

Finance and Resources Committee

10.00am, Thursday, 3 February 2022

Revenue Budget Framework 2022/27 – progress update

Executive/routine Wards Council Commitments	Executive All
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1. Recommendations

- 1.1 Members of the Finance and Resources Committee are recommended to:
 - 1.1.1 note that an overall underspend of £2.628m is now forecast in 2021/22;
 - 1.1.2 note that achievement of this position depends, in particular, upon the income-related impacts of the pandemic over the remainder of the year and agreement on, and the funding of, the teachers' pay award for 2021/22;
 - 1.1.3 note the changes to financial planning assumptions set out within the report, including the provisional outcome of the Local Government Finance Settlement and the potential means of achieving overall balance in 2022/23;
 - 1.1.4 agree to allocate the Council's share of Scottish Crown Estate marine asset funding to support the repair of the Granton Castle Walled Garden boundary wall and dovecot;
 - 1.1.5 refer the report, subject to any further changes resulting from the Scottish Budget's Parliamentary consideration, to Council as part of setting the revenue and capital budgets on 24 February 2022; and
 - 1.1.6 refer the report to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

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Revenue Budget Framework 2022/27 – progress update

2. Executive Summary

- 2.1 The first section of the report updates members on the projected Council-wide revenue budget position for 2021/22, based on analysis of month eight expenditure and income data. While an overall underspend of £2.628m is now forecast, there remains some uncertainty around the impacts of the pandemic on the Council and its ALEOs over the coming months and, more immediately, the level of the teachers' pay award for 2021/22. The position will therefore continue to be kept under active review for the remainder of the year.
- 2.2 The report also advises members of the provisional outcome of the Local Government Finance Settlement and the impact of this announcement and other changes in planning assumptions on the Council's incremental savings gap for 2022/23 and subsequent years. While it is important not to lose sight of the fundamental importance of developing detailed plans, rooted in the Council's priorities, to address future years' savings requirements and maintain the stability of the budget framework, a potential means of achieving a balanced position in 2022/23 is presented for consideration.

3. Background

- 3.1 Members of the Committee have previously considered a series of Council-wide revenue monitoring reports for 2021/22, the most recent of which was discussed on 9 December 2021. This report pointed to a projected balanced overall position, albeit with a need for pressures, savings delivery shortfalls and risks to be proactively managed for the remainder of the year.
- 3.2 The report to the Committee's meeting on 9 December 2021 also apprised members of a number of changes to financial planning assumptions, resulting in an estimated savings requirement of £8.7m in 2022/23 but rising to £54.7m in 2023/24 and increasing further thereafter to some £133m by 2026/27.
- 3.3 This report updates members on the current year's forecast, based on analysis of period eight expenditure and income and projections thereon. It also provides an analysis of the provisional outcome of the Local Government Settlement for 2022/23, outlines a number of other proposed changes to planning assumptions

and presents means by which, based upon these assumptions, overall balance could be achieved in 2022/23.

4. Main report

COVID-related impacts

- 4.1 Following the decision of Council on 27 May 2021, 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 ¹	7.0
Total funding for COVID impacts	39.0

- 4.2 In the case of homelessness services, the £5m shown above is supplemented by an additional £5m contained within the framework baseline. In approving the £21m of investment on 27 May 2021, a further £2m was then added to this sum, meaning that in total, the 2021/22 budget reflects an increase of £12m relative to the budgeted level of provision in this area in 2020/21.
- 4.3 While no further unallocated COVID-related funding has been received in 2021/22, the total COVID-related provision of £39m approved in May continues to be assessed as sufficient at this time. Although parking income has levelled off in recent weeks (with weekly income over the past two months, on average, some £0.085m lower than in 2019), it is currently forecast to be contained within the indicative loss above. While levels of outstanding debt continue to be tracked on a monthly basis, loss of commercial rental income is also expected to be contained within the level of provision noted above.

Support for ALEOs

- 4.4 The report to the Committee's last meeting provided a detailed update on the anticipated in-year impacts of the pandemic on the Council's ALEOs and given confirmed Transport Scotland funding for both Lothian Buses and Edinburgh Trams

¹ Other income/expenditure represents sums set aside in recognition of various anticipated continuing instances 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.

up until March 2022, these are currently assessed to remain within the total level of provision above.

- 4.5 Based on current demand patterns, it is expected that the required level of support for Edinburgh Leisure will be contained within the £6m set aside for this purpose. The precise level of support required, however, is dependent upon a range of factors including timescales for facility opening/re-opening (whether due to construction delays or public health requirements) and wider patronage during the remainder of the year. As of October, overall fitness membership income remained some 30% below pre-COVID levels.
- 4.6 Limitations on audience numbers for internal events between 26 December 2021 and 24 January 2022 resulted in the enforced cancellation of planned events within Capital Theatres venues. Where possible and appropriate, relevant events will be rescheduled until later in 2022, with assessments of the resultant financial impact, taking into account available sources of support following the ending of the furlough scheme in September 2021, continuing.
- 4.7 Should the overall level of required in-year COVID-related provision be less than the £39m assumed above, given the significant subsequent decreases in equivalent provision to £25.3m, £11m and £9m respectively over the next three years of the framework, it is proposed that any unallocated funds in 2021/22 be used to supplement these provisions rather than facilitate additional expenditure or address subsequent years' savings gaps.

Directorate projections – Corporate Services

- 4.8 As set out in further detail in a report elsewhere on today's agenda, the Executive Director of Corporate Services continues to project 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 Excluding Homelessness Services discussed in Paragraph 4.12, the Executive Director of Education and Children's Services continues to project a balanced overall monitoring position as of month eight. Forecast pressures within the service, including those in respect of out-of-council residential and secure accommodation and Devolved School Management (DSM) budgets, are currently projected to be fully offset through savings elsewhere within the budget and the receipt of additional Scottish Government funding. While elements of the approved savings relating to home to school transport, the libraries strategic review, efficiency and management savings and fees and charges are also assessed as at risk of not being delivered at this time, these are being contained within the overall balanced position.

Place

- 4.10 The Executive Director of Place is highlighting core budget pressures currently without mitigation totalling £0.193m, representing an improvement of some £0.250m relative to the position reported at month six due to the net impacts of management actions undertaken. A number of other risks exist where corresponding mitigating actions are being developed.
- 4.11 The Executive Director and his Senior Management Team will continue to consider regular updates and develop corresponding actions with a view to bringing net expenditure back within approved levels by the end of the year.

Homelessness Services

- 4.12 Demand within homelessness services continues to grow, with a net increase of 42 households in temporary accommodation in December, contributing to overall growth of 211 households in the financial year to date. This growth had been assumed in previous forecasts and, as such, the gross pressure of £2.8m remains unchanged. Following the receipt of £0.833m of additional Scottish Government funding in this area since the half-year report, however, the projected net overspend has reduced to £1.967m.

Savings delivery

- 4.13 As of period eight, 91% of savings by value are assessed to be on track for delivery by the end of the year, with the attendant detail included in Appendix 1. Projected shortfalls in delivery are reflected in the relevant projections above.

Edinburgh Integration Joint Board (EIJB)

- 4.14 In March 2021, the EIJB agreed the 2021/22 financial plan and associated savings and recovery programme. Recognising that the additional measures 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 which has subsequently been reduced to £5.5m.
- 4.15 Previous finance reports to the EIJB have highlighted a projected overspend for 2021/22. At a high level, this overspend comprised three component parts: the deficit described above; slippage on the savings and recovery programme; and offsetting savings from staffing vacancies across some key services in both the Council and NHS Lothian. At the time of the Committee's last meeting, the Scottish Government had reserved its position on how slippage in the delivery of the savings programme would be treated, specifically whether this would be a legitimate claim against funding provided for COVID. This has now been clarified by Scottish Government officials and Integration Authorities will be supported to break even in 2021/22. As a result of this announcement, the EIJB Chief Finance Officer is now able to offer significant assurance on the achievement of a balanced in-year position.

- 4.16 The commitment by the Scottish Government has been made on the basis that integration authorities take all reasonable efforts to minimise the level of support required. To this end, at their meeting on 7 December 2021, members of the EIJB agreed to offset the projected in-year deficit by drawing down £1m of uncommitted reserves, this sum representing the overall underspend achieved in 2020/21.

Corporate budgets

- 4.17 Given known and emerging pressures within Directorates, work has also continued to identify additional potential savings within non-service budgets. Previous reports have identified anticipated savings in loans charges of £6m and non-service specific costs, including inflationary uplift provisions, of £3.253m. These have offset unfavourable Council-wide variances totalling £3.110m, resulting in net corporate savings of £6.143m.
- 4.18 Updated analysis of the size and profile of the Council Tax base, in-year collection rates and anticipated required bad debt provision now indicates a favourable in-year variance of £0.5m. In addition, forecast Council Tax Reduction Scheme expenditure, while still slightly in excess of the budgeted level, has reduced by £0.5m relative to earlier forecasts.

Independent inquiry and review of the Council's whistleblowing arrangements and organisational culture

- 4.19 At the meeting of Council on 25 November 2021, members agreed to increase the total level of approval in respect of the costs of completing the independent inquiry and review of the Council's whistleblowing arrangements and organisational culture to £1.4m. Work has been completed on the independent inquiry and is also largely completed on the review, with only a small amount of follow-up work to be undertaken. Total fees incurred, including those of Susanne Tanner QC, are £1.37m, thus falling within the level of approval provided by Council. Members of Council have also approved the use of up to £0.348m from reserves to meet costs of implementing the reports' recommendations.

Approved investments in priorities, pressures and savings shortfalls mitigations

- 4.20 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.
- 4.21 At this stage, the majority of expenditure is expected to be incurred in full during the year. Following the closure of the Edinburgh Cycle Hire Scheme on 17 September 2021, however, a number of short- and medium-term mitigating measures were approved by the Transport and Environment Committee on 11 November 2021.

Based on the approved programme of measures, savings of £0.500m and £0.200m respectively are now anticipated relative to the sums approved by Council on 27 May 2021, with the former element forming part of the projected outturn for the year.

- 4.22 Members also approved a total of £1m to support a range of measures enhancing general sustainability awareness and the specific development of the Council and city-wide net-zero strategies. A small in-year underspend of £0.045m is anticipated against this programme of activity.

Teachers' pay award, 2021/22

- 4.23 The period six report considered by the Committee on 9 December 2021 confirmed agreement of the non-teaching staff pay award for 2021/22, giving rise to an overall in-year net pressure relative to budgetary assumptions (after receipt of additional Scottish Government funding of £2.4m) of £2.9m but with this sum contained within a balanced overall position.
- 4.24 The Salaries Committee of the Educational Institute for Scotland (EIS) has, however, unanimously rejected a revised pay offer for teachers from COSLA and the Scottish Government. The Committee also agreed to ballot members on the offer, with a recommendation that members should reject it. This ballot opened on 13 January and will close on 31 January. A progress update will be provided as appropriate at the Committee's meeting.
- 4.25 While the non-teaching pay award is negotiated between COSLA as employer and the representative trade unions, the equivalent negotiations for the teachers' award are tripartite, additionally involving the Scottish Government. In past years, the Scottish Government has introduced additional funding to secure a settlement. There is a risk, however, that any negotiated settlement will result in an additional financial call on the Council relative to existing budgetary provision, as well as a possibility that the Scottish Joint Council representative trade unions seek to re-open negotiations around the equivalent non-teaching award given COSLA's professed aim of achieving parity across all bargaining groups.

Overall position

- 4.26 Taken together, the above favourable movements in projected service outturns, corporate budgets and approved investment result in a revised projected favourable variance of £2.628 as shown in the table below. An analysis of this outturn by constituent area is included as Appendix 2.

	£m	
Position as reported to Finance and Resources Committee on 9 December, 2021	0.000	Balanced overall position forecast
Favourable movements in service outturns:		
Homelessness Services	(0.833)	External funding received
Place	(0.250)	Various management actions
Favourable movements in corporate budgets:		
Council Tax Reduction Scheme	(0.500)	Based on updated projections of demand
Council Tax	(0.500)	Based on updated tax base and collection level projections
Projected in-year underspends on member-led investment:		
Edinburgh Bike Scheme	(0.500)	
Net zero and sustainability awareness	(0.045)	
Revised overall projection (favourable)/unfavourable	(2.628)	

- 4.27 As noted in the following sections of the report, it is proposed that this underspend be used to address an element of the in-year savings gap for 2022/23.

Local Government Finance Settlement, 2022/23

- 4.28 On 9 December 2021, the Cabinet Secretary for Finance and the Economy presented a draft one-year Scottish Budget and Local Government Finance Settlement (LGFS) to the Scottish Parliament. Following this announcement, the accompanying Finance Circular, providing details of revenue and capital grant funding allocations at local authority level, was then issued on 20 December.
- 4.29 At this stage, the figures contained within the Settlement remain provisional, pending the Draft Budget's Parliamentary passage. On 27 January, as part of the Budget's Stage One consideration, the Cabinet Secretary for Finance and the Economy confirmed the provision of £120m of additional one-off revenue funding for 2022/23. As of the time of writing, a decision on the allocation of this sum amongst councils remained to be confirmed. A supplementary briefing will therefore be prepared and circulated to elected members in advance of the Committee's meeting on 3 February, with a further report then prepared for Council as part of its budget-setting meeting on 24 February.

- 4.30 The contents of the Finance Circular are also the subject of a four-week consultation process. Any resulting amendments to individual allocations will be contained within the overall quantum of funding within the LGFS and not addressed through the provision of additional funding. There is additionally the potential for these changes to affect the operation of the two funding floors, from each of which the Council currently benefits.

Impact of the provisional LGFS on the budget framework

- 4.31 Analysis of the Settlement is on-going as additional details are received. Based on work undertaken to date, however, the provisional level of funding is slightly more favourable than the “flat cash” position assumed in the report presented to the Finance and Resources Committee on 9 December 2021 as outlined below. This analysis does not take into account any further grant funding resulting from the £120m allocation noted at Paragraph 4.29 pending confirmation of the Council’s share of these resources.

Revenue grant funding

- 4.32 Expressed on a like-for-like cash basis, the overall Scotland-wide revenue budget settlement is largely unchanged from 2021/22 before additional liabilities in respect of employer’s National Insurance (£70m) and Council Tax Reduction Scheme payments (£19m) are taken into account. The position for Edinburgh is more favourable, with a like-for-like increase of around 1.0%, due to a number of population-based distributional gains, redistribution amongst all authorities of monies previously required for loans charge support and, in particular, the continuing operation of the second funding floor, whereby all authorities are guaranteed to receive funding equal to at least 85% of the per capita average for Scotland.
- 4.33 When compared to the level of funding assumed within the budget framework, this results in the receipt of additional income of £8.1m, with the above-referenced changes to Council Tax Reduction eligibility creating an offsetting estimated liability of £1.4m, reducing the net gain to £6.7m. The incremental savings gap presented to the Finance and Resources Committee on 9 December 2021 made separate provision for the Council’s related National Insurance liability of £5.9m and, as such, there is no impact of this position on the overall savings requirement.

Integration Joint Boards (IJBs)

- 4.34 The LGFS also contains £353.9m of further funding to be transferred from the Scottish Government Health portfolio to local authorities for investment in adult health and social care services delegated to integration joint boards, comprising:
- (i) £174.5 million for continued delivery of the real Living Wage within Health and Social Care;
 - (ii) £15 million for uprating of free personal and nursing care payments;
 - (iii) £20.4 million for implementation of the Carers’ Act;

- (iv) £124m of additional investment to provide care at home; and
- (v) £20 million to support Interim Care.

4.35 Edinburgh’s estimated share of these sums is £31.5m and this funding will be passed on in full to the Edinburgh Integration Joint Board (EIJB)². Distribution arrangements for £200m of further social care investment (and confirmation of the proposed distribution of £144m included within 4.34 (i) above) will be discussed by COSLA Leaders on 28 January and an update will be provided at the meeting.

Other new service investment

4.36 While the level of core funding for Local Government was essentially unchanged, in addition to the health and social care investment noted above, further sums were provided in respect of a number of Scottish Government commitments, namely:

	Scotland-wide funding, 2022/23 (£m)	Edinburgh allocation, 2022/23 (£m)
Additional teachers and support staff	145.5	10.4
Child Bridging Payments	68.2	TBC
Removal of school curriculum and music tuition charges, increase in School Clothing Grant	26.0	TBC
Free School Meals - expansion to P4 and P5 and holiday support	64.0	TBC
Total	303.7	

4.37 These sums reflect the continuation, or expansion, of commitments implemented in the current year. As with the £200m of Health and Social Care investment above, distribution of the Free School Meals funding will be considered by COSLA Leaders on 28 January.

Council Tax and availability of financial flexibilities

4.38 The Cabinet Secretary’s announcement also confirmed the removal of all controls on Council Tax levels (the budget framework assumes a 3% increase in 2022/23) and a further year’s extension of the loans fund principal repayment deferral and capital receipts “flexibilities”. If utilised, application of the loans fund deferral flexibility would allow the Council to fund up to £30m of COVID-related expenditure over a longer timeframe, albeit, as currently understood, with the first annual repayment of this sum (estimated at £2.3m) falling due in 2023/24. Use of the loans fund flexibility is being kept under review and a further update will be provided to the Committee in March.

Early Years expansion

4.39 The majority of funding to support the expansion of annual early years provision to 1,140 hours is provided by means of ringfenced grant. Through a combination of

² This sum includes £0.5m of funding representing the estimated full-year effect of payment of the Living Wage Foundation hourly rate of £10.02 from 1 December 2021 for commissioned homelessness services.

the reduced available quantum of funding and changes to the distribution methodology, Edinburgh's allocation has reduced by some £5m (11%) and officers are therefore seeking urgent clarification on the basis of the change and the application of agreed transitional arrangements, whereby the Council's allocation will reduce further in subsequent years. Subject to the outcome of this clarification, there will be a need to develop sustainable plans consistent with this lower eventual level of funding.

Public Sector Pay Policy (PSPP)

- 4.40 While not directly applicable to local government, given the broad alignment of the non-teaching employer's offer for 2021/22 to the Public Sector Pay Policy, the Cabinet Secretary also confirmed the Scottish Government's PSPP for 2022/23, comprising a guaranteed cash uplift of £775 for those earning £25,000 and below, a £700 increase for those earning between £25,000 and £40,000 and a flat-rate £500 increase above this level. Based on current modelling, application of such a policy would fall within the overall level of provision made within the budget framework.

Other changes to budget framework assumptions

- 4.41 The report to the Committee's meeting on 9 December 2021 also apprised members of a number of changes to financial planning assumptions, resulting in an estimated savings requirement of £8.737m in 2022/23 but rising to £54.695m in 2023/24 and increasing further thereafter to some £133m by 2026/27.
- 4.42 Since that time, a number of further required changes to planning assumptions have been identified and these are set out in the following sections.

Edinburgh Trams – impact of free bus travel for Under 22s

- 4.43 The Scottish Government has previously announced that free bus travel will be made available to all residents under the age of 22 in Scotland from 31 January 2022 and as of the time of writing, preparations are well underway for scheme implementation by this date. The scheme does not, however, currently extend to light rail and thus corresponding compensating funding has not been provided for Edinburgh Trams.
- 4.44 Not including trams within the Scottish Government scheme is likely to have a disproportionate financial impact on both current and future operations and also affect the ability to realise the full customer and environmental benefits of integrated and complementary tram and bus services and thereby make a key contribution towards the green recovery from the pandemic and promote sustainable travel habits.
- 4.45 It is proposed, subject to Council approval, that funding be made available within the budget framework to meet the associated costs of implementation for both the existing line and, from 2023/24, the extension. While the £0.5m approved by Council on 27 May 2021 will meet the full cost in 2021/22, a further £1.5m is estimated to be required from 2022/23 and, following opening of the extension to Newhaven, an additional £1.0m in 2023/24 (reflecting part-year line opening) and

£1.5m from 2024/25. Continuation of the scheme beyond 31 March 2022 is, however, contingent upon the approval of corresponding funding as part of setting the Council's 2022/23 revenue budget on 24 February 2022. Should this funding be approved, a corresponding report will be considered by the Transport and Environment Committee in March 2022 setting out the parameters of the scheme going forward.

Edinburgh Trams – impacts of reductions in patronage on business case

- 4.46 The pandemic has seen significant reductions in public transport patronage globally given the expansion of home working and reductions in air travel. In Edinburgh, Lothian Buses and Edinburgh Trams have reported a similar reduction in demand since the start of the pandemic and although patronage is starting to recover, the rate and extent of recovery remains uncertain.
- 4.47 It is important, nonetheless, to emphasise that forecast construction costs for the Tram to Newhaven project remain within the approved project budget, with the shortfall in the extraordinary dividend from Lothian Buses offset by savings in borrowing costs relative to the approved business case, as projected in the project update dated 12 November 2020.
- 4.48 As the longer-term impacts of the pandemic become clearer, the Council will work with Edinburgh Trams to establish revised farebox income projections. While the position remains uncertain, however, it is prudent to plan support for the tram system, if required, with an allowance of £7m being made in the budget framework for 2023/24 at this time and an annual allowance of £9.25m from 2024/25. Work to mitigate these sums is ongoing, including discussions with Edinburgh Trams, Transport Scotland and other stakeholders.

Homelessness – continuing increases in demand

- 4.49 Overall numbers accommodated in temporary accommodation increased from 3,570 as of 31 March 2020 to 4,525 as of 30 September 2021, necessitating increased use of more expensive bed and breakfast and shared accommodation despite increased numbers of households in suitable accommodation. The most recent month's data for December 2021 show that these numbers continue to increase. This overall growth reflects, in part, a 600% increase in the number of households with no recourse to public funds (NRPF) presenting within the city since February 2020, a trend that is forecast to continue for the remainder of the year and where Council officers are in on-going contact with COSLA and Scottish Government officers with a view to securing additional financial support.
- 4.50 Given these trends and the full-year effect of increases anticipated in the remainder of the year, the framework now incorporates an additional £17.6m for homelessness-related expenditure relative to the approved level of provision for 2019/20. While there is an expectation that the preventative measures implemented in 2021/22 will temper this rate of increase, until the pandemic is

deemed to be over and there is an increase in the availability of move-on accommodation, some level of growth is likely to continue.

Actions resulting from the independent inquiry and review of the Council's whistleblowing arrangements and organisational culture

- 4.51 On 28 October 2021, Council received a report from the independent inquiry chaired by Susanne Tanner QC which identified certain failings and missed opportunities on the part of the Council to address the unacceptable conduct of the late Sean Bell. The inquiry made certain recommendations in this regard.
- 4.52 On 16 December 2021, members then received a separate but related report concerning the Council's whistleblowing arrangements and organisational culture.
- 4.53 In considering the latter report, the Chief Executive was asked to report back to Council within one cycle on how the recommendations would be implemented. As of the time of writing, the detailed action plan for the two reviews remains to be finalised but it is estimated that the associated additional cost will be of the order of £1.5m in 2022/23 and continuing at £2.5m thereafter. There is a risk, however, that this sum is insufficient and regular updates will therefore be provided to members of the Committee.
- 4.54 Taking account of the changes outlined in the preceding sections and the provisional level of grant funding for 2022/23 results in a revised position as follows:

	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m
Updated estimated funding gap reported to F&R, 9 December	8.737	54.695	77.664	105.148	133.110
Additional trams-related pressures:					
Under 22s concession - existing line	1.500	1.500	1.500	1.500	1.500
Under 22s concession - extension	-	1.000	1.500	1.500	1.500
Decrease in farebox income from reduced demand relative to business case	-	7.000	9.250	9.250	9.250
Homelessness - additional pressures based on continuing increases in demand (revised profile £17.6m/£14.6m/£14.6m/£14.6m/£14.6m)	2.600	2.600	2.600	2.600	2.600
Independent Inquiry/Review - on-going liabilities	1.500	2.500	2.500	2.500	2.500
2022/23 Local Government Finance Settlement - net upside relative to "flat cash" assumption	(6.700)	(6.700)	(6.700)	(6.700)	(6.700)
Revised gap	7.637	62.595	88.314	115.798	143.760

- 4.55 These savings requirements are based on assumed annual Council Tax rises of 3% in each year of the framework. A number of savings are also already assumed within the 2022/23 baseline and these are presented in Appendix 3.
- 4.56 Parallel work on the EIJB's budget for 2022/23 is also underway, with two workshops held thus far with Board members. While the receipt of additional

funding this has allowed the EIJB's Chief Finance Officer to provide significant assurance that a balanced position will be achieved in the current financial year, due to a combination of two years' unfunded demographic growth, unfunded Living Wage contract uplifts and previous one-off funding from NHS Lothian, a significant structural deficit is being carried into 2022/23.

4.57 The Council will pass through Edinburgh's share of all of the funding streams highlighted in Paragraph 4.34. While these sums include an element of unhyphenated funding which may provide an ability to offset an element of this deficit, the position remains challenging and a structured savings programme, along with additional external funding, will likely be required to achieve financial balance on a sustainable basis going forward.

Potential means of addressing 2022/23 gap

4.58 Work has now been initiated to develop a savings programme addressing the significant incremental savings requirements from 2023/24 onwards (discussed in a subsequent section of this report). Given the Council's statutory responsibility to set a balanced budget for the coming year before 11 March, however, the immediate focus has been on achieving this position for 2022/23.

4.59 Paragraph 4.26 outlined the basis of a projected £2.628m underspend in the current year and it is proposed to offset this sum against the incremental savings requirement of £7.637m noted in Paragraph 4.54.

4.60 A number of further proposed actions have been identified as follows:

- (i) following the receipt of significant additional funding late in 2020/21, members approved a one-off allocation to the EIJB for 2021/22 of £2.5m in May 2021. While the report to the Committee's meeting on 7 October 2021 proposed the continuation of this sum for a further year, in view of the respective funding settlements of the Council and the EIJB, it is now proposed not to provide this support;
- (ii) service reserves within Corporate Services and Education and Children's Services totalling £1.217m that may be released to address the gap;
- (iii) a drawdown over three years (of £0.9m annually) of funds currently held within the Council's welfare reform reserve, in the main comprising previous years' underspends in respect of the Council Tax Reduction Scheme, to address homelessness-related pressures;
- (iv) an inflationary contingency that is not now required given the agreement to maintain Edinburgh Leisure's core payment for service at 2021/22 levels. The budget framework also assumes up to £3m of pandemic-related support for EL in 2022/23 if required; and
- (v) the projected underspend of £0.2m against sums provided for the Edinburgh Bike Scheme in 2022/23 as noted in Paragraph 4.21.

4.61 Taken together, these sums would address, in full, the savings requirement in 2022/23 of £7.637m as summarised below, leaving an unallocated balance of £0.208m, albeit on a non-recurring basis given the substantial deficits from 2023/24.

	£m	
Underspend from 2021/22 offset against 2022/23 gap	2.628	
Withholding of planned one-year continuation of 2021/22 EIJB uplift	2.500	Council's grant funding allocation for relevant services reduced by £1.5m and Settlement contains considerable additional uncommitted resources for IJBs
Service reserves	1.217	Customer (£0.985m) and Education and Children's Services (£0.232m)
Drawdown from welfare reform reserve to offset element of homelessness-related pressure	0.900	
Inflation contingency not required	0.400	Edinburgh Leisure
Projected underspends against member investment, 2022/23	0.200	Edinburgh Bike Scheme
	7.845	

4.62 While the preceding table provides the potential basis of a balanced position in 2022/23, there are nonetheless a number of framework risks including, but not limited to, the following:

- (i) the adequacy of current COVID-related framework provision (£25.3m/£11m/£9m/£9m/£9m over the five years from 2022/23);
- (ii) increasing capital funding requirements due to the impact of inflation and project delays, as well as unfunded commitments around EnerPHit, City Centre Transformation and the City Plan, each of which may give rise to additional loans charge expenditure;
- (iii) the ability of the EIJB to develop sustainable savings plans to address future years' funding gaps;
- (iv) a recent lack of new savings proposals being brought forward;
- (v) flat-cash grant funding assumptions for future years may be too optimistic given the frontloading of the UK Spending Review and existing Scottish Government commitments, particularly given the Council's dependence on the 85% floor;
- (vi) the settlement of the 2021/22 teachers' pay offer may give rise to recurring pressures; and
- (vii) the grant settlement for 2022/23 remains provisional at this time. Any material movement from this anticipated position will be considered as part of the first in-year revenue monitoring report in 2022/23.

Future years' funding gaps

- 4.63 In recognising the urgent need to initiate the development of a more detailed medium-term financial plan and accompanying savings programme for future years of the framework, it is proposed to allocate savings targets to Directorates for each year of the budget framework based on 5%/3%/3%/3% of gross expenditure respectively over the years from 2023/24 to 2026/27. Alongside anticipated savings in corporate budgets and the continuation, where relevant, of the measures noted in Paragraph 4.60, identification and approval of corresponding savings developed with reference to prioritisation of current activity would result in a position close to balance in 2023/24 and resulting in small surpluses in the following three years.

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Revised savings requirement	62.595	88.314	115.798	143.760
Assumed savings targets from 2023/24 based on gross expenditure (5%/3%/3%/3%)	(51.895)	(83.033)	(114.170)	(145.307)
Corporate budget savings	(5.000)	(7.500)	(10.000)	(10.000)
Inflationary contingency not required	(0.800)	(0.800)	(0.800)	(0.800)
Welfare reform reserve drawdown	(0.900)	(0.900)	0.000	0.000
Residual savings requirement/(surplus)	4.000	(3.919)	(9.172)	(12.347)

- 4.64 Directorates will be asked to develop potential options, captured by means of a standard template detailing service and performance impacts, risks and dependencies, with reference to the priorities set out in the Council's business plan. These proposals will be subject to a process of co-design between the incoming administration and officers and form the basis of public consultation in Autumn 2022.
- 4.65 Briefings will be provided to all political groups and independent councillors as this process develops.

Scottish Crown Estate marine asset revenues

- 4.66 In November 2021, the Scottish Crown Estate announced that the Council would receive an allocation of £0.083m from the net revenue generated by marine assets in 2019/20. The Council is carrying forward a small sum from previous years' allocations, resulting in the availability of total funding of £0.094m. Although the associated guidance is flexible, these funds should be used to benefit coastal communities.
- 4.67 It is proposed that these funds be allocated to repair works for the Grade-B listed Granton Castle Walled Garden. The garden, located on the shoreline in Granton, is

enclosed by a Grade B-listed wall and is home to a grade B-listed dovecot, both of which require immediate care and attention. The Council is looking to restore this heritage site and unlock its potential for the benefit of the local community and wider city region, as well as creating a new visitor destination on the Granton Waterfront.

- 4.68 The garden is currently leased to The Friends of Granton Castle Walled Garden, a small community group, who are working towards re-establishing the three-acre site as a working market garden and local attraction. Working in partnership with the Group, the Council will undertake essential repair works to the Grade B listed walls and dovecot, including essential maintenance to areas of structural concern, repointing walls to replace unsuitable cement mortar, replacing eroded coping, removing damaging vegetation and improving the general accessibility of the site. Alongside the works, the Council will partner with the local college to run a programme of learning opportunities in traditional skills, conservation and stonemasonry.
- 4.69 Members of the Committee are asked to approve use of the funds for the purposes outlined.

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 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. While the report notes a projected overall underspend for 2021/22, the development of corresponding sustainable actions is required both to reduce any in-year call on the Council's earmarked reserves and enhance the robustness of the budget framework.
- 5.3 Following consideration by the Committee, the report will be referred to Council for decision as part of the budget-setting process. Given that the Council's grant funding allocation for 2022/23 remains provisional until approval of the Local Government Finance Order in late February, members will be kept apprised of changes to this or any of the other key assumptions underpinning the analysis presented.

6. Financial impact

- 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 slight in-year underspend 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 2021.

- 6.2 The report sets out the basis of a balanced position for 2022/23, based on current planning assumptions and the provisional level of grant settlement. It is important, however, 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. The report sets out the broad approach to be adopted in identifying savings proposals as part of this process.

7. Stakeholder/Community Impact

- 7.1 A detailed report summarising the response to the Council's 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.
- 7.2 In contrast to previous years, it is proposed to meet the Council's incremental savings requirement for 2022/23 through a combination of previously-approved savings and other one-off measures and underspends. These previously-approved savings are predominantly in non-service budgets or represent the continuing impacts of decisions taken, and assessed, in previous years. As a result, no formal cumulative integrated impact assessment will be undertaken as part of the 2022/23 budget process, although relevant supporting statements on individual savings measures will be published on the Council's website.
- 7.3 Given the nature of the savings measures proposed for 2022/23, similarly no specific engagement is proposed.

8. Background reading/external references

- 8.1 [Revenue Budget Monitoring 2021/22 – month six position](#), Finance and Resources Committee, 9 December 2021
- 8.2 [Finance Update](#), Edinburgh Integration Joint Board, 7 December 2021
- 8.3 [Edinburgh Cycle Hire Scheme - Future Delivery and Interim Community Initiatives](#), Transport and Environment Committee, 11 November 2021
- 8.4 [Revenue Budget Update 2021/26 – progress update](#), Finance and Resources Committee, 7 October 2021
- 8.5 [Revenue Monitoring 2021/22 – Month Three Position](#), Finance and Resources Committee, 12 August 2021
- 8.6 [Revenue Budget Framework 2021/26 Update](#) – referral from the Finance and Resources Committee, The City of Edinburgh Council, 27 May 2021
- 8.7 [Coalition Budget Motion](#), The City of Edinburgh Council, 18 February 2021

- 8.8 [Trams to Newhaven – COVID-19 Final Business Case Refresh](#), Transport and Environment Committee, 12 November 2020

9. Appendices

- 9.1 Appendix 1 – Approved savings and required pressures mitigations, 2021/22 – current status
- 9.2 Appendix 2 – 2021/22 Revenue Budget – Projected Expenditure Analysis
- 9.3 Appendix 3 – Savings already assumed within 2022/23 baseline

Approved savings and required pressures mitigations, 2021/22 – current status

Education and Children's Services	Current savings assessment				Notes
Saving	Green	Amber	Red	Black	
	£m	£m	£m	£m	
Early Years (restructure of staffing)	0.300				Vacancies in place
Edinburgh Leisure Service Payment	0.380				Inflationary increase withheld
Police Funded Officers	0.478				Notice given
Instrumental Music Service	0.150				Vacancies in place but potential risk to service delivery. Additional funding has been provided as part of Scottish Government's first 100 days commitment for ending charges for music tuition in schools and will be used to address non-delivery of saving.
Quality Improvement Officers	0.120				Vacancies in place but potential risk to service delivery
Strategic Service Reviews: Libraries and Adult Learning			0.250		Consultation on this saving has been paused pending completion of other senior management/tier 3 reviews which is still ongoing. This saving will not now be delivered as scheduled.
Library Opening Hours			0.050		Consultation on this saving has been paused pending completion of other senior management/tier 3 reviews which is still ongoing. This saving will not now be delivered as scheduled.
School Efficiencies (DSM)	0.600				Full-year effect of 2020/21 savings
Mainstream DSM	0.300				Saving expected to be delivered
Transport Review	0.600		0.300		Logistic and Travel Hub in initiation phase to look at mitigations. £0.6m Council mitigating funding allocation for 2021/22 approved by Council on 27 May 2021.
Efficiencies - Mgt Savings	0.161		0.197		Green element based on Grade 9+ VERAs approved by CLT. Balance may be delivered through the C&F/Place review but not in the current financial year.
Night Noise Team	0.100				Saving has been delivered in full from deleting vacant posts.
Fees and Charges average 5% uplift	0.086	0.085	0.085		£86K provided from non-income budgets so green. Balance currently assumed 50/50 due to COVID impact and will be reviewed as greater clarity on community access to schools and adult education is achieved.
TOTAL	3.275	0.085	0.882	0.000	

Place	Current savings assessment				Notes
	Green	Amber	Red	Black	
Saving	£m	£m	£m	£m	
Statutory Consents	0.040				Full-year effect of previous decisions
Parks and Green Spaces (<i>Inch Nursery proposal</i>)	0.050	0.050			The Inch plant nursery as a standalone has achieved this net cost reduction, however the Parks & Greenspace service overall is forecasting an overspend.
Depots and Yards	0.210				Financial analysis undertaken, implementation to be monitored over coming months
Parking action plan phase 2	0.520				Assumes that any adverse COVID impact is met from corporate provision. Income comprises parking uplift and Sunday parking.
Culture Services Review of Museums and Galleries	0.100	0.050			Green - element of VERA-related saving after transitional arrangements. Overall the Culture service is forecasting an underspend.
Culture Service (Income Maximisation)		0.038			Income maximisation-related. This will not be achievable by planned means but Culture service overall is forecasting an underspend.
Cashless Parking - across the City	0.150				Required action was approved by Transport and Environment Committee.
Development & Business Services Operating Model	0.330	0.620			Green element = income £0.187m (Council funding allocation for 2021/22 agreed 27 May 2021) + VERA £0.143m. It is expected the full saving will be made, although new income proposals as planned have not been able to be implemented due to external barriers.
Scientific, Bereavement and Registration Services		0.090			This action should be implemented, however the related services are currently forecasting overspends.
Reduced short-term funding for asset life reprofiling (roads and infrastructure; 2021/22 only)	1.000				£6m Council funding allocation for 2021/22 agreed 27 May 2021
Increase garden waste charge - full cost recovery	0.160				Represents six months' increase - on track.
Fees and Charges average 5% uplift	0.559	0.379			Plans in development. £0.559m Council funding allocation for 2021/22 agreed 27 May 2021. When COVID impacts are taken into account, it is expected that the amber element will be met.
Reprofiling of repairs and maintenance expenditure		2.000			This is a re-profiling of expenditure from 2021/22 to 2022/23 and is categorised as 'amber' as there is an absence of specific delivery plans. Repairs and Maintenance expenditure has been managed within budget in previous years.
Fees and Charges average 5% uplift - Property and Facilities Management	0.058				Increased income target allocated across Property and Facilities Management.
TOTAL	3.177	3.227	0.000	0.000	

Corporate Services	Current savings assessment				Notes
Saving	Green	Amber	Red	Black	
	£m	£m	£m	£m	
Digital delivery	0.250				Saving progressed and now assessed as achievable.
Resources Directorate Workforce Savings - Finance Workforce savings	0.110				Saving to be achieved through vacancy management.
Renting of Assets for 5G nodes		0.050			This saving target has been fully mitigated through a one-off cost saving in ICT contract costs.
Print, Mail and Scan Strategy Development	0.100				Reduction in print costs now agreed with other Council departments.
ICT contract extension savings	0.950				Contract cost re-negotiated in August 2020.
Fees and Charges average 5% uplift - HR Services	0.009				Increased income target allocated to a number of HR Services.
Fees and Charges average 5% uplift - Customer and Digital Services	0.057				Increased income target allocated across Customer and Digital Services.
Fees and Charges average 5% uplift - Legal and Risk	0.011				Income target applied to Legal Services recharges.
TOTAL	1.487	0.050	0.000	0.000	

Council-wide	Current savings assessment				Notes
Saving	Green	Amber	Red	Black	
	£m	£m	£m	£m	
Chief Officers & Senior/Middle Management Review	0.809		0.795		Green element is based on savings resulting from the Senior Management review and Grade 6-8 VERA exercise.
VERA (net of pay provision offset - 2021/22)			1.200		Relevant savings included in line above
TOTAL	0.809	0.000	1.995	0.000	

Corporate (including budget assumptions)	Current savings assessment				Notes
	Green	Amber	Red	Black	
	£m	£m	£m	£m	
Borrowing Costs	10.000				Full delivery is anticipated, with additional in-year savings contributing to an overall Council-wide position within approved budget levels.
Procurement	0.100				Will be delivered in full through reductions in gainshare payable
Council Tax	5.500				While full delivery is anticipated, the position will be kept under review in light of changes in the Council Tax base, the in-year collection rate and required level of bad debt provision in 2021/22.
Past service pension costs - incremental reductions in liability	0.500				Will be delivered in full based on current year's projection and continuing timing-based reductions in sums payable
TOTAL	16.100	0.000	0.000	0.000	

Total 24.848 3.362 2.877 0.000

	Revised Budget	Period Budget	Period Actual	Period Variance	Projected Outturn	Outturn Variance	Percentage Variance
	£000	£000	£000	£000	£000	£000	
Directorate / Division							
Corporate Services (including Chief Executive's Office)	78,899	67,937	65,370	(2,567)	78,899	0	0.0
Education and Children's Services	425,552	283,702	285,127	1,425	425,552	0	0.0
Health and Social Care	243,018	148,603	166,546	17,943	243,018	0	0.0
Place	167,068	144,780	133,240	(11,540)	167,261	193	0.1
Homelessness Services	44,552	38,701	39,912	1,211	46,519	1,967	4.4
Lothian Valuation Joint Board	3,833	2,555	2,555	0	3,833	0	0.0
Directorate / Division total	962,922	686,278	692,750	6,472	965,082	2,160	0.2
Non-service specific areas							
Loan Charges	83,903				77,903	(6,000)	(7.2)
Other non-service specific costs less sums to be disaggregated:	35,288				32,540	(2,748)	(7.8)
- Apprenticeship Levy	2,075	1,383	1,371	(12)	2,075	0	0.0
- Non-Domestic Rates (poundage uplift)	505				0	(505)	n/a
- Energy	694				694	0	0.0
- Discretionary Rates	500				720	220	44.0
Covid Investment	23,975	n/a	n/a	n/a	23,430	(545)	(2.3)
Tram Shares	8,500	0	0	0	8,500	0	0.0
Council Tax Reduction Scheme	26,605	n/a	n/a	n/a	27,000	395	1.5
Staff early release costs	2,500	n/a	n/a	n/a	2,500	0	0.0
Senior Management Review/VERA savings	(2,940)	n/a	n/a	n/a	(945)	1,995	(67.9)
Pay award - net additional costs	0	n/a	n/a	n/a	2,900	2,900	n/a
Net Cost of Benefits	(127)	n/a	n/a	n/a	(127)	0	0.0
Interest and investment income	(401)	0	0	0	(401)	0	0.0
Non-service specific areas total	181,077	1,383	1,371	(12)	176,789	(4,288)	(2.4)
Movements in reserves							
Net contribution to / (from) earmarked funds	(31,966)	0	0	0	(31,966)	0	0.0
Movements in reserves total	(31,966)	0	0	0	(31,966)	0	0.0
Sources of funding							
General Revenue Funding	(611,897)	(407,931)	(407,931)	0	(611,897)	0	0.0
Non-Domestic Rates	(188,796)	(125,864)	(125,864)	0	(188,796)	0	0.0
Council Tax	(311,340)	(207,560)	(207,560)	0	(311,840)	(500)	(0.2)
Sources of funding total	(1,112,033)	(741,355)	(741,355)	0	(1,112,533)	(500)	0.0
In-year (surplus) / deficit	0	(53,694)	(47,234)	6,460	(2,628)	(2,628)	(0.2)

	Directorate	£m
Borrowing costs	Corporate	12.000
Corporate budgets reprioritisation/realignment	Corporate	5.000
Procurement	Corporate	0.100
Total Corporate		17.100
Continuation of 5% increase in discretionary fees and charges	Council-wide	1.000
Chief Officers and Senior/Middle Management Review	Council-wide	0.218
Total Council-wide		1.218
Statutory Consents	Place	0.025
Increase in garden waste charge based on full-cost recovery (full-year effect)	Place	0.160
Development and Business Services Operating Model	Place	0.300
Library efficiencies	Place	0.050
Edinburgh Shared Repairs - Management Resource and Income Generation	Place	0.007
Total Place		0.542
Digital delivery	Corporate Services	0.190
Renting of assets for 5G nodes	Corporate Services	0.050
Directorate Workforce Savings	Corporate Services	0.110
Total Corporate Services		0.350
Total pre-approved or assumed savings		19.210