Finance and Resources Committee

10am, Tuesday, 20 June 2023

Financial Strategy and Medium-Term Financial Plan (MTFP)

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

1. Recommendations

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

1.1 the updated projected budgetary position facing the Council over the next five years, including a £37.6m forecast gap for 2024/25 and £172.7m by 2028/29;

1.2 the financial strategy and Medium Term Financial-Plan to address these budgetary challenges, including the approach to identifying savings and efficiencies in the near term and over the longer term; and

1.3 the mobilisation of the Change Programme and the Year 1 work programme.

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Report

Financial Strategy and Medium-Term Financial Plan (MTFP)

2. Executive Summary

2.1 Following the latest review of key expenditure and income assumptions, the report sets out updated financial projections for the five-year period to 2028/29, with a projected residual funding gap of £37.6m in 2024/25, increasing to £94.9m by 2026/27 and £172.7m by 2028/29.

2.2 The report then outlines the main elements of the Medium Term Financial-Plan to address these budgetary challenges, including the approach to identifying savings and efficiencies in both the near and longer term.

3. Background

3.1 On 23 February 2023, the Council set a balanced one-year revenue budget for 2023/24. In so doing, however, it was acknowledged that, based on current planning assumptions, significant incremental funding gaps existed in subsequent years, increasing from £36.7m in 2024/25 to £92.8m in 2026/27, with indicative annual gaps of around £30m thereafter.

3.2 Given these requirements and wider environmental factors, members noted that it was imperative that planning of a longer period of strategic change be initiated immediately in view of the required lead-in times for detailed programme development and implementation.

3.3 Development of the Council's Medium-Term Financial Plan (MTFP) will place a greater emphasis on strategic and cross-cutting proposals, informed by the priorities included within the Council Business Plan, as a means of improving outcomes and ensuring continuing financial sustainability. The plan also emphasises the importance of the Council's services becoming more technologically enabled and digitally delivered, with a reorientation of work to focus, where appropriate, on more preventative practices.

4. Main report

Review of key expenditure and income planning assumptions

4.1 The Council's key expenditure and income planning assumptions are subject to a process of regular review, with the results of the latest assessment summarised in the following table, with additional detail included in Appendix 1. This analysis takes as its starting point the position as of the time of 2023/24 budget approval in February 2023 and indicates a revised estimated gap of £37.6m in 2024/25, increasing to £94.9m by 2026/27 and £172.7m by 2027/28.

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Starting gap following approval of 2023/24 budget	36.7	67.1	92.8	121.8	151.8
Confirmed/known changes since February 2023:					
HR and Payroll system - additional costs	0.4	1.5	1.5	1.5	1.5
Stonewall accreditation and associated staffing	0.1	0.1	0.1	0.1	0.1
Cessation of service concession flexibility drawdown	0.0	0.0	0.0	0.0	18.9
Provision for potential liabilities and risk factors	10.0	10.0	10.0	10.0	10.0
Updated gap before savings	**47.1**	**78.7**	**104.4**	**133.3**	**182.2**
Offsetting savings in Council Tax, energy costs and corporate budgets based on 2022/23 outturn and subsequent years' projections	(9.5)	(9.5)	(9.5)	(9.5)	(9.5)
Updated gap after offsetting corporate savings	**37.6**	**69.2**	**94.9**	**123.8**	**172.7**

4.2 The baseline assumptions underpinning these gaps are set out in Appendix 2. The gaps assume, in particular, a 3% increase in Council Tax each year. Each 1% increase from this assumption, based on 2023/24 charge levels and anticipated buoyancy of the tax base, would raise an additional £3.5m. A 5% increase in line with the charge set for 2023/24 would therefore reduce the first year's gap by some £7m.

4.3 On 25 May, the Scottish Government published its updated Medium-Term Financial Strategy (MTFS) for the period from 2023/24 to 2027/28. While the MTFS does not supersede or replace the annual Scottish Budget process, it nonetheless provides useful insight into future funding and spending priorities at national level.

4.4 In overall terms and based on the most likely expenditure and income scenarios, although the MTFS indicates increasing taxation, block grant and other revenues over the period to 2027/28, this funding is not forecast to keep pace with expenditure demands, with a £1bn deficit forecast in 2024/25, increasing to £1.9bn by 2027/28. Following increases in project completion costs, more severe, cash-terms decreases in capital funding are also forecast. The Scottish Government has therefore reiterated a need for difficult and prioritised spending decisions to be made across the full period covered by the MTFS. Given that Local Government is unlikely to be prioritised as part of the Scottish Government's wider budget deliberations, this requirement applies in particular to councils.

Additional financial risks

4.5 Members should also be aware of several additional financial risks which are not quantified at present and officers will update the financial projections should they be deemed likely to materialise. These risks include but are not limited to:

(i) **further demand-led and/or income recovery-related pressures in Homelessness** and, in the medium term, funding for the Council's **Ukraine response**;

(ii) **additional required support for the Edinburgh Integration Joint Board** (EIJB), some of which is likely to be recurring;

(iii) the **affordability of future planned borrowing** once pre-borrowing is utilised, particularly given anticipated reductions in capital grant funding noted above; and

(iv) the **potential for downward revision to the Council's grant funding allocation** from 2025/26 following incorporation of 2022 census population data (by means of illustration, the 2011 census indicated that Edinburgh's population had been overestimated by some 20,000, resulting in a significant subsequent reduction in grant funding).

Financial Strategy

4.6 The financial strategy that underpins the MTFP recognises that there is no single panacea to addressing the financial challenges the Council faces. The strategy is therefore based on a combination of savings initiatives that collectively close the gap in 2024/25 and over the three-year MTFP period. It also recognises that a mix of short- term and longer-term initiatives will be required, some of which will not deliver early benefits because they require longer lead times. Finally, to deliver the financial strategy will require a Change Programme to deliver the longer term, cross-cutting and structural initiatives.

4.7 At the same time there will be a continuing need for Directorate Savings to be identified and delivered and targets will need to be set for each Directorate proportionate to their revenue budgets. No part of the Council should be exempt from these targets in drawing up savings options for member consideration. Exempting areas of the Council simply increases the targets in the remaining areas.

4.8 The financial challenges facing the Edinburgh Integration Joint Board (EIJB) have already been reported to this Committee on 25 April 2023. This report noted a budget shortfall of £35.4m in the current financial year. In view of this position, a further update was reported to the EIJB on 13 June, on which a verbal update will be provided at the meeting. The report continued, however, to show a significant in-year deficit of around £15m even if all the savings measures contained within it were approved. A separate Savings and Transformation Plan is therefore being developed as part of the Adults Improvement Plan to address this shortfall and potential liabilities falling back to the Council remain a risk if the budget shortfall is not reduced and significant savings made by the EIJB. Therefore, the EIJB savings work needs to be closely aligned with that of the Council's financial strategy. It will also need to align closely to the Council's Change Programme, not least because several projects and workstreams are cross-cutting with Adults and Health, for example transport of service users, asset sharing and financial grip (see below).

The Change Programme

4.9 The Change Programme is a critical element of delivering the financial strategy. It is designed to be the delivery vehicle for securing a significant proportion of the savings required to close the budgetary gap and to modernise and reform ways of working across the Council, including delivering technology-enabled change and innovation in service delivery.

4.10 The cumulative savings delivery targets that have been set for the Change Programme, including the service design and financial grip work programme, are set out below:

	2024/25 £m	2025/26 £m	2026/27 £m
Change Programme Delivery Target (cumulative)	15.5	31.9	48.0

4.11 This shows a potential contribution of £15.5m in 2024/25 based on projects being commenced this year, rising to £48m by 2026/27. It should be noted that the figures shown are cumulative, with the 2026/27 column representing the three-year total target. These targets are based on delivering the Year 1 Programme (see below). Although indicative targets have been set, further detailed scoping of these workstreams is required before the related savings can be incorporated within the budget framework, with any shortfall against these targets increasing the level of required savings from Directorate-specific proposals. An update on progress in delivering these accompanying plans will therefore be provided to the Committee's next meeting on 21 September 2023.

4.12 The Change Programme is structured into four broad themes, and all projects fall within one of these themes. The themes are:

(i) **Organisational Reform and Efficiency** covers projects about how services are designed and delivered, how the use of technology is maximised and how ways of working are changing post-COVID. This will reflect the increasing shift to online and digital service delivery and the use of technology in all aspects of the Council's work.

(ii) **Asset Rationalisation and Service Delivery** is about how we ensure residents and service users can access services locally and at the same time reduce the Council's carbon footprint in line with Business Plan priorities. This means spending less on buildings by rationalising into fewer, better buildings offering access to multiple services. This will be reflected in the Corporate Asset Strategy that will be presented to the Policy and Sustainability Committee in August.

(iii) **Third Party Spending** is about the money we spend externally on goods and services to ensure we are driving best value from our procurements and contract management. It is also about ensuring the best balance between in-house and external delivery including commissioning services from the community and third sector.

(iv) **Partnerships and Prevention** is about how we work collaboratively with other partners in the City including other public sector bodies in areas like asset sharing and service delivery. It will also include initiatives to avoid or reduce spending through prevention and early intervention.

4.13 The Change Programme has been designed so that it is not just about saving money but also to deliver significant non-financial benefits. For example, there will be a focus on digital delivery to reflect how most customers and residents want to interact with the Council, while at the same time ensuring people are not digitally excluded. The Programme will also reflect Council Business Plan priorities, including the Council's net-zero ambitions and specific initiatives to reduce poverty.

4.14 A first year Programme has been identified and mobilised, based on a prioritised group of projects that will be pursued this year. This recognises that the Council does not have the capacity to do everything at once and that there needs to be a sensible phasing of projects within the Change Portfolio. It also reflects the need to have a balanced portfolio of projects. That is a mix of projects that are starting now but have long lead times before benefits are delivered and those that deliver savings and benefits much sooner. Major technology implementations and asset rationalisation are examples of the former, whereas it is expected that Service Design and Delivery projects will have shorter lead times.

4.15 The Year 1 programme includes the following projects and initiatives. These have been selected based on deliverability (including savings), logical sequencing and mix of longer and shorter term projects. It has also reflected Business Plan priorities and delivering in-flight or already agreed projects.

Change Programme – Year 1 Programme	
Theme	Project
Organisational Reform and Efficiency	1. Service Design and Delivery Programme (phase 1) (see 4.18 below) 2. Inclusion Services 3. Balance of Care Provision (Phase 1 – Secure Services) 4. Edinburgh Leisure, working jointly with the Edinburgh Leisure Board 5. Social Care Operating Model (Swift Replacement) 6. HR and Payroll Project (Oracle Cloud)
Asset Rationalisation and Service Delivery	7. Asset Rationalisation of the Council's Operational Estate, including Waverley Court (based on Corporate Asset Strategy).
Third Party Spending	8. Community Transport including home to school transport, special needs travel and for adult service users (jointly with EIJB).

	9. Financial Grip (see 4.24 below).
Partnerships and Prevention	10. Longer term project linked to prevention and poverty reduction currently being scoped Two projects are being scoped under this theme, firstly a project on prevention in relation to poverty reduction covering a range of initiatives, including with the voluntary sector and secondly, how the Council improves commissioning of services, including from the community and third sector and increases its capacity and capability to do so.

4.16 The Programme will be refreshed at least annually. Therefore, as projects complete or new opportunities are identified, there will be scope to add additional projects to the Change Programme. For example, the opportunity to create shared services and trading with other local authorities and public bodies may be part of future phases of the Programme.

4.17 The Change Programme is utilising the £2m Spend to Save funding agreed as part of setting the 2023/24 budget to secure the resources required to deliver the Year 1 Programme. A Strategic Programme Board, chaired by the Executive Director of Corporate Services, has been established to oversee the Change Programme. A core team has also been set up mainly from internal resources and other colleagues have been assigned to the Year 1 projects.

Service Design and Delivery Programme

4.18 The programme of 'best value' Service Design and Delivery projects are an important part of delivering the MTFP and a core element of the Change Programme. The overall target for the Service Design and Delivery projects is a minimum of £20m over the next three financial years. The intention is to cover all parts of the organisation over a three-year period.

4.19 Each service design project will have a financial target set during the initial scoping phase. But these 'best value' projects are more than just about saving money and go further than traditional organisational reviews. For example, they look at whether outcomes are being met, including looking at different ways to deliver outcomes and that these are meeting resident and service user needs (in a changing world of citizen expectations). They will also cover an assessment the extent of peripheral and non-core activities relative to core activities and looking at different ways of delivering services, including new operating models and the balance of in-house, partnering (including with the voluntary sector) and external provision.

4.20 The Service Design and Delivery projects will follow the same structure, methodology and approach. This is to ensure equitable treatment and common organisational standards are applied. A four-stage delivery approach is being used, as follows:

4.20.1 **Scoping** is about confirming areas of focus for the work, potential financial and non-financial benefits, opportunities for change and innovation, and resources/skills required to deliver the project.

4.20.2 **Discovery** is the detailed research and assessment of the service including volumes and metrics, processes, activities (core and non-core) and comparators. It will also consider/document options and opportunities for change, use of technology, operating model change and service re-design opportunities.

4.20.3 **Case for Change** sets out the business case including options appraisal and recommendations. It will set out savings achievable, other benefits, change readiness and timetable for implementation. It will also consider required inputs to implement including technology, process, and business change. This will include a report with recommendations to the relevant Executive Committee.

4.20.4 **Implementation** - upon acceptance of the recommendations, the implementation phase will commence. This will include delivery of the agreed recommendations including changes to ways of working and service operating models. This phase will also include HR and Trades Union consultation, if required.

4.21 Governance is being put in place to ensure the progress of each service design project is monitored; milestones are met, and savings are identified and delivered. Members will be engaged at each stage.

4.22 The first ‘best value’ service design and delivery project, Waste and Cleansing, has been mobilised and is completing its scoping phase.

4.23 It is intended that the Service Design and Delivery Projects will over time cover most parts of the organisation and these will be scheduled for commencement on a phased basis over the next two years. A pipeline of potential projects is under development and a further update on the proposed programme will be included in the next report to this Committee on 21 September.

Financial Grip

4.24 This aspect of the MTFP and Change Programme is about managing our third party and discretionary staff spending effectively to drive best value from the Council’s spending decisions and management of that spend. This is especially important in an inflationary environment where the Council faces extensive price pressures from suppliers. Therefore, to contain and reduce cost the Council must look critically on the need to procure services (including volumes and service levels), the specification of its requirements to strike the balance between price and quality and how it sources goods and services, including taking advantage of economies of scale and rationalising its supply chains. It is also about how contracts are managed after procurement.

4.25 Securing efficiencies will include a series of deep dives into areas of high third party spend, contract reviews, waiver reductions and early intervention in the procurement and contract renewal pipeline.

4.26 The Financial Grip workstream will also cover discretionary staffing spending with a view to reducing this spending to more sustainable levels. Discretionary spending includes agency and temporary staffing, non-contractual overtime and the costs of absence. It does not include permanent staffing costs.

4.27 Third party spend savings are assumed at c£3m in 2024/25 based on the procurement pipeline and known contract review opportunities. A further £2m target is set for reducing discretionary staffing spending principally in the areas of agency staffing and non-contractual overtime, for example, reducing the escalating costs of agency staffing that has increased by over 40% (by value) compared to pre-pandemic levels.

Directorate Budget Proposals

4.28 The Change Programme, including Service Design and the Financial Grip initiative, has been set a target to deliver £15.5m for 2024/25. Based on the financial projections at Paragraph 4.1 indicating an overall budget gap for 2024/25 of £37.6m, even assuming full delivery, this would result in a remaining budget gap of £22.1m. This gap will need to be addressed through development and delivery of Directorate budget proposals. By means of illustration, an indicative split of this sum, based on unadjusted current net budgets, would be as follows:

	Net budget, 2023/24		Proportionate share
	£000		£000
Children, Education and Justice Services	448,599	56.9%	12,567
Corporate Services	86,695	11.0%	2,429
Place	253,573	32.1%	7,104
	788,867		**22,100**

4.29 Targets for savings proposals are being set for each Directorate based on this. Any protection of individual budgets will only add to requirements elsewhere, albeit due account will require to be taken of accompanying conditions to the receipt of full grant funding, particularly in education. Directorates have each been asked to prepare long-lists of budget proposals equivalent to these targets and these will be considered by CLT in the first instance over the Summer. Proposals will then be presented to Executive Committees from September 2023.

Technology Investment Programme

4.30 To deliver the modernisation ambition of the Change Programme and to keep pace with digital and technology change, a multi-year Technology Investment Programme should be created and funded. This will cover core systems, line of business systems and technology refresh (where not covered by the CGI contract).

4.31 Creating a Technology Investment Programme and fund will require a review of capital programme priorities to create the financial headroom for this investment programme. Whilst this will still be business case-dependent, it will mean that technology investments can be planned and prioritised in advance and not reliant on securing one-off funding each time a business case is presented.

4.32 At the same time, the Council needs to work closely with CGI to agree the balance of responsibilities for both parties during the latter part of the contract with them.

This includes the implications of moving more services to the Cloud rather than under the direct operational management of CGI.

4.33 For the reasons, above it is proposed that a comprehensive review of Digital and ICT provision across the Council is undertaken as part of the Service Design and Delivery Programme. This will cover CGI services, ICT services provided outside the CGI contract ("shadow IT"), application rationalisation and scope to exploit systems and applications to their fullest capability.

5. Next Steps

5.1 An update on progress in delivering the workstreams comprising the Change Programme will be reported to the Committee's next meeting on 21 September 2023. Directorate-specific proposals will also be brought forward to the relevant Executive Committee for consideration from this point, with an overview of progress also provided to the Finance and Resources Committee.

6. Financial impact

6.1 The report sets out a series of changes arising from the most recent review of the Council's expenditure and income planning assumptions, net of available savings in corporate budgets, resulting in revised funding gaps of £37.6m in 2024/25 and £172.7m over the five-year period to 2028/29.

6.2 The Change Programme shows a potential contribution of £15.5m in 2024/25 based on projects being commenced this year, rising to £48.0m by 2026/27. Although indicative targets have been set, further detailed scoping of these workstreams is required before the related savings can be incorporated within the budget framework, with any shortfall against these targets increasing the level of required savings from Directorate-specific proposals. An update on progress in delivering these accompanying plans will therefore be provided to the Committee's next meeting on 21 September 2023.

6.3 Even assuming full delivery of Change Programme-related savings, this will be insufficient to bridge the overall financial gaps and, as such, this requirement will need to be addressed through the identification and delivery of Directorate budget proposals. A process to initiate development of these proposals is underway and an update will likewise be provided to the Committee's next meeting on 21 September 2023.

7. Stakeholder/Community Impact

7.1 There is no direct relevance to the report's contents, although specific proposals brought forward as part of the MTFP will be the subject of appropriate engagement and consultation, as well as consideration by Executive Committees. Further details in this area will be included in the report to the Committee's next meeting on 21 September 2023.

8. Background reading/external references

8.1 Medium Term Financial Strategy and 2023/24 Financial Plan Update, Edinburgh Integration Joint Board, 13 June 2023

8.2 Edinburgh Integration Joint Board (EIJB) – financial update, Finance and Resources Committee, 25 April 2023

8.3 Revenue Budget 2023-24 Update - referral from the City of Edinburgh Council, Finance and Resources Committee, 30 March 2023

8.4 Liberal Democrat Group Budget Motions, City of Edinburgh Council, 23 February 2023

8.5 Revenue Budget Framework 2023/27 – progress update, Finance and Resources Committee, 7 February 2023

9. Appendices

Appendix 1 - Review of key expenditure and income planning assumptions – changes arising

Appendix 2 – Key assumptions within the budget framework, 2024/25 to 2028/29

Appendix 1

Review of key expenditure and income planning assumptions – changes arising

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Starting gap following approval of 2023/24 budget	36.7	67.1	92.8	121.8	151.8
Confirmed/known changes since February 2023:					
HR and Payroll system - additional costs – **Note 1**	0.4	1.5	1.5	1.5	1.5
Stonewall accreditation and associated staffing – **Note 2**	0.1	0.1	0.1	0.1	0.1
Cessation of service concession flexibility drawdown – **Note 3**	0.0	0.0	0.0	0.0	18.9
Provision for potential liabilities and risk factors - **Note 4**	10.0	10.0	10.0	10.0	10.0
Updated gap before savings	**47.1**	**78.7**	**104.4**	**133.3**	**182.2**
Offsetting savings in Council Tax, energy costs and corporate budgets based on 2022/23 outturn and subsequent years' projections – **Note 5**	(9.5)	(9.5)	(9.5)	(9.5)	(9.5)
Updated gap after offsetting corporate savings	**37.6**	**69.2**	**94.9**	**123.8**	**172.7**

1. **HR and Payroll system** – on 16 March 2023, members agreed to award the contract for the Council's HR and Payroll system upgrade to Oracle HCM. This approval gives rise to estimated additional costs of £0.397m in 2024/25, increasing to £1.451m with effect from 2025/26, with these costs now incorporated within the budget framework.

2. **Stonewall accreditation and associated staffing** – on 4 May 2023, members agreed to sign the Council up to the Stonewall Diversity Champions Programme and participate in the UK Workplace Equality Index immediately. In doing so, they approved associated recurring costs of £61,040, met on a one-off basis from the Council's unallocated reserves in 2023/24, with funding to be identified on a sustainable basis as part of the 2024/25 budget process.

3. **Cessation of service concession flexibility** – in agreeing the 2023/24 revenue budget, members approved application of the retrospective benefit arising from adopting this flexibility over a period of five years from 2023/24. By extension, this flexibility is no longer available from 2028/29, adding £18.9m to the underlying savings requirement with effect from that year.

4. Provision for potential liabilities and risk factors

In addition to the above confirmed commitments and changes, a number of other risks and potential liabilities have been identified as follows, with corresponding detail provided in the following sections.

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
SWIFT replacement (indicative costs) – **Note 4i**	1.2	1.9	1.9	1.9	1.9
Refresh of education devices – **Note 4ii**	0.0	0.0	0.0	2.0	2.0
Teachers' superannuation - 1% increase in employer contributions – **Note 4iii**	1.8	1.9	1.9	2.0	2.0
Non-teaching pay award for 2023/24 - recurring liabilities of an additional 1% = £4.5m – **Note 4iv**	4.6	4.8	4.9	5.1	5.2
Lothian Valuation Joint Board - additional requisition – **Note 4v**	0.3	0.5	0.7	0.9	1.1
Impact of increased NDR relief for Meadowbank on Council's grant funding allocation (assuming no pass-through to Edinburgh Leisure) – **Note 4vi**	0.7	0.7	0.7	0.7	0.7
	8.6	9.8	10.1	12.6	12.9

(i) **SWIFT replacement** – included in Year 1 of the Change Programme is a review of the Council's Social Care Operating Model and, in that context, consideration of a replacement for the existing SWIFT system. An indicative sum of £1.2m in 2024/25, increasing to £1.9m from 2025/26, based on (i) assumed capitalisation of the costs of system replacement and (ii) on-going (revenue) maintenance costs thereafter has been included at this stage although these sums will be refined as the full business case is developed and related approvals secured.

(ii) **Refresh of education devices** – in April 2021, it was confirmed that every local authority school pupil from P6 to S6 in Edinburgh would, starting from September 2021, receive their own digital device as part of an ambitious and inclusive education strategy, Edinburgh Learns for Life. Based on the relevant useful life and subject to confirmation of any external funding, an indicative sum of £2m is included in both 2027/28 and 2028/29 for replacement of these devices.

(iii) **Teachers' superannuation contributions** - it is anticipated that employers' contributions for teaching staff will increase by 1% with effect from April 2024, giving rise to an additional liability of £1.8m in 2024/25 and increasing in line with the level of pay awards thereafter.

(iv) **Non-teaching pay award, 2023/24** – while the teaching staff pay award for financial year 2023/24 has been agreed, negotiations around the non-teaching award remain in progress, with the employer's offer of 3 April 2023 rejected by the representative trade unions' consultative ballots. There is therefore the potential for the agreed level of settlement to give rise to sums in excess of those included within the budget framework (and/or offset by the receipt of Scottish

Government funding), with each 1% of unfunded pay award equating to some £4.6m.

(v) **Lothian Valuation Joint Board requisition** – after a succession of real-terms reductions in constituent council requisitions and a consequent required drawdown of general Board reserves, the budget-setting report considered by the Board on 30 January 2023 pointed to an anticipated need for these requisitions to increase significantly from 2024/25. The £1.1m increase incorporated within the updated budget framework by 2028/29 would equate to an overall increase of some 30% over this period.

(vi) **Impact of increased NDR relief for Meadowbank on Council's grant funding allocation (assuming no pass-through to Edinburgh Leisure)** – following publication of the Barclay Review on Non-Domestic Rates, the Scottish Government confirmed that properties run by council ALEOs in receipt of charitable or sports club relief would be able to retain that relief to support their activities. This level of relief would, however, be capped in real terms going forward to mitigate against future ALEO relief expansion.

The new Meadowbank Sports Centre opened in July 2022. While entitled to twelve months' relief as a newly constructed facility, the rateable value of the centre has increased by some £1.4m, giving rise to an associated additional rates liability of £0.7m. It is anticipated that this sum will be offset against the Council's grant funding allocation and, on the assumption that it is not passed on to Edinburgh Leisure, give rise to a pressure of this level.

In view of these potential liabilities and risks, it is therefore recommended that a £10m provision be included in the budget framework in 2024/25, continuing at that level thereafter.

5. Savings in corporate budgets

Faced with these risks, a review has also been undertaken of corporate budgets in the context of the provisional 2022/23 outturn (details of which will be reported to Council on 22 June) and subsequent years' projections to determine whether a contribution towards these targets could be provided from these areas. This consideration has resulted in the identification of some £9.5m of anticipated savings to offset against the revised gaps, comprised as follows:

(i) **Council Tax** – based on the size, profile and expected buoyancy of the Council Tax base and anticipated collection rates, £3m of additional income relative to current budget framework assumptions is assumed from 2024/25;

(ii) **energy budgets** – through a combination of lower-than-anticipated tariff increases in 2022/23, revised price estimates for 2023/24 and 2024/25 and measures undertaken to reduce overall consumption, savings of £1.5m are now forecast relative to the level of framework provision in 2024/25 and subsequent years; and

(iii) **other corporate budgets, including inflationary allowances, application of budget framework risk contingency and allocation of net funding from St James Growth Accelerator Model (GAM) grant payment -** £5m of total savings are forecast going forward in these areas.

Other potential revenue-raising measures under consideration

NDR Empty Property Relief

Following the full devolution of NDR Empty Property Relief (EPR) policy to local authorities with effect from April 2023, a draft policy is included elsewhere on today's agenda. Subject to members' decision and subsequent collection rates, this has the potential to generate additional income relative to the inherited baseline, thus making a contribution to the overall savings gap. Pending these decisions, however, no additional income is assumed at this time.

Council Tax – consultation on second homes and empty properties

In addition, a Scotland-wide consultation on **Council Tax for second homes and empty properties** is underway, with a closing date of 11 July. This may give rise to additional income depending on the extent of changes permitted, Council policy and the effectiveness of the policy in bringing properties back into use. Given these uncertainties and the need for due Parliamentary and Council consideration, however, as with NDR EPR above, no additional income is assumed at this stage.

Transient Visitor Levy (TVL)

On 25 May, the **Visitor Levy (Scotland) Bill** was formally introduced into the Scottish Parliament and, if passed, will give local authorities the power to introduce a visitor levy.

Under the Bill, any funding raised by a visitor levy will, once administrative costs have been deducted, require to be spent on developing, supporting and sustaining facilities and services which are substantially for, or used by, persons visiting for leisure purposes. The Bill will also require a local authority to consult with local communities, tourism businesses and tourism organisations before it introduces a visitor levy.

The Bill gives the authority the power to set the charge level which will be set as a percentage of the cost. Given the time for the Bill to pass and other current stipulations contained within the Bill, an Edinburgh TVL could be collected from 2026, assuming implementation as soon as the legislation permits.

Key assumptions within the budget framework, 2024/25 to 2028/29

	Note	2024/25	2025/26	2026/27	2027/28	2028/29	At 2023/24 levels, every 1% change would result in following change from core assumptions
Staff pay award (all staff; average provision)		3%	3%	3%	3%	3%	£7.3m
Contract inflation (general)	1	3%	3%	3%	3%	3%	£0.8m
Contract inflation (PPP and related contracts)	2	3%	3%	3%	3%	3%	£0.6m
Electricity (tariff increase)	3	10%	3%	3%	3%	3%	£0.2m
Gas (tariff increase)	3	34%	3%	3%	3%	3%	£0.1m
Non-Domestic Rates poundage		2.5%	2.5%	2.5%	2.5%	2.5%	£0.3m
COVID-related service impacts - total provision	4	£9m	£9m	£9m	£9m	£9m	n/a
Demographic provision	5	£3.9m	£3.9m	£3.9m	£3.9m	£3.9m	n/a
Council Tax (rate)		3%	3%	3%	3%	3%	£3.5m
Council Tax (buoyancy)		0.75%	0.75%	0.75%	0.75%	0.75%	£3.5m
Government grant core funding year-on-year change	6	0%	0%	0%	0%	0%	£9.0m
Discretionary fees and charges (average)		5%	5%	5%	5%	5%	£0.2m

Note 1 - in recognition of the exceptional impact of successive years' inflation on the Council's revenue budget, the framework also includes an additional £5m provision, baselined from 2023/24. This sum is notionally allocated to (i) anticipated pressures in costs of fuel, (ii) additional sums payable in respect of the Millerhill gate fee and the Council's NSL parking enforcement contract and (iii) a range of uplifts due on Education and Children's Services fees and contracts.

Note 2 - the level of uplift applicable to the Council's PPP contracts is the Retail Price Index (RPI) rate in February of the preceding financial year. The actual level of uplift applied, however, is tempered by application of the relevant "constraining factor" to the borrowing-based element.

Note 3 - level of provision is based on Scottish Procurement Utilities Guidance, taking into account wholesale prices and pre-purchased volumes. Future years' figures remain subject to considerable uncertainty given low pre-purchased volumes, the effects of year-on-year reconciliations and wider sectoral volatility.

Note 4 - the £9m total indicatively comprises (i) the continuing assumed loss of the Lothian Buses dividend, (ii) a £2m reduction in parking income and (iii) £1m of additional support for Edinburgh Leisure.

Note 5 - the sum shown comprises £3.6m for Education and Children's Services, of which some £2.3m is assumed to be directed to schools to reflect changes in pupil numbers, and £0.3m to Place to reflect the impact of increasing household numbers on waste collection and recycling costs.

Note 6 - the level of change shown for 2024/25 is based on Edinburgh's confirmed allocation as part of the 2023/24 Local Government Finance Settlement. Subsequent years' allocations are based on Local Government-wide planning allocations included within the Scottish Government's Resource Spending Review published in May 2022.

The budget framework also includes £27.3m of net additional investment relative to the 2020/21 approved budget in respect of homelessness services.