

# Governance, Risk and Best Value Committee

10.00am, Tuesday 9 November 2021

## Revenue Budget Framework 2021/26 – progress update – referral from the Finance and Resources Committee

Executive/routine  
Wards  
Council Commitments

### 1. For Decision/Action

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- 1.1 The Finance and Resources Committee has referred a report on the Revenue Budget Framework 2021/26 – progress update to the Governance, Risk and Best Value Committee as part of its work programme.

**Stephen S Moir**  
Executive Director of Corporate Services

Contact: Emily Traynor, Assistant Committee Officer  
Legal and Assurance Division, Corporate Services Directorate  
Email: [emily.traynor@edinburgh.gov.uk](mailto:emily.traynor@edinburgh.gov.uk)

# Referral Report

## Revenue Budget Framework 2021/26 – progress update

### 2. Terms of Referral

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- 2.1 On 7 October 2021, the Finance and Resources Committee considered a report which updated members on the projected Council-wide revenue budget position for the year.
- 2.2 The Finance and Resources Committee agreed:
- 2.2.1 To note that a balanced overall monitoring position continued to be forecast in the current year;
  - 2.2.2 To note, nonetheless, the potential for further expenditure pressures to emerge during the remainder of the year and thus the on-going need for pressures, savings delivery shortfalls and risks to be fully and proactively managed within all Directorates and the Health and Social Care Partnership;
  - 2.2.3 To note that a further update would be provided to the Committee at its next meeting on 9 December 2021;
  - 2.2.4 To note that a savings requirement of £8.2m was now forecast in 2022/23, increasing significantly in subsequent years, re-emphasising the need to initiate by the autumn a comprehensive savings programme, rooted in the priorities set out within the Council's Business Plan, to address this gap;
  - 2.2.5 To note the principal findings of the “lessons learned” review of the 2021/22 budget development process; and
  - 2.2.6 To refer the report to the Governance, Risk and Best Value Committee as part of its work programme.

### 3. Background Reading/ External References

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- 3.1 [Finance and Resources Committee – 7 October 2021 - Webcast](#)
- 3.2 Minute of the Finance and Resources Committee of 7 October 2021

**4. Appendices**

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4.1 Appendix 1 – report by the Executive Director of Corporate Services

# Finance and Resources Committee

10.00am, Thursday, 7 October 2021

## Revenue Budget Framework 2021/26 – progress update

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

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- 1.1 Members of the Finance and Resources Committee are recommended:
- 1.1.1 to note that a balanced overall monitoring position continues to be forecast in the current year;
  - 1.1.2 to note, nonetheless, the potential for further expenditure pressures to emerge during the remainder of the year and thus the on-going need for pressures, savings delivery shortfalls and risks to be fully and proactively managed within all Directorates and the Health and Social Care Partnership;
  - 1.1.3 to note that a further update will be provided to the Committee at its next meeting on 9 December 2021;
  - 1.1.4 to note that a savings requirement of £8.2m is now forecast in 2022/23, increasing significantly in subsequent years, re-emphasising the need to initiate by the autumn a comprehensive savings programme, rooted in the priorities set out within the Council's Business Plan, to address this gap;
  - 1.1.5 to note the principal findings of the "lessons learned" review of the 2021/22 budget development process; and
  - 1.1.6 to refer the report to the Governance, Risk and Best Value Committee as part of its work programme.

**Stephen S. Moir**  
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 Framework 2021/26 – progress update

### 2. Executive Summary

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- 2.1 The report updates members on the projected Council-wide revenue budget position for the year. While a balanced overall position continues to be projected, there remains considerable uncertainty around the on-going impacts of the pandemic on the Council and its ALEOs and, more immediately, the level of the employee pay award for 2021/22. As a result, the position will continue to be kept under active review and a further update brought to the Committee in December.
- 2.2 The report then reviews a number of existing financial planning assumptions, resulting in an estimated revised savings requirement of £8.2m for 2022/23 and increasing significantly thereafter. This re-emphasises the need to initiate by the autumn a comprehensive savings programme, rooted in the priorities set out within the Council's Business Plan, to address the estimated revenue funding gaps in future years.

### 3. Background

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#### Revenue budget, 2021/22

- 3.1 Members of Council approved a balanced one-year revenue budget monitoring position for 2021/22 on 18 February 2021. In doing so, however, it was noted that there remained the potential for further changes to emerge based on the outcome of both the UK Budget and subsequent stages of the Draft Scottish Budget's Parliamentary consideration. In addition, further clarification was being sought on the availability and associated conditions of use of a number of financial "flexibilities", particularly the service concession-related flexibility.
- 3.2 Given this, a further update on the revenue budget framework was considered by the Finance and Resources Committee on 20 May. Applying carried-forward and in-year COVID-related funding presented an opportunity to increase significantly the level of framework provision for the continuing impacts of the pandemic in both 2021/22 and 2022/23 whilst at the same time fully addressing the incremental residual savings requirement in 2022/23.
- 3.3 The report considered by the Committee also set out an opportunity to invest up to £21m in 2021/22 and 2022/23 to address remaining service pressures, anticipated

savings delivery shortfalls and member priorities. On 27 May, Council approved total investment across these areas in 2021/22 of £21m but with a number of the service investments giving rise to continuing liabilities totalling £3.3m in 2022/23.

### Month three forecast

- 3.4 On 12 August 2021, members of the Committee considered the first in-year Council-wide revenue monitoring report for 2021/22, based on analysis of the first three months' financial data. While a balanced overall position was projected, it was noted that there remained considerable uncertainty around the on-going impacts of the pandemic on the Council and its ALEOs and, more immediately, from the level of the employee pay award for 2021/22.
- 3.5 A detailed half-year monitoring update will be considered at the Committee's next meeting on 9 December. This report therefore provides an interim update, including an overview of progress in taking forward the investment measures approved by Council on 27 May, as well as considering a number of required changes to future years' budget framework planning assumptions.

## 4. Main report

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### COVID-related impacts

- 4.1 Following the decision of Council on 27 May, the revised 2021/22 budget makes provision for £39m of continuing COVID-related impacts as shown in the table below.

Area of expenditure pressure/income loss	£m
Reductions in parking income	8.0
Reductions in commercial rental income	5.0
Lothian Buses - loss of dividend	6.0
Arm's-Length External Organisations (ALEOs) - support for Edinburgh Leisure	6.0
ALEOs – other	1.0
Personal Protective Equipment	1.0
Homelessness	5.0
Other income/expenditure <sup>1</sup>	7.0
<b>Total funding for COVID impacts</b>	<b>39.0</b>

- 4.2 In the case of homelessness services, the £5m shown above is supplemented by a further £5m within the framework baseline. In approving the £21m of additional investment on 27 May 2021, a further £2m was added to this sum, meaning that in

<sup>1</sup> Other income/expenditure represents sums set aside in recognition of various anticipated continuing impacts of increased expenditure, or reductions in income, linked to the pandemic. These provisions include additional staffing costs in waste and cleansing and for the processing of support payments for both individuals and businesses, as well as assumed reductions in income for the Council's outdoor centres, cultural venues and community access to schools

total, the 2021/22 budget reflects an increase of £12m on the budgeted level of provision in 2020/21.

- 4.3 Based, where relevant, on expectations around the timing of service resumption and likely ensuing demand, the total provision of £39m continues to be assessed as sufficient at this time. Parking income, in particular, has recovered strongly, with the total level of income received in August 2021 similar to the equivalent period in 2019. While levels of outstanding debt continue to be tracked on a monthly basis, loss of commercial rental income is similarly expected to be maintained within the approved level of provision. A further update in each of these areas, based on analysis of additional months' data, will be reported to the Committee in December.
- 4.4 Lothian Buses has already advised the Council that it will not be in a position to pay any dividend in the current financial year. While passenger numbers have been steadily increasing, Transport Scotland has now confirmed that transport operator funding to contribute towards the additional net costs of operating safely at a time of reduced demand will continue to be provided to bus operators until the end of March 2022, with a similar arrangement anticipated to be confirmed for Edinburgh Trams shortly.
- 4.5 Based on current demand patterns, it is also expected that the required level of support for Edinburgh Leisure will be contained within the £6m set aside for this purpose.

#### **Directorate projections**

- 4.6 In addition to monitoring the on-going impacts of the pandemic, Executive Directors continue to oversee the delivery of approved savings and management of pressures within their respective areas of responsibility. The approved budget framework for 2021/22 includes £12m of additional baselined investment in recognition of underlying service pressures, as well as applying a higher required level of assurance for savings to be included within it. While these measures provide a degree of contingency against the emergence of significant in-year pressures within services, it remains the role of Executive Directors to manage these fully when they do arise and to maintain expenditure within budgeted levels.
- 4.7 Details of the respective non-COVID projections for the three main Directorates were contained within the report to the Committee's previous meeting on 12 August. While these forecasts are being progressively aligned to the revised organisational structures approved by Council on 27 May, they remain essentially unchanged from that time.

#### **Corporate Services**

- 4.8 As set out in further detail in a report elsewhere on today's agenda, the Executive Director of Corporate Services is projecting a balanced overall position for the services within his area of responsibility. Financial controls applied during 2020/21, including control of recruitment to all non-essential vacant posts and agency worker

use, will continue to be applied during the current year. Controls will also be applied to discretionary expenditure where no legal or contractual commitment exists, to mitigate potential budget pressures.

### **Education and Children's Services**

- 4.9 The Interim Executive Director of Education and Children's Services is projecting residual as-yet unmitigated non-COVID pressures of £2.562m.
- 4.10 Based on an assessment of current external placement numbers and known changes over the remainder of the year, an estimated pressure of £0.7m exists within residential and secure accommodation. The impact of COVID, including the number of staff requiring to self-isolate, also continues to affect internal capacity and the resulting scope for movement of places within the Council's own young people's centres, resulting in a further residual pressure of £0.8m. There is furthermore a risk that the easing of COVID-related travel restrictions results in the presentation of further individuals and places additional pressures on the Council's capacity.
- 4.11 Continuing pressures within temporary accommodation as a result of a shortage of suitable move-on accommodation have been highlighted in a number of previous reports with, at this stage, a residual pressure of £1.2m forecast. There is a risk, however, that this sum may increase further if bed nights continue at current levels for the remainder of the year. The potential recurring aspects of this in-year pressure are discussed in more detail later in this report.
- 4.12 The Interim Executive Director is fully committed to making all efforts to identify mitigations to reduce the residual pressures and to identify and implement management actions required to address these and a further update will be included in the report to the Committee's next meeting on 9 December.

### **Place**

- 4.13 The Executive Director of Place continues to highlight core budget pressures currently without mitigation across the former Place Management and Place Development Divisions totalling some £1.592m, along with a number of other risks where corresponding mitigating actions are being developed. In addition, a small element of the Directorate's approved savings target is currently assessed as "red".
- 4.14 The Executive Director and his Senior Management Team will continue to consider regular updates and develop corresponding actions, such that net expenditure is brought back within approved levels. A more detailed update, based on actual income and expenditure to the end of August, is underway, with the results of this analysis to be included in the half-year report to be considered at the Committee's next meeting.

## Corporate budgets

- 4.15 The report to the Committee's previous meeting highlighted a number of variances at Council-wide or corporate level. While detailed analysis is continuing, in particular, around the in-year loans charge forecast given slippage in 2020/21's programme, the knock-on impacts of this slippage on the delivery of projects originally planned for delivery in 2021/22 and the securing in June and July 2021 of new borrowing at low rates of interest, these remain unchanged at this time and are summarised in the table below.

	£m
<b>Favourable variances</b>	
Loans charges	(6.000)
Other non-service specific costs (including inflationary uplift provisions)	(1.774)
<b>Unfavourable variances</b>	
Senior Management Review/VERA savings – shortfall in delivery	2.005
Council Tax Reduction Scheme – additional demand	1.395
Discretionary rates relief	0.220
<b>Net favourable variance</b>	<b>(4.154)</b>

## Overall position

- 4.16 Taken together, the favourable variances above offset in full the pressures highlighted within the Education and Children's Services and Place Directorates, allowing a balanced position to continue to be forecast at this time.
- 4.17 There remains, however, uncertainty around the on-going impacts of the pandemic on the Council and its ALEOs and, more immediately, the level of the employee pay award for 2021/22 (an update on which is provided in the following section of this report). It is therefore crucial that Executive Directors and the Chief Officer of the Edinburgh Health and Social Care Partnership fully manage pressures, risks and savings delivery shortfalls within their respective core budgets if the greater stability of the framework approved by members on 27 May is not to be compromised.

## 2021/22 Local Government employees national pay negotiations

- 4.18 The baseline level of provision for staff pay awards contained within the approved budget equates to an average of 2% across all staff groups. Application of the revised Scottish Public Sector Pay Policy, to which the initial Local Government offer was intentionally aligned, would give rise to an overall pressure of £1.2m in excess of this level of provision. This sum can, however, be contained within the assumed level of inflation-related corporate savings noted above.
- 4.19 Following negotiations, a small increase to the flat-rate payment (increasing the cost to the Council of the employer's offer by about £0.4m) was reflected in a revised

offer issued to the Scottish Joint Council Trade Union Side Joint Secretaries on 13 August. Having considered the offer, UNISON's Local Government Committee concluded that there had been insufficient movement to warrant further member consultation and thus recommended proceeding with targeted industrial action, the membership ballot for which runs between 1 and 22 September. Consultative ballots of participating GMB and UNITE the Union members also resulted in rejection of the revised offer, with a move to balloting for full industrial action. As of the time of writing, the SNCT Extended Joint Chairs' consideration of the teachers' pay claim is on-going.

- 4.20 It remains the employer's view that the offer strikes an acceptable balance across affordability, employee recognition and maintenance of good industrial relations. In view of the heightened expectations resulting from the revised offer made to Health staff, however, COSLA has pushed for the provision of additional funding to allow an equivalent offer to be made to the Local Government workforce. This request has been declined by the Scottish Government.
- 4.21 The additional cost of backdating the current pay award to 1 December 2020 would be £4m (or £8m if based on the revised Health offer), a one-off £500 "thank you" payment to all remaining staff about £6m and matching the Health offer for 2021/22 (without backdating) about £12m, the last-mentioned also having implications for future years' funding gaps. These sums include, where applicable, sums payable to staff within the Edinburgh Health and Social Care Partnership.

### **Approved investments in priorities, pressures and savings shortfalls mitigations**

- 4.22 In setting the Council's 2021/22 revenue budget on 18 February 2021, members approved some £14.2m of additional investment aligned to wider Business Plan priorities. Following the receipt of significant additional COVID-related funding after the budget was set, this was supplemented on 27 May 2021 by a further £21m of investment in member priorities and sums to address service pressures and projected in-year savings shortfalls.
- 4.23 A progress assessment against each of the measures concerned is included in Appendix 1, showing that the majority are on track for delivery in 2021/22. Work is continuing with Strategic Change and Delivery Team colleagues in Corporate Services to develop appropriate associated outcome measures and an update on these will be included in the December report. Any in-year underspends against these investments will not automatically be carried forward into 2022/23 and thus also be considered in the context of addressing future years' savings requirements.

### **Afghan refugees**

- 4.24 At the meeting of Council on 26 August 2021, members unanimously approved a motion welcoming displaced Afghan refugees to the city, including the provision of good-quality immediate temporary accommodation. While encouraging on-going dialogue with the UK Government to ensure that this support is fully funded,

members also agreed to delegate to the Chief Executive, in consultation with the Leader and Deputy Leader, approval of any other such costs not covered by UK funding or existing budgets by means of a contribution of up to £0.5m from the Council's unallocated reserve. Members are reminded that, following the realignment of the Council's reserves as part of the approved 2021/22 budget, the size of the unallocated reserve was increased from £13m to £25m. It is being assumed, however, that should this sum be required in 2021/22, a corresponding replenishment of the unallocated reserve will be undertaken in 2022/23.

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

- 4.25 In March 2021, the EIJB agreed the 2021/22 financial plan and associated savings and recovery programme. Recognising that the additional measures which would be required to balance the plan would have a significant negative impact on performance gains and, ultimately, on outcomes for people, the board made the difficult decision to support a budget which did not deliver financial balance. At this point, the plan had a deficit of £9.3m and the EIJB Chief Officer and EIJB Chief Finance Officer were supported to continue tripartite efforts with colleagues in the Council and NHS Lothian to bridge this shortfall.
- 4.26 As part of the additional service investment approved by Council on 27 May, members then allocated £2.5m of further support to the EIJB, reducing the financial gap to £6.8m. In addition to this underlying remaining funding gap, an initial assessment has raised concerns around the ability to deliver the assumed level of purchasing-related savings of £11.2m implicit within the delegated budget.
- 4.27 As of the time of writing, tripartite discussions with the partners are continuing to address the residual gap. Discussions are also continuing with the Scottish Government to explore the extent to which the EIJB's earmarked reserves could be applied to support the range of financial pressures and challenges faced. Engagement with the Scottish Government is also continuing on the contents of the Quarter 1 Local Mobilisation Plan, with detailed feedback awaited.

### **Financial flexibilities**

- 4.28 Members of the Committee have received a number of previous updates on the basis on which a number of financial "flexibilities" could be made available to manage the impacts of the pandemic over a longer timeframe. While the budget approved in February 2021 reflected the assumed use of the loans fund principal repayment deferral flexibility, following receipt of significant additional grant funding late in 2020/21, this assumption was then reversed as part of the May realignment.
- 4.29 On 18 August, the Cabinet Secretary for Finance and Economy wrote to the COSLA Spokesperson for Resources offering additional clarity on the availability of the service concession flexibility. The letter confirmed that councils would be permitted to write the balance of service concession payments over the remaining life of the asset. The size of this potential timing-related benefit would, however, be severely reduced by three main factors, namely:

- (i) allowing only the principal (and not the interest) element of the debt to be written off over the remaining asset life;
- (ii) allowing only prospective (and not retrospective) application of the flexibility, removing the potential for the accumulated benefit of the change to be applied by councils in supporting post-COVID recovery; and
- (iii) restricting the application of the flexibility to the value of the principal element of the debt net of Scottish Government Grant (in the case of the largest schools PPP schemes, this reduces the sums concerned, after application of the two restrictions above, by a further 80%).

4.30 While further work is required to quantify the position within the Council's own context, the combination of these factors would be expected to reduce the overall benefits relative to earlier Directors of Finance modelling by around 95%. Although the Council is able to defer its decision on adoption of the flexibility until closure of the 2021/22 accounts, any potential benefits are likely to be much more modest than was previously sought by councils. Discussion with the Scottish Government, however, remains on-going.

#### **Review of budget framework assumptions**

4.31 Following the receipt of significant additional COVID-related funding late in 2020/21 and a reprioritisation of the Council's own reserves, on 27 May members approved an increase in the budget framework's provision for the continuing impacts of the pandemic in 2021/22 and 2022/23 from £29m to £64.3m. In addition, £21m of available funding was approved in 2021/22 to mitigate existing budget pressures, anticipated savings delivery shortfalls and facilitate investment in member priorities. The investment in member priorities gives rise to up to £3.3m of recurring liabilities, resulting in revised cumulative funding gaps as follows:

	2022/23	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000	£000
Restated funding gap, taking account of investment approved by Council on 27 May	3,325	52,424	67,424	94,528	122,098

4.32 A summary of the main financial planning assumptions underpinning these incremental savings requirements is included as Appendix 2. These assumptions are the subject of on-going review, with the principal changes arising from the most recent reviews set out in the following sections.

#### **National Insurance – employer contribution rates**

4.33 On 7 September, the UK Government confirmed changes to National Insurance (NI) contribution rates to fund £12 billion of additional annual investment in the NHS and social care across the UK. Employer's contribution rates will increase by 1.25%

during 2022/23, with a ringfenced Health and Social Care levy of 1.25% then introduced from 2023/24, subject to alignment to devolved funding arrangements.

- 4.34 Given that setting of NI rates is a reserved matter for the UK Government, these changes will also apply in Scotland. Based on the Council's current spend in this area, this change would be expected to give rise to a recurring pressure of some £5.9m and increase in line with the general pay award provision thereafter. While further clarification is required, it is understood, however, that the £12 billion raised by the rate changes may be net of additional liabilities incurred by public sector employers. This would give the potential, subject to decisions made by the Scottish Government, for the bodies affected to be compensated accordingly.

### **Senior management restructuring and Voluntary Early Release Arrangements (VERA)**

- 4.35 To date, business cases resulting in the delivery of recurring annual savings of £2.014m have been approved. When adjusted for the £0.868m of this total required to contribute towards mitigation of existing service pressures or delivery of previously-approved savings, £1.146m is available for offset against the budget framework savings assumption in 2022/23 of £3.158m, resulting in a net shortfall of £2.012m. While opportunities for senior management restructuring and related efficiencies will continue to be explored where appropriate, it is considered prudent to incorporate this shortfall into the Council's financial planning going forward.

### **Homelessness – recurring pressures**

- 4.36 As of 31 March 2020, the homelessness service was supporting 3,570 households in temporary accommodation. In response to and as a result of the COVID-19 pandemic, the numbers requiring temporary accommodation increased significantly during 2020/21 to 4,431 by 31 March 2021. Most of this increase was of necessity accommodated in short-term lets and bed and breakfast, the most expensive forms of accommodation. There was, however, also an increase in use of private sector leasing following the agreement of improved rates as part of the newly-approved contract.
- 4.37 This growth resulted in increased net costs of £8.8m in 2020/21, with the full-year effect for 2021/22 estimated to be £14m. Additional funding of £12m has been provided through the 2021/22 budget process to acknowledge the increased costs with an expectation that, as the impact of the pandemic eases, there will be a reduction in costs of £2m as the year progresses (at this stage, a £1.2m residual pressure is being forecast). It is furthermore hoped that any growth in excess of the budgeted level of funding will be mitigated through the roll-out of more explicitly preventative services and income maximisation activity agreed by Council in February.
- 4.38 Should the rate of increase seen between April and July continue for the rest of the year, however, the estimated impact for 2021/22 would be a further increase of £1m, taking the pressure to £2.2m. The full-year impact for 2022/23 would be an

increased cost of £3.3m. The budget planning assumption for 2022/23 is for a reduction of £4m i.e. reducing the overall level of additional funding to £8m. Should the rate of growth continue for the remainder of the year the service would be starting 2022/23 with a forecast pressure of £7.3m in this area.

- 4.39 While recognising the need to keep the position under review and to allow time for the preventative measures to take effect, it is considered prudent at this stage to increase the level of provision in 2022/23 from £8m to £10m, with the existing £5m currently baselined thereafter increased to £7m. These changes have the effect of increasing the cumulative funding gap by £2m in each of the next five years.

#### **Edinburgh Integration Joint Board – additional funding support in 2021/22**

- 4.40 Members will recall that the motion approved by Council on 27 May provided an additional £2.5m of in-year support to the EIJB, being equivalent to the Council's proportionate share of the overall projected shortfall in 2021/22. Recognising the continuing prioritisation of the Partnership's pandemic response and the consequent delay in implementing aspects of its transformation programme, it is considered prudent to extend this support for a further year.

#### **Pay award, 2021/22 – recurring impacts**

- 4.41 As noted earlier in the report, the level of employee pay award for 2021/22 has not yet been agreed. The current employer's offer would give rise to a recurring pressure of £1.6m relative to the current level of provision contained within the budget framework.
- 4.42 It is anticipated that such a level of pressure could be contained in 2022/23 and 2023/24 through redirecting the existing provision for additional Wave 4 school running costs contained within the framework that is not yet required. This saving is however, of its nature, not sustainable over the longer term. Should the final level of settlement be higher than the current employer's offer, this would by extension result in a higher in-year savings requirement and increase the residual funding gap going forward. By means of illustration, each 1% increase would give rise to an additional cost of around £6m.
- 4.43 Members will be kept apprised of developments in this area and a further update on any resulting financial implications will be reported to the Committee's next meeting on 9 December.

#### **Reinstatement of unallocated General Fund reserve**

- 4.44 As noted in Paragraph 4.24, on 26 August 2021, Council agreed to allocate up to £0.5m from the unallocated general reserve to meet any unfunded costs arising from the resettlement of Afghan refugees within the city. Should this sum be required in 2021/22, the updated budget framework assumes reinstatement of the reserve in 2022/23.

## Review of budget framework loans charge provision

- 4.45 The Sustainable Capital Budget Strategy 2022/32 report included elsewhere on today's agenda includes a detailed commentary on the review of the current capital investment programme to ensure alignment between the updated programming of works and the related loans charge provision requirement within the revenue budget framework.
- 4.46 Through a combination of (i) COVID-related and other programme slippage, (ii) the impact of the Loans Fund review reported to the Finance and Resources Committee on 14 February 2020, (iii) borrowing secured at historically low rates and (iv) anticipated reductions in interest rates going forward, opportunities have been identified to fund, in full, the current 2022/32 capital investment programme whilst also consolidating within the framework the savings in loans charges apparent in the current year's revenue monitoring. In addition to the £6m of savings in 2021/22 forecast in this area, in-year programme slippage is anticipated to result in a further £2m of loans charge savings relative to budgetary provision accruing from 2022/23 onwards. An assumed recurring saving of £8m is therefore available to offset the net pressures outlined in the preceding sections, resulting in the updated savings requirements shown in the table below.

	2022/23	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000	£000
Restated funding gap, taking account of investment approved by Council on 27 May	3,325	52,424	67,424	94,528	122,098
<b>Subsequent changes:</b>					
<b>National Insurance</b> - 1.25% employer contribution rate increase from April 2022	5,900	6,077	6,259	6,447	6,641
<b>VERA/Senior Management review</b> - savings delivery shortfall	2,012	2,012	2,012	2,012	2,012
<b>Homelessness</b> - additional provision for continuing service pressure	2,000	2,000	2,000	2,000	2,000
<b>Integration Joint Board</b> - assumed continuation of additional 2021/22 contribution for further year	2,500	0	0	0	0
<b>Pay award</b> - continuing pressure of current employer offer for 2021/22	1,600	1,600	1,600	1,600	1,600
<b>Wave 4 revenue running costs</b> - timing-related saving	(1,600)	(1,600)	0	0	0
<b>Reinstatement of unallocated general reserve</b> (if utilised in 2021/22)	500	0	0	0	0
<b>Reduction in required loans charge provision</b>	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)
<b>Revised estimated funding gap</b>	<b>8,237</b>	<b>54,513</b>	<b>71,295</b>	<b>98,587</b>	<b>126,350</b>

- 4.47 These assumptions will be reviewed upon receipt of the Local Government Finance Settlement. The UK Government has now confirmed that it will present a multi-year

2021 Spending Review and Autumn Budget on 27 October, including planning totals for both revenue and capital expenditure for the period from 2022/23 to 2024/25 inclusive. The Cabinet Secretary for Finance and Economy has now agreed with the Scottish Parliament's Finance and Public Administration Committee that the Scottish Budget will be introduced on 9 December 2021. Although the announcement is expected to cover only one year, this will be accompanied by the publication of the Scottish Government's Medium-Term Financial Strategy which will provide relevant context and frame its strategic approach to fiscal policy. As of the time of writing, a specific publication date for the Local Government Finance Settlement (also covering one year) remains to be confirmed but is anticipated to be shortly after the Budget announcement.

- 4.48 While full funding of the existing capital programme is to be welcomed, it is important to re-emphasise that delivery of the associated plan is dependent upon a balanced medium- to longer-term revenue budget framework. As can be seen from the table above, significant funding shortfalls remain, particularly in respect of the incremental savings requirement in 2023/24 and, as such, this criterion cannot yet be considered to have been met.
- 4.49 Recognising the lead-in time for the scale of change likely to be required, this position re-emphasises the need for early consideration and a corresponding comprehensive and sustainable savings plan, rooted in the Council's priorities as set out in the Business Plan, to be initiated by the autumn to address the projected funding gap in 2022/23 and, in particular, the significant shortfalls in subsequent years.

#### **Other risks**

- 4.50 A number of other risks exist within the budget framework, including but not limited to the following:
- (i) while the level of provision has been increased significantly, the continuing expenditure and cost impacts of the pandemic on the Council and its ALEOs may exceed the level of provision contained within the budget framework, particularly in 2023/24 and 2024/25 when this provision reduces to £11m and £3m respectively;
  - (ii) pressures or savings delivery shortfalls being mitigated on a one-off basis through the provision of additional funding in 2021/22 (excluding homelessness and the EIJB, totalling £2.846m) are not managed on a sustainable basis going forward, giving rise to recurring pressures in future years;
  - (iii) for those investments where assumed recurring provision has been incorporated within the framework, this level of funding may be insufficient, particularly in demand-led areas; and

a wider inability to identify further savings, given that only £0.310m of proposals were brought forward as part of 2021/22 budget discussions.

- 4.51 At the meeting of Council on 23 September 2021, members agreed to the granting of an additional fixed day's leave for all employees on 3 June 2022 to mark Her Majesty the Queen's Platinum Jubilee. While the sums concerned remain to be confirmed, this will give rise to enhanced payments and other costs for employees and services still requiring to operate on this date.

#### **Budget "lessons learned" review**

- 4.52 A "lessons learned" review has been introduced as part of the annual budget process. Interviews were held with elected members, the Corporate Leadership Team and colleagues from Finance and Strategic Change and Delivery. The review was based on the CIPFA Financial Management Code which sets the principles and standards of financial management for local authorities; supports improved financial resilience; and encourages greater organisational responsibility for financial management and sustainability.
- 4.53 General feedback on the Council's 2021/22 budget-setting process was positive, recognising the complexity of tracking and reporting frequently-changing funding announcements and expenditure/income impacts during the pandemic. It was felt that complex information was presented in a clear, concise and timely manner with good cross-party engagement through the Finance and Resources Committee and good wider engagement on budget matters with all political groups.
- 4.54 Feedback recognised a number of positive improvements within the 2021/22 budget-setting process including realignment and reprioritisation of reserves; provision for underlying service pressures and anticipated savings shortfalls; approval of Business Plan priorities; and investment in prevention-related initiatives.
- 4.55 A number of suggestions for further improvements to the budget process were identified with a key priority being the development of a detailed medium-term revenue savings and prioritisation programme aligned to Business Plan priorities. An action plan has been agreed (included as Appendix 3) and implementation will be reported through Committee with progress to date including a review of a number of key budget assumptions within the medium-term revenue budget framework; agreement by the Council of a proportionate additional contribution of £2.5m to the EIJB 2021/22 budget gap; increased provision of £39m in 2021/22 and £25m in 2022/23 for the estimated financial impacts of Covid-19; and development of funding solutions to address budget gaps and support a sustainable capital budget strategy.

## 5. Next Steps

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- 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 the easing of current restrictions.
- 5.2 Executive Directors require to bring forward measures to offset in full the savings delivery shortfalls and residual service pressures within their respective areas of responsibility. At this stage, however, shortfalls of £2.6m (Communities and Families) and £1.6m (Place) remain and the development of corresponding sustainable actions is required both to reduce any in-year call on the Council's earmarked reserves and enhance the sustainability of the budget framework.

## 6. Financial impact

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- 6.1 The report notes a range of significant expenditure pressures, both in respect of Council services and impacts on the activities of the Council's ALEOs. While a balanced in-year position is currently being forecast, the financial impacts of the pandemic are expected to continue at least into the medium term and will, alongside management of risks and pressures, thus be subject to on-going review as part of maintaining the integrity of the revised budget framework approved by Council on 27 May.
- 6.2 While the receipt of recent additional funding is to be welcomed, it is important not to lose sight of the more fundamental need to bring forward a comprehensive and sustainable savings plan, rooted in the Council's priorities, to address significant projected funding gaps from 2023/24 onwards.

## 7. Stakeholder/Community Impact

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- 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 2021/22 budget-setting meeting.

## 8. Background reading/external references

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- 8.1 [Finance Update](#), Edinburgh Integration Joint Board, 17 August 2021
- 8.2 [Revenue Monitoring 2021/22 – Month Three Position](#), Finance and Resources Committee, 12 August 2021
- 8.3 [Revenue Budget Framework 2021/26 Update](#) – referral from the Finance and Resources Committee, The City of Edinburgh Council, 27 May 2021
- 8.4 [Revenue Budget 2020/21 and 2021/26 Budget Framework Update](#), Finance and Resources Committee, 4 March 2021
- 8.5 [Coalition Budget Motion](#), The City of Edinburgh Council, 18 February 2021

## **9. Appendices**

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- 9.1 Appendix 1 – Approved investments and pressure/savings shortfall mitigations – current status
- 9.2 Appendix 2 – Current principal financial planning assumptions, 2022/23 to 2026/27
- 9.2 Appendix 3 – Budget “Lessons Learned” Action Plan

Investment	2021/22 £m	Investment/ Pressure	Current Directorate	RAG Status	Status Narrative	Risk of overspend
Communal Bins	1.100	Investment	Place	R	No contractual commitment to be made until outcome of Zero Waste Scotland funding application is known in October 2021. Revised business case may be required depending on funding outcome.	
Tram Concessions – free under-19 travel	0.500	Investment	Place	R	Scottish Government policy is now for under-22 free travel on buses. If this were applied to trams, the cost would exceed the approved annual level of investment funding by at least £1m, with this sum likely to increase significantly upon opening of the tram extension.	Eligibility criteria will require to be tightly defined to prevent risk of significant overspend.
Edinburgh Bike Scheme	0.800	Investment	Place	R	Following the failure of contract extension negotiations, the current scheme ended on 17 September and alternative options are therefore being investigated.	
Carers' Recovery Fund	0.250	Investment	Health and Social Care	A	Discussions have been initiated between VOCAL (Voice of Carers Across Lothian) and the Edinburgh Health and Social Care Partnership to develop detailed delivery plans.	
Early commitments to support a city-wide 2030 Net Zero Strategy	0.700	Investment	Corporate Services	A	Council Sustainability Team costs fully covered; some delay on commissioning energy consultancy but deliverable. As of time of writing, public campaigns have not yet begun hence amber overall status.	
Food Growing	0.130	Investment	Corporate Services	A	Draft profile of investment has been developed for discussion with Sustainability and Equality Champion.	
Positive Destination and Holiday Programme Officers	0.124	Investment	Education and Children's Services	A	Recruitment process is underway.	
All Ability Bikes	0.071	Investment	Place	A	Grant award to the Thistle Foundation to support the delivery of a service to allow adaptive cycles to be available for disabled people across the city was approved by Transport and Environment Committee at continuation of its meeting originally held on 19 August 2021.	
Smart Cities	0.500	Investment	Place	A	The related commercial terms are currently being finalised and the programme will seek to join the Council's Change Portfolio for in-depth monitoring from September 2021.	
Roads, Carriageways and Pavements	6.000	Investment	Place	A	Delivery programme has been developed and associated phasing is being agreed with Finance colleagues.	
Increased foot and cycleway gritting and cleaning	0.300	Investment	Place	A	Procurement of the additional vehicles is underway. Pavement gritting routes have been designed and are being tested and risk-assessed by staff.	
Electric Vehicle Infrastructure	0.250	Investment	Place	A	Relates to installation of charging points for Council fleet	
20 minute neighbourhood strategy – enabling works	0.500	Investment	Place	A	18-month funding agreed at CLT on 28 July and now into secondments and/or recruitment for resource.	
Accelerating decarbonisation of the Council's estate	1.000	Investment	Place	A	Near completion of feasibility stage for the two pilot projects with a further 11 projects now in tranche 1 of feasibility since funding approved. Investment likely to be fully committed by the end of this financial year, once cost profile of these pilots fully understood. Members' briefing is being scheduled to give an overview of the programme and investment required to reach 2030 targets.	
Energy and Waste actions and Net Zero Strategy	0.200	Investment	Place	A	Implementation planning underway, project management support required given tight timescales.	

# Approved investments and pressure/savings shortfall mitigations – current status

Investment	2021/22 £m	Investment/ Pressure	Directorate	RAG Status	Status Narrative	Risk of overspend
Council Tax freeze - net loss of income	5.200	Investment	Corporate	G	No further action needed; Council Tax frozen (and 3% "compensation" received) as part of setting Council's 2021/22 budget on 18 February.	
Contribution to reserves	2.743	Investment	Corporate	G	No further action needed; actioned as part of setting 2021/22 budget.	
Edinburgh Integration Joint Board	2.500	Investment	Corporate	G	Transfer actioned; no further action needed.	
Discretionary fees and charges	0.170	Investment	Corporate	G	No further action needed; freezing of school meal, garden aid, library and home care charges approved as part of 2021/22 budget motion.	
Independent Inquiries	0.400	Investment	Corporate	G	In-year spend being tracked and reported to Group Leaders.	Given the demand-led nature of the inquiry, there is an inherent risk of overspend.
Maximising income and meeting crisis needs	1.050	Investment	Corporate Services	G	Implementation on track, with owners established for each element (Income Max, Discover, 1in5 and Advice Services)	
Sustainability	0.300	Investment	Corporate Services	G	Carbon literacy training and COP26 events in train	
Embedding prevention and community engagement	0.600	Investment	Corporate Services	G	Resource profile agreed at CLT 28/07, with outcomes to be fully defined. Recruitment is underway.	
Diversity Training	0.100	Investment	Corporate Services	G	Project plan developed and training delivery partners commissioned.	
Gaelic Development Officer	0.052	Investment	Corporate Services	G	Relates to the extension of an existing fixed-term post and has been progressed.	
Homelessness support and advice	0.400	Investment	Education and Children's Services	G	Spend of additional funds is on track with recruitment nearly complete and training underway.	
Library Books	0.050	Investment	Education and Children's Services	G	Funding for pupil educational and development needs within school libraries (£29k), in addition to spend within wider library estate.	
Nursery deferrals	0.169	Investment	Education and Children's Services	G	Funding for expected increase in number of deferrals for entry to P1, based on 40 additional deferrals.	Based on the actual number of deferrals for session 2021/22, the level of investment is broadly sufficient.
1-to-1 Digital Learning	2.000	Investment	Education and Children's Services	G	Project underway with business case approved at CLT, updates to Policy and Sustainability Committee and Governance, Risk and Best Value in August and September.	

# Approved investments and pressure/savings shortfall mitigations – current status

Investment	2021/22 £m	Investment/ Pressure	Directorate	RAG Status	Status Narrative	Risk of overspend
Homelessness	2.000	Offsetting Pressure	Education and Children's Services	G	£2m allocated based on initial assessment of residual pressure of £3m.	Current projected residual pressure of £1.2m but being contained within balanced overall Council-wide position in 2021/22
Looked after children	1.500	Offsetting Pressure	Education and Children's Services	G	To be applied to address pressures in Out of Council Residential and Secure placements pending implementation of early intervention and preventative measures to reduce demand.	Current projected residual pressure of £0.7m but being contained within balanced overall Council-wide position in 2021/22
Home to school transport	0.600	Offsetting Pressure	Education and Children's Services	G	Travel Demand - reduces approved saving/investment reduction of £0.9m to £0.3m in 2021/22 only.	Current projected residual pressure of £0.3m but being contained within balanced overall Council-wide position in 2021/22
Corporate Parenting	0.110	Investment	Education and Children's Services	G	Additional funding to allow continuation of current arrangements	
Public Conveniences	0.450	Offsetting Pressure	Place	G	Additional temporary toilets in premier parks and other key locations	Actual costs slightly exceed approved investment due to extended period of opening - refinement of figures required, will revert to SMT as part of reporting.
Edinburgh's Summer Festivals	0.300	Investment	Place	G	Funds disbursed as agreed.	
Parks & Greenspace one-off	0.500	Investment	Place	G	Million Tree Project, Greenspace for Foamstream, Thriving Greenspaces project.	
Short Term Lets regulation set-up costs	0.250	Investment	Place	G	As expected – on track to be spent.	
Edinburgh Guarantee for All	0.175	Investment	Place	G	As expected – on track to be spent.	
Taxi and Licence Enforcement	0.160	Investment	Place	G	As expected – on track to be spent.	
Place - fees and charges reduced income	0.559	Offsetting Pressure	Place	G	Funding applied against income shortfall as agreed.	
Development and Business Services Operating Model - reduced income	0.187	Savings Shortfall	Place	G	Funding applied against income shortfall as agreed.	
Investment in Parks, Greenspace and Cemetery Infrastructure	0.250	Investment	Place	G	£4m prioritised programme of capital works (the recurring loans charge cost of which is £250k) approved by Culture and Communities Committee on 15 June.	
<b>Total</b>	<b>35.200</b>					

## Current principal financial planning assumptions, 2022/23 to 2026/27

	2022/23	2023/24	2024/25	2025/26	2026/27	Notes
Pay award	2%	3%	3%	3%	3%	Each 1% increase equates to £6m at 2021/22 prices
Contract and other inflation	2%	2%	2%	2%	2%	Each 1% increase equates to £3m at 2021/22 prices
Total provision for recurring expenditure and income impacts of pandemic (£m)	25.3	11.0	3.0	3.0	3.0	Actual expenditure/income in 2020/21 was £69m and budget framework provision in 2021/22 is £39m
Demographic provision (Education and Children's Services and Place) (£m)	4.0	4.0	4.0	4.0	4.0	Allocation primarily covers increasing pupil numbers and growing household numbers; level of provision to be reviewed in line with updated pupil roll projections when available
Government grant and retained Non-Domestic Rates income - assumed year-on-year change in like-for-like funding	-0.7%	0%	0%	0%	0%	Each 1% equates to £7.7m at 2021/22 funding levels
Council Tax - increase in rate (or receipt of "freeze" compensating funding)	3%	3%	3%	3%	3%	Each 1% equates to £3.1m at 2021/22 funding levels

# Budget “Lessons Learned” - Action Plan 2022/23

CIPFA FM Code Section	Development Actions 2022/23
Governance and financial management style	Deliver development sessions for Elected Members, Senior Managers, Finance and Strategy staff on the CIPFA Financial Management Code. Elected Member development to be prioritised following the Elections in May 2022.
Long to medium-term financial management	Continue to support case for “fair funding”, multi-year funding settlements and increased flexibility through COSLA and professional bodies.
	Develop a detailed medium-term revenue budget savings and prioritisation programme aligned to Business Plan priorities. Realistic service savings and investment proposals aligned to anticipated resources to be available in May / June 2022. Implement a new approach to medium-term service planning: research best practice in medium-term business / service planning; leadership team to agree strategy for prioritisation of services / allocation of the estimated savings requirement to inform service plan development; Finance and Strategy teams to support the development of data / evidence to facilitate assessment of value for money; Leadership team to provide peer review and constructive challenge.
	Develop affordability of the Capital Investment Programme for the period of the next Administration including development of a realistic phasing of approved investments and assessment of the implications of the move to equal instalments of principal.
	Develop enhanced leadership team scrutiny of the EIJB annual budget, strategic plan and medium-term financial plan.
	Review key assumptions within the medium-term revenue budget framework including SG settlement, Council Tax uplift and EIJB savings. (Revised assumptions agreed by Council 27 May 2021 – 3% Council Tax for 2022/23; “Flat Cash” SG funding from 2023/24; removed 2% EIJB savings target in 2022/23).
	Develop a clear, simple illustration / explanation of the estimated medium-term funding gaps to support broader engagement and understanding.
	Review demographic provision in the medium term budget framework to ensure that assumptions remain appropriate.
	Review planning assumptions to ensure that the revenue budget financial implications of the Capital Investment Programme are fully reflected in the medium-term revenue budget framework.
	Issue an indicative 3-year resource allocation to the EIJB to support development of EIJB strategic planning.
	Review EHSCP demographic assumptions to develop more refined projections

# Budget “Lessons Learned” - Action Plan 2022/23 – continued

CIPFA FM Code Section	Development Actions 2022/23
The annual budget process	Consider a proportionate additional contribution to the EIJB 2021/22 budget gap of £9.3m (£2.5m contribution agreed by Council on 27 <sup>th</sup> May 2021).
	Accelerate publication of fees and charges proposals including estimated financial impacts of proposed uplifts. Proposed uplifts 2022/23 to be shared by Dec. 2021.
	Embed enhanced CLT scrutiny of underlying budget pressures and savings proposals within the annual budget process.
	Further develop CLT and Elected Member engagement on the HRA budget strategy and capital programme.
	Embed regular engagement between Executive Directors / Service Directors and Conveners / Vice Conveners on key budget issues, including agreement of any actions to address budget pressures and risks.
	Refresh guidance for managers on arrangements for consideration of Spend to Save proposals.
	Develop a budget timetable with key milestones and indicative dates.
	Develop an additional step in the budget process to document detailed implementation plans for more complex change proposals.
	Develop more regular business plan and budget engagement with the Council's Wider Leadership Team.
	Embed “open book” budget discussions between Executive Directors / Service Directors and Opposition Groups.
Stakeholder engagement and business cases	Update 21/22 budget and medium-term plan when COVID impacts / funding become clearer. (Provision increased to £39m in 2021/22 and £25m in 2022/23 at Council on 27 May 2021. Position subject to ongoing review.)
	Develop a refreshed budget engagement strategy for detailed medium-term business plan.
	Develop detailed plans for approved investments including contribution to outcomes and exit strategies for non-recurring investment. A detailed update will be reported to the Finance and Resources Committee on 7 October.
Strengthen business case and option appraisal approach / governance with business cases to follow a proportionate framework aligned to the HM Treasury standard five case model including appropriate provision for optimism bias.	Monitoring financial performance
Further develop Directorate budget monitoring information to strengthen consistency / best practice. Reporting should track development and implementation of timely action by accountable service managers to correct / mitigate emerging pressures and risks.	