Governance, Risk and Best Value Committee

10.00am, Tuesday 22 November 2022

Revenue Budget Framework 2023/27: progress update – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on the Revenue Budget Framework 2023/27: progress update to the Governance, Risk and Best Value Committee for part of its work programme.

Richard Carr
Interim Executive Director of Corporate Services

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Referral Report

Revenue Budget Framework 2023/27: progress update – referral from the Finance and Resources Committee

2. Terms of Referral

2.1 On 10 November 2022, the Finance and Resources Committee considered the Revenue Budget Framework 2023/27: progress update report. The report updated members on the outcome of the most recent review of the Council's financial planning assumptions, which resulted in an increased estimated savings requirement before mitigations of £76.5m in 2023/24 and £158.6m by 2026/27.

2.2 A number of further risks were highlighted, particularly those in respect of demand-led services, inflation and the Council's level of grant funding settlement.

2.3 The Finance and Resources Committee agreed:

2.3.1 To note the updates to financial planning assumptions set out in the report, which resulted in an increased overall estimated savings requirement before mitigations of £76.5m in 2023/24 and £158.6m over the period to 2026/27 respectively.

2.3.2 To note the further risks outlined in the report, particularly those in respect of demand-led services, inflation and the level of grant funding settlement.

2.3.3 To note the proposed measures and savings presented within the report, the combined impact of which would reduce the estimated residual funding gap in 2023/24 to £21.2m and £110.1m in 2026/27, albeit with a need to provide for an additional contingency in 2023/24 of at least £10m against the risks noted above.

2.3.4 To note that a further update, incorporating the impact of the provisional 2023/24 Local Government Finance Settlement and presenting further proposals to address the resulting residual savings requirement, would be brought to the Committee's next meeting on 26 January 2023.

2.3.5 To note that these proposals were likely to involve increasingly difficult choices about the Council's priorities, including service reductions, across all services areas to maintain expenditure in line with available income.

2.3.6 To note the officer recommendation at paragraph 4.29 to stop investigating future options for a cycle hire scheme for the city and to release the funding set aside for this purpose.

2.3.7 To note that this decision should be taken by members during the budget-setting process by full Council and to agree that Committee noting the report did not equate approving the proposal at paragraph 4.29.

2.3.8 To note the initiation of a number of further longer-term strategic and cross-cutting workstreams to develop proposals to contribute towards subsequent years' savings requirements.

2.3.9 To refer the report to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

2.3.10 To note the devolution to the Council of control over Non-Domestic Rates Empty Property Relief from April 2023, as described in paragraph 4.6, and to agree to request a report to the March meeting of the Committee to explore options on setting this relief and the possible implications for businesses and the Council.

2.3.11 To note the implications for the Council from the National Care Service would be included as a risk in the next update report.

3. Background Reading

3.1 Finance and Resources Committee – 10 November 2022 - Webcast

3.2 Minute of the Finance and Resources Committee – 10 November 2022

4. Appendices

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

Finance and Resources Committee

10.00am, Thursday, 10 November 2022

Revenue Budget Framework 2023/27: progress update

Executive/routine
Wards

1. Recommendations

1.1 Members of the Finance and Resources Committee are asked to:

1.1.1 note the updates to financial planning assumptions set out in the report, resulting in increased overall estimated savings requirements before mitigations of £76.5m in 2023/24 and £158.6m over the period to 2026/27 respectively;

1.1.2 note the further risks outlined in the report, particularly those in respect of demand-led services, inflation and the level of grant funding settlement;

1.1.3 note the proposed measures and savings presented within the report, the combined impact of which would reduce the estimated residual funding gap in 2023/24 to £21.2m and £110.1m in 2026/27, albeit with a need to provide for an additional contingency in 2023/24 of at least £10m against the risks noted above;

1.1.4 note that a further update, incorporating the impact of the provisional 2023/24 Local Government Finance Settlement and presenting further proposals to address the resulting residual savings requirement, will be brought to the Committee's next meeting on 26 January 2023;

1.1.5 note that these proposals are likely to involve increasingly difficult choices about the Council's priorities, including service reductions, across all service areas to maintain expenditure in line with available income;

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1.1.6 note the initiation of a number of further longer-term strategic and cross-cutting workstreams to develop proposals to contribute towards subsequent years' savings requirements; and

1.1.7 refer this report to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

Richard Carr

Interim Executive Director of Corporate Services

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Report

Revenue Budget Framework 2023/27: progress update

2. Executive Summary

2.1 The report updates members on the outcome of the most recent review of the Council's financial planning assumptions, resulting in an increased estimated savings requirement before mitigations of £76.5m in 2023/24 and £158.6m by 2026/27. A number of further risks are highlighted, particularly those in respect of demand-led services, inflation and the Council's level of grant funding settlement.

2.2 A range of proposed measures, including corporate mitigations, budget realignment and savings relating to decisions already agreed by, or recommended to, members is presented for consideration. Alongside initial tactical savings developed through the Medium-Term Financial Plan (MTFP), if all approved, these measures would reduce the estimated residual funding gap in 2023/24 to £21.2m and £110.1m in 2026/27 albeit with a need to provide for an additional contingency of at least £10m against the risks noted above.

2.3 In view of this remaining gap, a further update, incorporating the impact of the provisional 2023/24 Local Government Finance Settlement and presenting further proposals to address the resulting residual savings requirement, will be brought to the Committee's next meeting on 26 January 2023. These proposals are likely to involve increasingly difficult choices about the Council's priorities, including service reductions, across all service areas to maintain expenditure in line with available income. The report will also update members on the development of further longer-term strategic and cross-cutting workstreams to develop proposals to contribute towards subsequent years' savings requirements.

3. Background

3.1 At the Committee's previous meeting on 8 September 2022, members considered an update on the Council's revenue budget framework, including the results of a review of financial planning assumptions over the period to 2026/27. The report indicated an increased estimated savings requirement of £70.4m in 2023/24 and £152.9m by 2026/27. The report also provided an update on the development of the Council's Medium-Term Financial Plan (MTFP).

3.2 Given continuing significant levels of volatility in the external environment, this report apprises members of the results of a further review of planning assumptions for the Council's key expenditure and income drivers. In addition, it presents a number of proposed measures and savings, the effect of which would be to reduce significantly the residual gap in 2023/24 and subsequent years.

4. Main report

4.1 The report to the Committee's meeting on 16 June highlighted the main contributing factors to the gap between anticipated expenditure requirements and available funding over the period to 2026/27. The Council continues to face significant financial pressures resulting from increased demand for services, inflation and legislative reform, as well as the on-going financial impacts of the pandemic. These factors are set against a backdrop of core grant funding (accounting for around three quarters of the Council's overall income) that is not increasing. Based on the planning assumptions assumed in the most recent update considered by the Committee on 8 September, significant cumulative recurring savings are therefore required as shown below:

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Estimated funding gap, September 2022	70.4	99.2	125.8	152.9

Changes in planning assumptions since previous forecast

4.2 The Council's planning assumptions are regularly reviewed against a range of independent sources and those of other Scottish local authorities, with any material variation from these considered and justified, or the assumptions revised, as appropriate.

4.3 As part of the latest review, three specific changes have been incorporated, with two generic changes applying to all of Scotland's authorities and one specific to Edinburgh as set out in the following sections.

Non-Domestic Rates revaluation

4.4 The next revaluation of non-domestic property in Scotland is due to take effect from 1 April 2023 based on rental values as at 1 April 2022. At revaluation, Scottish Assessors review rateable values resulting in a new valuation roll for all non-domestic properties in Scotland, with the effect of this revaluation being broadly neutral in overall terms. The Council pays Non-Domestic Rates on most of its non-housing properties, with total annual budgeted spend of some £20m.

4.5 Indicative forecasts suggest an overall valuation increase of between 15% and 20% for councils' property estates, with the precise impact varying depending on the make-up of individual authorities' property portfolios. On this basis, it is considered prudent to include a further £4m provision, based on an average overall increase of 20%, within the budget framework from 2023/24 onwards to address these liabilities.

4.6 Empty Property Relief for non-domestic properties will also be devolved to local authority control with effect from April 2023. It has been agreed that corresponding funding for 2023/24 and 2024/25 will be distributed to councils based on existing levels of relief granted. On this basis and in the absence of any decision to amend the Council's policy in this area, no change in the overall savings requirement is being assumed as a result of this devolution of powers to local authorities.

National Insurance

4.7 Employer's National Insurance rates increased by 1.25% from April 2022, with the additional sums raised earmarked to support further health and social care investment. The UK Government has confirmed, however, that this increase will be reversed with effect from 6 November 2022, with the associated investment instead being funded through general taxation. This change gives rise to in-year savings in 2022/23 of around £1.6m, increasing to £4m in 2023/24.

Homelessness services

4.8 The current-year revenue monitoring report elsewhere on today's agenda points to an increased estimated pressure of £8.0m in respect of homelessness services in 2022/23. The budget framework also incorporates a reduction of £3m in the level of homelessness service investment in 2023/24 relative to 2022/23, based on an assumption that demand would begin to reduce following the relaxation of public health restrictions introduced at the outset of the COVID pandemic.

4.9 The report to the Committee's last meeting estimated that gross pressures in 2023/24 had increased to £13m above the base budget assumption. Extrapolating the current year's increased projection, these pressures have now grown to £19.1m, comprised as follows:

	£m
Full-year effect of actual and projected growth in 2022/23	7.3
Assumed growth in 2023/24, based on continuation of current year's growth	3.0
Effect of reduction in 2023/24 budget base as noted above	3.0
Energy-related increases for spot purchases and contracted accommodation	3.0
Other inflationary uplifts for Private Sector Leasing, commissioned services and temporary accommodation	1.8
Additional accommodation required for homeless Ukrainian households following ending of initial hosting arrangements	1.0
	19.1

4.10 Given that the pressure above is expressed after the provision of an additional £14.6m relative to the pre-COVID 2020/21 approved budget, the total net expenditure requirement in this area will have more than doubled as shown in the table below:

	£m	Cumulative increase (£m)	Cumulative increase (%)
Approved budget, 2020/21	31.0	n/a	n/a
Approved budget, 2021/22	43.0	12.0	38.7
Approved budget, 2022/23	48.6	17.6	56.7
Projected budget, 2023/24	64.7	33.7	108.7

4.11 Opportunities to expand existing preventative and demand management activity, including income maximisation work and property purchasing to lessen the need to use more expensive temporary accommodation, will continue to be examined. Approved changes with regard to eligibility for those with No Recourse to Public Funds (NRPF) will also deliver savings as noted later in this report. There is a risk, nonetheless, that the sum above will increase further should additional accommodation be required for homeless Ukrainian households following the ending or breakdown of current hosting arrangements.

Revised gap before mitigations

4.12 Taken together, the above factors increase the savings requirement in 2023/24 before mitigations to £76.5m as shown in the table below.

	2023/24	2024/25	2025/26	2026/27
	£m	**£m**	**£m**	**£m**
Updated estimated funding gap, September 2022	**70.4**	**99.2**	**125.8**	**152.9**
Factors increasing overall gap:				
Homelessness services - increased pressures (from £13m to £19.1m)	6.1	6.1	6.1	6.1
Non-Domestic Rates - impact of April 2023 revaluation	4.0	4.0	4.0	4.0
Factors reducing overall gap:				
Reduction in employer's National Insurance contributions with effect from November 2022	(4.0)	(4.1)	(4.3)	(4.4)
Updated gap prior to application of mitigations	**76.5**	**105.2**	**131.6**	**158.6**

4.13 At this stage, all other financial planning assumptions are assumed to remain unchanged, including a 3% annual increase in Council Tax across the period of the framework. While the position may become clearer following publication of the UK Government's Autumn Statement on 17 November, there is however the potential for reductions in grant funding relative to current assumptions, particularly as the current “flat-cash” projection was based on indications contained within the Scottish Government’s Resource Spending Review in May 2022. Since that time, increases in inflation have eroded the spending power of the Scottish Budget (with, for example, substantial additional sums required to fund public sector pay awards) whilst also increasing sums required to support those most at risk from the effects of the cost of living crisis.

4.14 A sector-wide funding allocation for Local Government will be confirmed as part of the Scottish Budget provisionally scheduled for 15 December, with authority-specific allocations then provided as part of the Local Government Finance Settlement early the following week. The Scottish Government has indicated that, in the absence of any additional block grant funding provided in recognition of these inflationary pressures, it can only improve pay deals for public sector workers in Scotland through cuts to public services. As has been indicated in previous reports, while opportunities for efficiencies will be examined in the first instance, members will therefore likely need to make increasingly difficult choices about the Council’s priorities, including considering service reductions, across all service areas to maintain expenditure in line with available income.

4.15 The assumptions underpinning the above gaps remain subject to considerable uncertainty with regard, in particular, to the level of the employee pay award and grant funding settlement. The Consumer Prices Index (CPI) rose by 10.1% in the 12 months to September 2022[1], up from 9.9% in August, with the Retail Prices Index (RPI) increasing by 12.3% over the same period. Inflation rates are expected to remain at high levels for the majority of 2023, fuelling higher wage claims, increasing the cost of contract uplifts and exerting upward pressure on a range of other costs incurred by the Council.

[1] Of this total, two thirds of the headline rate is accounted for by housing and household (including energy), food and transport costs.

4.16 Given that they represent the factors with the biggest impact on the overall savings requirement, the table below indicates the effect of 1% and 2% upward and downward movements in the level of grant settlement and employee pay awards respectively from current assumptions on the estimated overall 2023/24 gap. In view of the potential for the overall savings requirement to increase should the pay award be higher and/or grant settlement lower than currently assumed, it is therefore considered prudent to seek savings options in 2023/24 exceeding this requirement by £10m.

		Pay awards				
		1%	2%	3%	4%	5%
Grant funding settlement	+2%	47.9	54.4	60.9	67.4	73.9
	+1%	55.7	62.2	68.7	75.2	81.7
	"Flat cash"	63.5	70.0	76.5	83.0	89.5
	-1%	71.3	77.8	84.3	90.8	97.3
	-2%	79.1	85.6	92.1	98.6	105.1

Corporate mitigations

4.17 As indicated in the report to the Committee on 8 September, given the extent of the overall savings requirements, a thorough review of corporate budgets and reserves has been undertaken, including considering any favourable variances apparent in 2022/23 that would be expected to recur. A number of these variances were incorporated within the updated gap reported to the Committee's previous meeting.

4.18 Following further consideration and technical modelling, additional measures are now proposed as set out in the following paragraphs.

COVID reserves funding

4.19 In recognition that the income and expenditure impacts of the COVID pandemic would likely last at least into the medium term, in addition to COVID-specific grant funding provided by the Scottish Government in early 2021, the Council supplemented these sums by reprioritising its own reserves and identifying savings in service and corporate budgets during 2020/21, given uncertainty over the availability of external funding until late in the financial year.

4.20 Available COVID-specific reserves were then drawn upon in 2021/22, with a further drawdown assumed in setting the 2022/23 budget. The level of required drawdowns has, however, been lower than originally assumed, meaning that some £30m is expected to remain as of 31 March 2023[2]. Given that the budget framework assumes provision for COVID-related pressures (specifically the continuing loss of the Lothian Buses dividend, on-going reductions in parking income and increased support for the Council's Arm's-Length External

[2] This sum assumes £25.3m is drawn down in respect of COVID-specific impacts in 2022/23.

Organisations, in particular Edinburgh Leisure) of £11m/£9m/£9m/£9m over the period from 2023/24 to 2026/27, it is proposed to address these requirements through corresponding drawdowns of £10m/£8m/£6m/£6m over the same period.

4.21 A review of the Council's other earmarked reserves has also been undertaken to reprioritise £5m of existing funds to address the overall savings requirement on a one-off basis in 2023/24. These funds will be supplemented by the retention centrally, following full repayment by the Directorates concerned, of £0.5m of budgets previously required to support service-specific prudential borrowing.

Service concession financial flexibility

4.22 The report to the Committee's meeting on 16 June confirmed that the Cabinet Secretary for Finance and the Economy had agreed to the main elements of COSLA's request on changes to accounting for service concession arrangements, thus allowing councils to spread the principal element of capital repayments over the (longer) life of the asset as opposed to the existing contract term. The Scottish Government issued a corresponding Finance Circular on 20 September 2022 outlining the basis of the change, ensuring the intended flexibility can be effectively applied in practice.

4.23 In order to apply this flexibility, a recommendation must be taken to full Council for approval, setting out the reason for the change in policy and demonstrating that the change is prudent, sustainable and affordable over the life of the asset. Should members agree, a recommendation to adopt the service concession flexibility will therefore be presented to Council on 23 February 2023 for approval as part of the Council's overall budget-setting process.

4.24 It is important to emphasise that the service concession flexibility mechanism is a timing-related one that merely spreads an unchanged overall level of liability over a longer period. Modelling undertaken to date by the Council's external advisors points to an estimated retrospective benefit up to 31 March 2023 of some £94.7m. It is proposed to apply this retrospective benefit equally over a five-year period, starting in 2023/24. Timing-related savings generated going forward will be ringfenced both to provide for additional repairs and maintenance liabilities when the assets revert to Council ownership, consistent with the assumed extended asset lives, and to mitigate future principal repayment liabilities, with the aim of demonstrating prudence, affordability and sustainability. This is, however, a highly technical area and discussions are continuing at national level to develop a thorough understanding of a number of complex issues.

4.25 In combination, these corporate mitigations have the effect of reducing the cumulative savings requirements as shown in the table below:

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Updated underlying funding gap	**76.5**	**105.2**	**131.6**	**158.6**
Application of remaining COVID reserves funding	(10.0)	(8.0)	(6.0)	(6.0)
Review of reserves	(5.0)	0.0	0.0	0.0
Prudential funding budgets retained centrally	(0.5)	(0.5)	(0.5)	(0.5)
Application of provisional service concession financial flexibility (assumed over five years)	(18.9)	(18.9)	(18.9)	(18.9)
Updated gap after application of corporate mitigations	**42.1**	**77.8**	**106.2**	**133.2**

Savings resulting from decisions already agreed by, or recommended to, members

4.26 A number of further savings would, or could, be delivered from decisions already approved by, or recommended to, members as indicated in the table below.

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Updated gap after application of corporate mitigations	**42.1**	**77.8**	**106.2**	**133.2**
Factors reflecting decisions previously approved by, or recommended to, members:				
Roads Construction Consent Inspections[3]	(0.4)	(0.4)	(0.4)	(0.4)
Strategic Review of Parking[4]	(2.0)	(3.0)	(3.0)	(3.0)
Homelessness - No Recourse to Public Funds[5]	(3.0)	(3.0)	(3.0)	(3.0)
Under 22s tram concessions	(3.0)	(3.5)	(3.5)	(3.5)
Edinburgh Bike Scheme	(0.5)	(0.5)	(0.2)	0.0
Updated gap after decisions previously approved by, or recommended to, members	**33.2**	**67.4**	**96.1**	**123.3**

[3] Proposed Changes to Charging Mechanism for Road Construction Consent Inspections, Transport and Environment Committee, 18 August 2022
[4] Strategic Review of Parking – Results of Advertising of Phase 1 Traffic Order, Transport and Environment Committee, 18 August 2022
[5] As agreed at meeting of Housing, Homelessness and Fair Work Committee, 29 September 2022

4.27 As approved by the Transport and Environment Committee on 6 October 2022, the Council has agreed not to support financially free travel for under 22s on Edinburgh Trams beyond 31 March 2023 pending the outcome of Transport Scotland's Fair Fares Review and consideration of wider resource availability as part of the 2023/24 budget process.

4.28 Members agreed, as part of the 2022/23 approved budget, to set aside within reserves £2m of funding pending additional discussions with the Scottish Government to extend financial support for free travel for Under 22s to include Edinburgh Trams. The budget framework provides for a further £1m in 2023/24 and £1.5m (i.e. cumulative provision of £3.5m) in 2024/25 recognising respectively the part- and full-year effects of additional estimated financial liabilities linked to the tram extension. Subject to external discussions and/or members' priorities, these sums could be made available as a contribution to address future years' gaps.

4.29 In May 2021, members approved £2.3m of investment over four years, aligned to the intended term of the renewed external contract, to support Edinburgh's Bike Scheme. However, in September 2021, the previous scheme ended and therefore the Transport and Environment Committee agreed to investigate options for future delivery and to support local community initiatives in the short term. Recognising the extent of current financial challenges, however, it is proposed to stop investigating future options for a cycle hire scheme for the city and to release the funding set aside for this purpose.

Budget re-alignment and other use of one-off measures

4.30 A further element of savings may be delivered primarily through a combination of one-off balances and budget realignment, taking into account available Scottish Government funding as shown in the table below.

	2023/24	2024/25	2025/26	2026/27
Updated gap after decisions previously approved by, or recommended to, members	**33.2**	**67.4**	**96.1**	**123.3**
Education Recovery funding - application of one-off residual balance	(2.5)	0.0	0.0	0.0
Instrumental music service - unallocated Scottish Government funding	(0.2)	(0.2)	(0.2)	(0.2)
Education Recovery funding - continuing element	(1.6)	(1.6)	(1.6)	(1.6)
Schools Digital Learning – anticipated Scottish Government funding	0.0	0.0	0.0	(2.0)
Property rationalisation and income	(0.5)	(1.0)	(1.0)	(1.0)
Garden waste income – consolidation	(0.4)	(0.4)	(0.4)	(0.4)
Bus lane camera income – consolidation	(0.6)	(0.6)	(0.6)	(0.6)
Other adjustments	(0.5)	(0.7)	(0.3)	(1.5)
Updated gap after budget re-alignment/use of one-off measures	**26.9**	**62.8**	**92.0**	**116.0**

Savings proposals developed through the Medium-Term Financial Plan

4.31 To address the financial challenges it faces, the Council is developing a four-year Medium Term Financial Plan (MTFP) and a Change Programme to deliver it. This reflects the scale and longevity of the financial challenge and the need to have in place both near-term and longer-term proposals to address the extent of this challenge.

4.32 The financial strategy is therefore based on:

(i) Directorate and short-term budget measures designed to close the gap for 2023/24. These measures also include tactical and one-off actions that will contribute to the 2023/24 budget ahead of the medium-and-long term options for delivering the MTFP;

(ii) Strategic and cross-cutting options to address the four-year challenge, where savings will primarily be delivered in 2024/25 and beyond and implemented via a Change Programme; and

(iii) Using the Business Plan strategic priorities as a guide to inform resource allocation over the four-year period, including securing efficiencies and implementing service reductions in areas of lower impact and strategic priority and exploring options to deliver all services differently.

4.33 Adopting a medium-term approach to savings and their delivery creates the opportunity to re-shape how the Council operates, how it is organised and how it can improve its efficiency. This is one of the key priorities in the Council's Business Plan.

4.34 The Directorate proposals for 2023/24 reflect changes and initiatives that can be delivered relatively quickly, without significant lead times in terms of design, consultation or implementation. Many of the proposals either formalise policy changes that have already been presented and/or are operational changes to how services are delivered or sourced.

4.35 More fundamental changes involving significant service re-design will form part of the strategic options being developed for future years. It is recognised that work needs to start promptly on these to allow for the lead times involved.

4.36 The Directorate proposals for 2023/24 developed thus far are summarised in Appendix 1. If these were all approved, they would have the effect of reducing the incremental gaps over the four-year period as follows:

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Updated gap after budget re-alignment/use of one-off measures	**26.9**	**62.8**	**92.0**	**116.0**
Initial savings developed through MTFP	(5.7)	(5.9)	(5.9)	(5.9)
Revised gap if all savings approved	**21.2**	**56.9**	**86.1**	**110.1**

4.37 It is clear that additional savings proposals are still required. These proposals will require members to make increasingly difficult choices about the Council's priorities, including service reductions, across all service areas to maintain expenditure in line with available income. Additional proposals to close the 2023/24 gap and provide a further element of contingency will therefore be presented to the Committee's meeting on 23 January 2023. Members should note that the required level of savings will increase if additional investment is made in core Council HR and SWIFT (social care) systems.

4.38 As noted in the preceding sections of this report, the position for 2023/24 and subsequent years is subject to a number of risks, including but not limited to:

(i) **the current unbalanced position for 2022/23**, with the potential to add to the incremental savings requirement in 2023/24. Executive Directors have therefore been asked to bring forward mitigating actions to manage material known and anticipated pressures fully and on a recurring basis;

(ii) **further pressures in demand-led services**, particularly homelessness and the Council's Ukraine response. There is a risk that unfunded costs in respect of the latter, discussed in more detail in the revenue monitoring report elsewhere on today's agenda, similarly add to future years' savings requirements;

(iii) **the level of grant funding settlement for Edinburgh**, including the extent of support received from the stability and 85% funding floors, given likely required savings in public expenditure and inflation- and cost of living-related pressures on the Scottish Budget;

(iv) **the adequacy of provision for employee pay awards and contract uplifts**, as well as wider inflationary pressures. The Scottish Government has reiterated that, without the provision of compensating resources from the UK Government, no further funding is available to support improved public sector pay awards for local government staff in 2023/24;

(v) the impact of contract inflation and increasing interest rates on **the affordability of the capital programme**; and

(vi) development and delivery of a balanced budget for the **Edinburgh Integration Joint Board (EIJB)**.

4.39 In view of these risks, it is strongly recommended that members seek to identify savings options to provide for an additional contingency of at least £10m in 2023/24.

Future years' savings requirements

4.40 The approach for securing future savings will be more strategic and cross-cutting than has had to be necessary for 2023/24. Setting a balanced budget for 2023/24 will, however, provide time to plan, design and deliver the long-term strategic options that are being developed. It will also enable a range of options to be discussed with elected members.

4.41 The refreshed Council Business Plan will provide the guide for identifying and scoping these longer-term options. This includes what services should be prioritised because they have the biggest impact and/or most closely align to the priority and the areas that could be de-prioritised, including service reductions. Given the extent of the financial challenge, however, even priority services will be in-scope of consideration for reform, change and re-design if there are better ways to deliver the desired outcomes.

4.42 As well as resident-facing services, creating a fit-for-purpose organisation with the right capacity, skills and processes is critical. For this reason, organisational reform across the Council is a key priority in the Business Plan and within the proposed programme of strategic and cross-cutting options. This will result in a smaller and leaner council, increasingly digitally enabled and operating from fewer but better buildings. A Change Programme will need to be established to deliver the strategic options.

4.43 Strategic Options for savings will include:

(i) **cross-cutting and organisational reform options which will be about improving the efficiency and effectiveness of the organisation** through the use of and investment in technology, the rationalisation of our assets ("fewer but better buildings", improved resident access, prevention and early intervention, working with public sector partners and driving value from our external spend (including areas such as transport).

(ii) **strategic Directorate options to be delivered over the next three to four years**. These could involve service re-design, organisational reviews, service reductions (in non-priority areas), alternative sourcing or delivery models, subsidy reduction and/or commercial income generation. These options will primarily deliver savings from 2024/25 and will require programme support.

4.44 More work is required to develop these options and an early action for the Change Programme will be to agree with Directorates the prioritisation and scoping of these options. These longer-term options (both directorate and cross-cutting) will be prioritised and phased to create a rolling work programme. It is envisaged this will be based on phases of work that are refreshed each year; as some projects finish, others will be added.

Edinburgh Integration Joint Board (EIJB)

4.45 The Chief Finance Officer of the EIJB presented a Finance Update to the Board's most recent meeting on 18 October 2022. While focusing primarily on achieving a balanced position for 2022/23, the need to develop a sustainable medium-term plan has been acknowledged and corresponding updates will therefore be provided to the Board as this progress develops.

Capital Accounting Review

4.46 The Scottish Government has previously confirmed the appointment of an independent chair for the Capital Accounting Review (CAR) which will consider, amongst other things, the on-going appropriateness of statutory mitigation provisions[6] alongside alignment to the Code of Practice on Local Authority Accounting. The Council will be represented on the CAR's working group by the Service Director: Finance and Procurement in his capacity as Chair of the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).

[6] Statutory mitigation is statutory guidance issued by Scottish Ministers for the accounting treatment for specified transactions or types of transactions undertaken by a local authority. It is usually issued where the accounting practice under the Code has been determined to result in an improper charge against the General Fund in the Local Authority financial statements and thus has a consequential impact on the funding available for the provision of local services.

4.47 While the Scottish Government has re-emphasised that there is no predetermined outcome of the review, there is nonetheless a risk that this outcome will result in a need to review the affordability of councils' existing capital programmes. Given wider volatility and uncertainty in the external environment and following representations from local authorities, the Minister for Public Finance, Planning and Community Wealth has confirmed that the review will now be delayed for twelve months, reconvening in September 2023, with a view to concluding the Review and presenting recommendations to Scottish Ministers in October 2024, for implementation from 1 April 2025.

5. Next Steps

5.1 The assumptions within the budget framework will continue to be the subject of regular review and material changes reported to members as appropriate.

5.2 There is an urgent need to identify and develop potential options to address increasing future years' savings gaps. This reports sets out a basis on which the residual requirement in 2023/24 could be reduced to £21.2m, albeit with a range of remaining risks such that creation of a contingency of at least £10m is strongly recommended. Given the previous low rates of delivery associated, in particular, with generic Council-wide savings, these proposals need to detail specific steps and measures to support delivery within each Directorate.

5.3 Executive Directors and Service Directors will also require to continue to manage proactively risks and pressures as they relate to their respective areas of responsibility. To this end, Executive Directors have been asked to bring forward mitigating actions to manage material known and anticipated pressures fully and on a recurring basis. As with the savings listed in Appendix 1, these will be the subject of proportionate Integrated Impact Assessments (IIAs).

6. Financial impact

6.1 The Council continues to face significant financial pressures resulting from increased demand for services, inflation and legislative reform, as well as the continuing financial impacts of the pandemic. These factors are set against a backdrop of core grant funding (accounting for around three quarters of the Council's overall income) that is not increasing.

6.2 While the Council has approved a balanced budget for 2022/23, it faces significant financial challenges going forward. The revised projections in this report indicate a need to deliver at least £77m of recurring savings in 2023/24, increasing to £159m over the period to 2026/27.

7. Stakeholder/Community Impact

7.1 Proposed savings decisions will be subject to Integrated Impact Assessments (IIAs). Opportunities will also be examined, subject to staffing resource availability, to supplement existing processes with gender budgeting and related analysis.

8. Background reading/external references

8.1 Finance Update, Edinburgh Integration Joint Board, 18 October 2022

8.2 Revenue Budget Update 2023/27: Progress Update, Finance and Resources Committee, 8 September 2022

8.3 Revenue Budget Framework 2022/27: progress update, Finance and Resources Committee, 16 June 2022

8.4 Revenue Budget Update 2022/23 – Update, Finance and Resources Committee, 3 March 2022

8.5 Coalition Budget Motion 2022/23, The City of Edinburgh Council, 24 February 2022

8.6 Revenue Budget 2022/23 – Risks and Reserves, Finance and Resources Committee, 3 February 2022

9. Appendices

Appendix 1 – Initial savings proposals developed through the Medium-Term Financial Plan

Initial savings proposals developed through the Medium-Term Financial Plan

	2023/24	2024/25	2025/26	2026/27
	£m	**£m**	**£m**	**£m**
Corporate Services Directorate				
Customer - promotion of online services	(0.165)	(0.165)	(0.165)	(0.165)
Staffing savings - vacancy and turnover management	(1.173)	(1.173)	(1.173)	(1.173)
Management savings	(0.223)	(0.223)	(0.223)	(0.223)
Salary Sacrifice savings	(0.225)	(0.225)	(0.225)	(0.225)
Education and Children's Services Directorate				
Review and realignment of pupil support	(0.900)	(0.900)	(0.900)	(0.900)
Speech and Language Therapy	(0.850)	(0.850)	(0.850)	(0.850)
Multi-System Therapy Service	(0.500)	(0.500)	(0.500)	(0.500)
Wellington School Former Monies	(0.340)	(0.340)	(0.340)	(0.340)
Review of contracted spend to ensure efficiency with partners to remove areas of duplication	(0.904)	(1.110)	(1.110)	(1.110)
Place Directorate				
Taxicard	(0.120)	(0.120)	(0.120)	(0.120)
Non-core cultural grants	(0.250)	(0.250)	(0.250)	(0.250)
	(5.650)	**(5.856)**	**(5.856)**	**(5.856)**

Proposed savings measures will be subject to Integrated Impact Assessment (IIA) analysis.