this context.

Overall projected position for 2020/21

4.13 Taken together, the increases in income noted in the preceding sections should now allow the Council to maintain a balanced overall position during 2020/21 without any need to draw down from its earmarked reserves to offset general pressures during the year. It may, additionally, be possible to reinstate the £4.9m drawdown required as part of addressing the audited overspend for 2019/20.

Additional Barnett Consequential-related funding in 2021/22

4.14 On 15 February, the UK Treasury confirmed the provision of a further £1.1 billion of coronavirus-related funding support for the Scottish Government, bringing the cumulative total since the start of the pandemic to £9.7 billion. These additional monies may be spent during 2020/21 or carried over into 2021/22. The Cabinet Secretary for Finance then confirmed, on 16 February, how the majority of these sums would be allocated.

4.15 The Cabinet Secretary also extended from three to twelve the number of months' Non-Domestic Rates relief to be provided for the retail, tourism, hospitality and retail

sectors. Based on equivalent relief awarded in 2020/21, this gives the potential for a further in-year saving of up to £1.4m, albeit receipt of this relief, in contrast to 2020/21, will be subject to a specific application-based process.

- 4.16 The Cabinet Secretary's announcement on 16 February 2021 also indicated additional investment for mental health (£120m), affordable housing (£120m), low-income support (£100m) and pupil catch-up (£60m). At this stage, however, further details of these funding streams are awaited.

Financial flexibilities

- 4.17 The Council's approved budget for 2021/22 reflects application of the loans fund financial flexibility, allowing an estimated £34m of planned in-year principal repayments to be deferred until 2022/23, thus facilitating the creation of a COVID mitigation reserve of this value. Of this total, £18m relates to additional pandemic-related expenditure pressures or lost income anticipated in 2021/22.
- 4.18 Officers have continued to make the case, however, for the PPP-based flexibility to be applied on an annuity basis which would optimise the level of retrospective benefit whilst delivering savings to the revenue account over the medium term of the contractual agreements concerned. At the COSLA Leaders' Meeting on 29 January, it was unanimously agreed that the Resources Spokesperson would formally approach the Cabinet Secretary for Finance on this matter, with a letter then sent on 2 February 2021.
- 4.19 Following a process of due consideration by the Scottish Government, a response to this letter was received on 25 February, permitting some short-term flexibility in this area, albeit requiring consideration of the applicability of all of the other financial flexibilities first. As the areas involved are complex and linked to a wider medium- to long-term review of the applicability of accounting standards to local government, however, further technical consideration is required and an update will be provided at the Committee's meeting.

Parliamentary scrutiny of Draft Scottish Budget

- 4.20 Approval of the Draft Budget is subject to a process of Parliamentary scrutiny. In view of the likely need to secure the support of at least one other party within the Scottish Parliament, in previous years additional monies for Local Government have been introduced as part of the Stage One debate. While this did not happen this year, negotiations on the detail of the budget are continuing in advance of Stage Two consideration on 8 March and the Stage Three debate on 9 March 2021.

UK Budget

- 4.21 Following its earlier postponement due to the focus on the pandemic, the UK Budget will now be announced on Wednesday, 3 March 2021. Given its date of publication, the Scottish Draft Budget necessarily included an estimate of the Barnett Consequentials flowing from this announcement. Should the actual level of funding be significantly less than the £500m assumed, however, the proposed

distribution of the £1.1 billion of Barnett Consequentials referenced in Paragraph 4.14 may have to be reconsidered. Members will be kept apprised of the outcome of this Parliamentary consideration, with a further update also provided to the Committee's next meeting on 20 May.

Approved revenue budget, 2021/22

- 4.22 On 18 February 2021, Council approved a one-year balanced budget for 2021/22. The budget includes provision for £23m of COVID-related impacts, the majority of which is funded (at least on a short-term basis) through application of the loans charge repayment flexibility. The budget also includes baselined additional investment of £12m in recognition of a range of underlying pressures within service areas.
- 4.23 Following the announcement of the provisional Local Government Finance Settlement on 28 January, £14.2m of additional investment relative to framework assumptions became available for allocation in 2021/22. Given the significant remaining shortfalls in subsequent years of the framework, however, members were advised that use of the available money on a one-off basis or in providing recurring savings would assist in closing future years' funding gaps.
- 4.24 Appendix 1 sets out the approved uses of this investment, including implementation of a Council Tax freeze and an in-year transfer to unallocated reserves of £2.743m. Alongside the delivery of approved savings, updates will be provided to members during the coming year on application of these sums and the corresponding outcomes achieved.
- 4.25 The table below indicates the incremental impact of the approved budget investment on subsequent years' savings requirements. When compared to the pre-existing funding gaps, this results in a revised profile as follows:

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Projected gap reported to Finance and Resources Committee, 2 February (cumulative)	19.8	45.5	73.5	102.5
Less unallocated grant funding	(4.5)	(5.8)	(5.8)	(5.8)
Revised savings requirement (cumulative)	15.3	39.7	67.7	96.7

- 4.26 Given the significant remaining gaps in future years of the framework, an update report will be brought to the Committee's next meeting on 20 May 2021.

Edinburgh Integration Joint Board (EIJB)

- 4.27 As of month eight and based on the current assessment of approved savings delivery, an overspend of up to £7.7m for Council-delegated services is forecast, primarily comprising pressures in external services, including residential and nursing purchased care, care and support, care at home and direct payments.

These pressures are, in turn, largely attributable to delays in planned savings delivery and increased demand due to the operational impacts of the pandemic. These sums do not include provider uplifts of £3.4m to allow continuing payment of at least the Living Wage Foundation hourly rate in 2020/21, offsetting measures for which remain to be confirmed.

- 4.28 Work also continues to refine and evidence the cost estimates contained within the Edinburgh Health and Social Care Partnership's Local Mobilisation Plan (LMP). It continues to be assumed that all COVID-related costs will be funded by this means and, as such, gives the potential for a balanced overall position to be achieved for 2020/21.
- 4.29 Discussions are also well advanced concerning the setting of the EIJB's budget for 2021/22, with the intention that the basis of a balanced position will be presented to the Board's next meeting on 24 March.
- 4.30 While the provisional terms of the Local Government Finance Settlement do not allow application by the Council of the planned £4.7m savings offset, full pass-through of the additional resources contained within the LGFS only marginally improved the underlying overall EIJB funding gap relative to the position reported to the Board on 15 December. This is because, in contrast to recent years, no unhypothecated sums (i.e. monies provided on a non-specific basis) have been reflected within the Settlement, with the £6.9m instead representing recognition of known cost pressures, funding for which had largely already been assumed by the EIJB.
- 4.31 Further discussions are therefore required with the Chief Finance Officer of the EIJB to understand fully these implications, alongside consideration of the equivalent settlement for NHS Lothian and a verbal update will be provided at the meeting. Should additional resources become available as a result of the Draft Budget Bill's Parliamentary consideration and/or UK Budget, however, members may therefore wish to prioritise allocation of these resources to the EIJB.

5. Next Steps

- 5.1 Following the approval by Council of the 2021/22 revenue budget on 18 February 2021, work on the development of savings implementation plans and measures to manage residual pressures is continuing, with the conclusions of a further readiness assessment by the Head of Finance to be reported to the Council Leadership Team prior to the new financial year.

6. Financial impact

- 6.1 There is no financial impact arising directly from this report although its contents re-emphasise the importance of proactive management of pressures and delivery of approved savings.
- 6.2 The approval of a balanced budget for the forthcoming year plays a vital role in expressing, in financial terms, the priorities of a local authority and promotes accountability between a council and its electorate.
- 6.3 The savings assurance process is intended to ensure that, as far as is practicable, those proposals approved by Council deliver the anticipated level of financial savings in a way consistent with the expected service impacts. Similarly, tracking of progress in delivering the anticipated benefits and outcomes of additional service investment contributes positively to the demonstration of best value.

7. Stakeholder/Community Impact

- 7.1 A detailed report summarising the response to the Council's recent engagement on budget priorities for 2021/22 and beyond, including relevant supporting material from other engagement activity on priorities and life experiences during the COVID-19 pandemic, was considered by the Finance and Resources Committee on 2 February and referred on to Council as part of the budget-setting meeting.

8. Background reading/external references

- 8.1 [Coalition Budget Motion](#), The City of Edinburgh Council, 18 February 2021
- 8.2 [Local Government Finance Settlement 2021/22](#), The City of Edinburgh Council, 18 February 2021
- 8.3 [Council Business Plan and Budget 2021/26](#), Finance and Resources Committee, 2 February 2021
- 8.4 [Council Business Plan and Budget 2021/26 – Risks and Reserves](#), Finance and Resources Committee, 2 February 2021
- 8.5 [Finance Update](#), Edinburgh Integration Joint Board, 2 February 2021
- 8.6 [Revenue Budget 2020/21: month eight position](#), Finance and Resources Committee, 21 January 2021

9. Appendices

- 9.1 Appendix 1 - Approved investment within 2021/22 budget

Approved uses of budget motion investment, 2021/22

	2021/22	2022/23	2023/24
	£000	£000	£000
Council Tax freeze - net loss of income	5,200	700	
Discretionary fees and charges	170		
Homelessness support and advice	400	194	(594)
Maximising income and meeting crisis needs	1,050	(1,050)	
Estate decarbonisation	500	(500)	
Sustainability	300	(300)	
Parks and greenspace investment	750	(500)	
Short-term lets regulation	250	(125)	(125)
1-to-1 Digital Learning	2,000		
Corporate Parenting	110		
Edinburgh Guarantee for All	175	(175)	
Smart City Operations Centre Phase 1	500		(500)
Gaelic Development Officer	52	(52)	
Contribution to reserves (funding assumed unallocated thereafter)	2,743	(2,743)	
	14,200	(4,551)	(1,219)