Finance and Resources Committee

10.00am, Tuesday, 6 February 2024

Revenue Budget 2024/25 – Risk and Reserves

Executive/routine
Wards

1. Recommendations

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

1.1.1 note the range and nature of the Council's usable reserves in light of wider risk factors; and

1.1.2 remit the report to The City of Edinburgh Council for approval on 22 February 2024 as part of the budget-setting process.

Dr Deborah Smart

Executive Director of Corporate Services

Contact: Richard Lloyd-Bithell, Service Director: Finance and Procurement,

Finance and Procurement Division, Corporate Services Directorate

E-mail: richard.lloyd-bithell@edinburgh.gov.uk

Report

Revenue Budget 2024/25 – Risk and Reserves

2. Executive Summary

2.1 The report advises members of the main risks inherent in the revenue and capital budget framework and the range of measures and provisions established to mitigate these.

2.2 The report outlines the level of reserves held and the purposes for which they are maintained, including consideration of the adequacy of the balances held to mitigate against known risks.

3. Background

3.1 The report advises members of significant risks identified within the budget process and sets out the range of measures and provisions in place to mitigate these.

3.2 Unallocated reserves are held against the risk of unanticipated expenditure and/or reduced income arising in any particular year. In addition, there are specific earmarked reserves set aside to manage timing differences between the receipt of income and incurring of related expenditure, in accordance with accounting rules.

3.3 The reserves held by the Council are reviewed annually as part of the revenue budget-setting process. The review considers the level of balances, the risks inherent in the budget process and the adequacy of arrangements in place to manage these known risks.

4. Main report

Risks

4.1 Risks form an integral part of the business and budget planning process. What is most important, however, is that they are identified, actively managed and, where appropriate, mitigated. Appendix 1 shows a matrix, setting out how it is planned that the known risks identified in this report will be managed. This list is, however, not exhaustive due to the complexity and diversity of the changing environment within which the Council operates.

Legacy COVID–19 impacts on service expenditure/income losses

4.2 While the legacy impacts of the COVID-19 pandemic continue to lessen, they still pose an element of risk, both in terms of the immediate ability to set a balanced budget for 2024/25 and undertaking longer-term financial planning. Changing work patterns have affected patronage for Lothian Buses and Edinburgh Trams, with like-for-like passenger numbers for each still below pre-COVID levels. These working patterns have also affected usage of Edinburgh Leisure's facilities and the amount of parking income received by the Council which has not returned in volume terms to 2019/20 levels, even after taking account of subsequent significant charge increases, including the 20% uplift approved for 2023/24. There is therefore a risk that the actual increases in service expenditure and losses of income for both the Council and its ALEOs are higher than assumed in the budget framework.

4.3 The revenue budget framework approved in February 2023 included specific provision for some £9m of continuing COVID-related impacts in 2024/25[1] baselined at this level over the period to 2028/29. The framework also includes provision of up to £9.25m in 2024/25 to reflect the full-year effect of operation of the tram extension to Newhaven given the impact of changing working patterns on patronage across the tram network as a whole.

4.4 The officer-recommended budget considered by the Finance and Resources Committee on 25 January 2024 proposed revising the level of support in these areas in two ways. Firstly, in view of a range of net inflationary and other pressures affecting Edinburgh Leisure totalling £3.2m in 2024/25, the report recommended accelerating planned additional support of £1m in each of 2025/26 and 2026/27 to 2024/25 which, alongside reprioritisation of an element of the remaining £8m of other COVID-related support in each of these years, gives an ability to provide up to £3.2m of additional support during 2024/25. This additional funding is intended to provide stability to facilitate development of a financially sustainable operating model going forward, with the precise profile of this support subject to further discussion between the Council and Edinburgh Leisure as this revised model develops and the final deficit figure is agreed.

4.5 Since its opening in 2023, passenger numbers for the tram extension have significantly exceeded the assumptions underpinning the budgeted levels of additional financial support and to this end, in-year revenue monitoring incorporates a saving of £3.5m based on an extrapolation of current passenger levels and associated fare income. While Edinburgh Trams has also requested that the Council consider providing support for additional infrastructure renewals, given the full-year effect of this increased patronage and wider transport company reform, a

[1] This figure represents a reduction of £3m from 2023/24's equivalent sum of £12m and comprises £6m for the loss of the Lothian Buses dividend, £2m for parking income losses and £1m of additional support for Edinburgh Leisure.

reduction in overall funding requirement of £2.3m (to £6.95m) in 2024/25 is being assumed at this time, with the potential to reduce the level of required operational support further pending detailed discussion with Lothian Buses and Edinburgh Trams.

4.6 While it is anticipated that the revised level of provision noted above will be sufficient to meet all relevant liabilities, it is acknowledged that the adequacy of the reduced sum set aside for COVID impacts in 2024/25 and, in particular, future years given the acceleration of planned support to Edinburgh Leisure, will require to be closely monitored going forward and regular updates will therefore be provided to elected members.

Inflation and pay awards

4.7 Inflation levels affect the Council's activities in a number of ways; directly through increasing prices of purchased goods and services and the level of uplifts applied to relevant contracts and indirectly through consumer spending and expectations for wage awards. The budget framework currently provides for both general inflation and average pay awards at 3% in each of the years from 2024/25 to 2028/29.

4.8 The Council was subject to a range of exceptional inflationary pressures in 2022/23 and the first half of 2023/24, most materially energy cost increases but also including food, fuel, home-to-school transport and uplifts affecting a number of its contracts. In view of these increases, the 2023/24 framework baselined an additional £16.7m relative to the approved 2022/23 budget for energy costs and £5.5m for PPP contract-related liabilities. A general additional inflationary provision of £5m was also incorporated to recognise cumulative inflationary pressures in areas including fees for fostering, kinship and out-of-authority and independent sector placements, fuel and other contract uplifts.

4.9 The 2024/25 framework provides a further £2m for energy costs based on relevant Scottish Procurement guidance. Officers have also been examining the range of expenditure subject to inflationary pressures across the Council to realign, where relevant, available provision to areas of greatest need.

4.10 While inflation rates continue to demonstrate a generally downward trajectory towards the Office for Budget Responsibility's longer-term target of 2%, there is a risk that further pressures beyond these levels emerge as structural inflation in some sectors remains above 3%.

4.11 The budget framework provides for the full recurring cost of the agreed teaching and non-teaching pay awards for 2023/24. Negotiations around the 2024/25 pay award remain at an early stage but given residual inflationary pressures, the level of recent years' awards and a phased transition to a minimum hourly pay rate of £15, there is a risk that the overall level of settlement exceeds the 3% assumed within the budget framework. Should this not be accompanied by the provision of corresponding additional Scottish Government funding, this may require the identification of further savings proposals which would be the subject of future consideration. Across the teaching and non-teaching bargaining groups, each 1% increase would equate to an additional recurring annual liability of some £7.3m.

Delivery of approved savings and management of underlying service pressures

4.12 Improvements in the robustness of savings plans and accountability at the inception, development, implementation and delivery stages have significantly increased the proportion of approved savings achieved in recent years, with 98% delivered in 2022/23. Although the majority of approved savings in 2022/23 were of a corporate nature, in-year projections point to a continuing high level of delivery in 2023/24.

4.13 The budget update report to the Finance and Resources Committee on 21 November 2023 highlighted £7.7m of residual pressures apparent within the Education, Children and Justice Services and Place Directorates in 2023/24, with an assumption that corresponding measures to mitigate these in full would be developed in 2024/25, reporting to members as appropriate. These pressures will require to be managed on a sustainable basis if the integrity of the budget framework is not to be compromised. To this end, relevant Executive Directors have been asked to finalise detailed mitigation plans by 31 March 2024, with associated measures to be reported and scrutinised through relevant service committees.

Edinburgh Integration Joint Board (EIJB)

4.14 The Edinburgh Integration Joint Board (EIJB) is subject to a separate budget-setting process. Although the Council has committed up to £14.6m[2] of additional support in 2023/24, a residual pressure of £6.0m was still being forecast as of month eight. A range of corresponding actions has therefore been instructed by the EIJB Chief Officer to mitigate expenditure pressures and additional detail of the projected position has been made available to members of the Committee.

4.15 An update on the projected EIJB position for 2024/25 was considered by the Board on 12 December 2023. This pointed to an increase of £10m, before taking into account a recommended £5m in-principle additional contribution from the Council as noted in the report to the Committee's previous meeting on 21 November, in the residual funding gap to £31m.

4.16 In view of this position, the budget update report to the Finance and Resources Committee on 25 January proposed supplementing this £5m contribution with a further £3m, as well as separately passing on the EIJB's proportionate share (£3.4m) of reductions in employer superannuation contributions effective from April 2024. There is a risk, however, that this £11.4m contribution, when combined with

[2] Comprising £0.379m for urgent required repair works at the Castlegreen and North Merchiston care homes and up to a further £14.2m of one-off support in recognition of wider pressures as approved by Council on 2 November 2023.

savings identified through the EIJB's Medium-Term Financial Strategy and the level of contribution from NHS Lothian, is insufficient to bridge the overall gap, resulting in a request for additional Council support under the Integration Scheme. Members will be kept apprised as these discussions continue.

Demographic and other changes leading to rising service demands

4.17 Demographic changes continue to increase the overall level of demand for the Council's services and the ability to provide for this within available resources. Levels of provision were reviewed in 2021 in light of updated population and pupil roll projections, resulting in the inclusion in the 2024/25 budget framework of total demographic-related investment of £3.9m (with similar incremental increases assumed in subsequent years). These sums are provided in recognition of cost pressures arising from increases in early years and school pupil rolls, greater numbers of vulnerable children and growing household numbers insofar as this affects demand for waste collection, disposal and recycling services.

4.18 The level of provision included in the framework is currently being reviewed in light of updated school roll projections. Given the significant incremental funding gaps in future years of the budget framework, more effective demand management, greater use of preventative approaches to service delivery and service prioritisation will, however, likely be required in order for this level of funding to prove sustainable over the medium to longer term.

4.19 Current economic conditions are continuing to place additional demands on a number of service areas, including advice services, benefits processing and homelessness services. There is a risk that the resulting additional expenditure demands cannot be contained within existing resources, heightening the importance of this proactive and preventative action.

4.20 The approved budget for Homelessness Services and Family and Household Support for 2023/24 contains £10.8m of net additional investment, relative to the equivalent budget for 2022/23, to address growth in the number of households requiring temporary accommodation, inflation and reduced housing benefit collection that impacted 2022/23. Despite this, demand-led pressures, including those arising from the accelerated asylum process, are expected to continue to affect the service, with these pressures compounded by above-inflation requested uplifts from accommodation providers within the wider confines of limited property supply. A further key dependency in the coming year will be progress in increasing the supply of suitable accommodation through the freeing up of void properties from the Housing Revenue Account.

Future funding settlements (and distribution risk)

4.21 Uncertainty around future funding settlements poses a significant risk to the Council's ability to set a balanced budget, given its impact on the overall level of savings required. Following a number of years in which provisional grant settlements were only advised in January or February prior to the start of the financial year in April, the Scottish Government's [Resource Spending Review] (RSR), published in May 2022, provided sector-wide revenue funding planning allocations for the period to 2026/27, albeit budgets remain subject to annual determination and agreement through the Scottish Parliament. For 2024/25, the detailed Scottish Budget was published on 19 December and the provisional Local Government Finance Settlement (LGFS) on 21 December. The level of grant funding assumed within the revenue budget framework for 2024/25 is aligned to the LGFS announcement.

4.22 In previous years, these allocations were subject to change as part of the Draft Budget's Parliamentary passage. While the signing in August 2021 of a co-operation agreement between the Scottish National Party and Scottish Greens may make subsequent changes less likely, any changes that do occur are unlikely to reduce the overall level of funding provided and the provisional LGFS announcement should therefore serve as a baseline from which to develop the Council's detailed plans[3]. It is anticipated that the impact of any changes arising from this Parliamentary consideration will likely be known by early February and members will be kept apprised of any implications for the budget framework.

4.23 The 2023/24 LGFS was based on population estimates derived from an extrapolation of authorities' respective actual populations as recorded in the 2011 census. The 2024/25 LGFS is the first one to reflect the use of updated actual population figures as recorded in the 2022 census. As was the case in the 2011 census, these updated actual population figures were significantly lower than the estimates, with Edinburgh's degree of overestimation proportionately amongst the highest in Scotland. While the extent of year-on-year financial loss has been mitigated by the operation of the stability floor, Edinburgh has therefore seen a proportionate reduction in funding higher than the all-Scotland average, contributing to an overall shortfall of £10m relative to budget framework assumptions.

4.24 A specific risk that is now expected to crystallise for 2024/25 is the distribution of funding for new national commitments. The Scottish Government has made £230m and £16m respectively available for implementation of a £12 hourly minimum wage for adult social care and early learning commissioned services. While the Scotland-wide quantum in each case has been agreed as sufficient to deliver the policy intent, the generic needs basis to be used in each case to distribute funding does not reflect differences in the balance of sectoral provision across authorities. As a result, it is anticipated that the funding provided will fall short of what is required by over £5m (adult social care) and £0.7m (early years) respectively.

4.25 Future years' funding allocations could also vary for a number of reasons, including the use of updated population and other needs-based data and the complexities of funding distribution formulae, including the level at which the stability floor is set, as

[3] This is subject to any other distributional issues identified during the consultation period which, while net-neutral in overall terms, could result in downward movement at council-specific level.

well as wider Scottish and UK Government fiscal policy and the required level of pass-through to the Integration Joint Board.

Income

4.26 Assumptions are made in the budget process on the level of income that can be generated by services. There are risks associated with these assumptions, primarily around (i) demand for and/or price sensitivity of chargeable services, (ii) timing of implementation of new or amended charges and (iii) the ability to collect all income due. The Council has a range of measures in place to mitigate these risks, such as application of appropriate debt policies, service level agreements with external users and regular monitoring of income levels as a prompt to remedial action.

4.27 These areas have all been reviewed in light of relevant enduring impacts of the pandemic, with adjustments reflected in future years' budgets for the anticipated on-going loss of the Lothian Buses dividend and reduced levels of parking income. These assumptions remain subject to on-going review.

4.28 Income from Council Tax finances around 26% of the Council's net expenditure. Changes in collection rates, the size and profile of the Council Tax base, required bad debt provisions and sums paid through the Council Tax Reduction Scheme therefore all affect the total level of available resourcing. While collection rates dipped during the pandemic, the in-year collection rate in 2022/23 improved from 96.8% to 97.1%, by some margin the highest of the Scottish city authorities. Given the potential for this collection level to be affected by current economic conditions, however, the position will continue to be closely tracked in the coming months.

4.29 The budget framework as presented to the Finance and Resources Committee on 25 January 2024 includes assumptions around additional Council Tax income raised from increasing the liability on second homes (£2.25m) and changes to Non-Domestic Rates empty property relief (£7m). While these sums are considered prudent and build in a significant contingency for resulting behavioural change, as they represent new policies for which there is therefore no established precedent elsewhere, the resulting income generated will be closely monitored and reported to members as part of in-year monitoring reports.

Legislative changes

4.30 Legislative changes present on-going risks to the budget framework and while provision has been made for the projected impact of known factors, there is a risk that further changes are made, resulting in direct or indirect impacts on the Council's budget. It is additionally assumed that implementation of savings measures included in the budget framework is fully within the Council's gift. Depending upon the level of compensation provided, this may, for example, affect assumptions around additional income raised by Council Tax.

4.31 The budget framework makes an assumption that the additional costs resulting from a 3% increase in employer teachers' superannuation contributions from April 2024 will be fully offset by the pass-through by the Scottish Government of related Barnett Formula consequentials. While recent discussions between COSLA and the Scottish Government have supported this view, should this not be the case, this could give rise to considerable unfunded liabilities.

4.32 Over the longer term, account will require to be taken of a range of other proposed legislative changes, including the creation of a National Care Service (where there is a risk, amongst other factors, that the resulting loss of economies of scale will result in unbudgeted costs being borne by the Council) and reform of the current Council Tax system.

Legal claims and inquiries

4.33 There is a risk that the Council is exposed to reputational and financial consequences of legal claims and inquiries in relation to uninsured and insured incidents. The on-going Scottish Child Abuse Inquiry has potentially significant financial implications going forward but, at this stage, the precise impact on the Council (and any associated financial liability) remains to be confirmed. Local authority contributions to the redress scheme have, however, been agreed at national level, with the corresponding funding already deducted in arriving at the amount of distributable funding to local authorities.

Major infrastructure projects and other capital investment

4.34 The long-term financial implications of some major infrastructure projects, particularly the City Plan and energy-efficient retrofitting of the Council's property estate, are also still emerging. In addition, in view of significant cost increases on capital projects in 2022 varying between 15% and 30%, the approved Sustainable Capital Budget Strategy 2023/33 approved a reprioritisation of the existing ten-year programme, including cash-limiting budgets and delaying uncommitted learning estate projects pending development of fully funded business cases.

4.35 The effects of inflation are still having a significant impact on the capital programme. Given funding pressures, recurring allocations for ongoing programmes, such as carriageway and footway works, have not been increased for inflation. This is likely to have a significant impact on service delivery particularly in later years.

4.36 There is a risk that the Council will require to support additional borrowing and/or revenue running costs associated with projects contained within the existing programme. While interest rates are expected to fall over the medium term, there is nonetheless a risk that current rates will result in loans charge expenditure in excess of relevant assumptions, rendering the revised programme unaffordable. On-going review of the projects and potential timing and value of funding requirements will therefore continue to be undertaken through relevant project boards and risks escalated as appropriate.

4.37 While a reduction of £1.9m had been anticipated in the Council's level of General Capital Grant for 2024/25 based on the distributional impacts of previous overestimates of the city's population, the actual level of reduction also reflects the reduction in Scotland-wide capital funding. As a result, the actual level of grant is £1.7m lower than had been assumed.

4.38 Rather than reducing the scale of the ten-year programme, it is proposed to manage this in-year reduction of £1.7m (and potential £17m across the ten-year programme) by means of applying a corresponding element of the existing contingency provision of £45m, although this by extension reduces the Council's ability to address further pressures in the existing programme, should they arise.

4.39 The Council secured £206m of required borrowing from the Public Works Loan Board in 2021/22, all at an interest rate below 2%. This, alongside temporarily using available cash balances to fund capital expenditure, has served to manage both borrowing-related risks and upward pressure on project costs due to pandemic-related delays, labour and materials shortages while providing on-going savings to the revenue budget. It is anticipated, however, that this strategy will not be sustainable beyond the short term, with a consequent need to re-assess the Council's borrowing strategy at that time.

Reinforced Autoclaved Aerated Concrete (RAAC)

4.40 While the report to the Committee's last meeting on 25 January pointed to an anticipated ability to contain relevant short- to medium-term costs within existing budgets and available reserves, these costs may increase, adding to potential liabilities for remedial works in the longer term.

Reserves

4.41 Members are aware that the Council holds a number of earmarked reserves within the General Fund. As of 31 March 2023, the General Fund balance stood at £266.306m, an increase of £9.102m from the preceding year, of which £240.475m was earmarked for specific purposes. This increase reflected a complex series of movements, the most material of which were the application of £48.9m of service-specific and general COVID-related funding, offset by the receipt of £33.4m of upfront Ukraine-related funding earmarked to meet future liabilities and the £13.7m in-year underspend. Other net increases totalling £11m accounted for the remaining movement.

4.42 The Council's 2022/23 Annual Audit Report noted that the Council generally has limited uncommitted reserves to support additional expenditure, with the unallocated general fund balance of £25.831 million representing less than 2% of planned 2023/24 expenditure. Given the financial context the Council is operating in, however, this level of reserves was considered reasonable, noting that the Council had demonstrated a prudent approach to their management.

4.43 The earmarked reserves held as of 31 March 2023 comprised four broad categories:

(i) **Balances set aside for specific financial risks which are likely to arise in the medium-term future** totalling £202.883m. Examples include monies earmarked for staff release costs, dilapidations and other related contractual commitments and the insurance fund;

(ii) **Balances set aside from income received in advance**, primarily from grant income due to timing differences between the receipt of the grant income and the planned expenditure thereof, totalling £29.067m;

(iii) **Balances set aside to enable the Council to undertake investment in specific projects which will deliver savings in future years**, such as Spend to Save, totalling £4.502m; and

(iv) **Balances held under the Devolved School Management scheme (DSM) and Pupil Equity Fund (PEF)**, totalling £4.023m.

4.44 As shown in Appendix 2, there are significant projected movements in the level of earmarked reserves during 2023/24 (an overall increase of some £28.8m). This position reflects, however, offsetting movements resulting from (i) the creation of a designated reserve in respect of the service concession flexibility, with an anticipated balance of £75.6m as of 31 March 2024, and (ii) a net drawdown of other reserves totalling £46.8m, including full application of the 2022/23 underspend (£13.6m) to support the EIJB's financial position in 2023/24, £17.3m to meet general and service-specific COVD liabilities and a number of smaller-value net drawdowns.

4.45 At this stage, it is estimated that there will be a net drawdown from reserves of £53.8m in 2024/25. Significant movements within this total include £18.9m in respect of the timing-related benefit of the service concession, £11.2m from general COVID contingency and £6m from the loans charge contingency for Reinforced Aerated Autoclaved Concrete (RAAC)-related expenditure.

5. Next Steps

5.1 Following Committee's consideration, the report will be referred to The City of Edinburgh Council for approval as part of the budget-setting process.

6. Financial impact

6.1 The report identifies where funding has been made available for the risks set out. The Council also holds unallocated General Fund reserves against the likelihood of unfunded risks occurring. Subject to approval by members, the level of these unallocated reserves will be maintained at £25.8m in 2024/25 which remains broadly in line with other Scottish local authorities and, alongside a range of earmarked reserves, is considered appropriate for the risks to which the Council is exposed.

6.2 Opportunities to increase the level of unallocated and other reserves, where appropriate, will be considered as part of the development of the Council's Medium-Term Financial Plan and Budget Strategy.

7. Equality and Poverty Impact

7.1 Due to the report's technical focus, there are no direct relevant impacts arising from the report's contents.

8. Climate and Nature Emergency Implications

8.1 Due to the report's technical focus, there are no direct relevant impacts arising from the report's contents.

9. Risk, policy, compliance, governance and community impact

9.1 Due to the report's technical focus, there are no direct relevant impacts arising from the report's contents.

10. Background reading/external references

10.1 Revenue Budget Framework and Medium-Term Financial Plan (MTFP) 2024/29 – progress update, Finance and Resources Committee, 25 January 2024

10.2 Reinforced Autoclaved Aerated Concrete (RAAC) Update, Finance and Resources Committee, 25 January 2024

10.3 Medium Term Financial Strategy Update 2024/25 to 2026/27, Edinburgh Integration Joint Board, 12 December 2023

10.4 Revenue Budget Framework and Medium-Term Financial Plan (MTFP) 2024/29 – progress update, Finance and Resources Committee, 21 November 2023

10.5 Revenue Budget Framework 2024/29 – progress update, Finance and Resources Committee, 21 September 2023

10.6 Financial Strategy and Medium-Term Financial Plan (MTFP), Finance and Resources Committee, 20 June 2023

11. Appendices

11.1 Appendix 1 – Risk Matrix

11.2 Appendix 2 – Projected Movement in General Fund

Appendix 1

Risk Matrix

The table below summarises how the risks identified in the report are managed.

Risk	**Provisions and other actions to manage**
Legacy COVID–19 impacts on service expenditure/ income losses	Regular CLT, Arm's-Length External Organisation (ALEO) Governance Hub and elected member scrutiny of the residual impacts of COVID-19 on budget framework assumptions Inclusion within MTFP of significant funding for relevant impacts from 2024/25 to 2028/29 inclusive, alongside previous wider re-alignment of existing reserves, including increasing level of unallocated General Fund balance Examination/consideration of all non-service budgets, reserves and available financial "flexibilities" to spread the cost impacts of the pandemic over a longer timeframe Adoption, where practicable, of preventative investment to mitigate demand increases On-going mitigating actions which also relate to wider risk management actions detailed below, including detailed discussion with ALEOs, accompanied by regular updates to elected members
Inflation and pay awards	Regular review of inflationary forecasts and, in particular, consideration of impact on Local Government at sector-specific forums Incorporation of known increased liabilities for utilities and contract uplifts Inclusion within budget framework of further additional £5m in 2023/24 for other inflation-linked liabilities, alongside realignment of existing inflationary provision to areas of greatest need Liaison with COSLA on pay award discussions, including affordability
Delivery of approved savings and management of underlying pressures	Updated, detailed and consistently applied guidance for Finance staff in assessing the rigour of accompanying savings implementation plans Earlier recognition, through discussion and agreement at Corporate Leadership Team, of the impact of underlying service pressures and savings shortfalls on the robustness of the budget framework Early consideration of likely required project management and other support Regular CLT and elected member scrutiny of proposed savings at the inception, development and delivery stages Regular SMT consideration of overall service budgetary position, including known or emerging risks and pressures, with a view to taking prompt corrective action Budget re-alignment, where required, to facilitate enhanced ownership, accountability and transparency of reporting

Risk	Provisions and other actions to manage
Edinburgh Integration Joint Board – additional support requirements	On-going close working with EIJB Chief Officer and Chief Finance Officer on financial planning, in-year monitoring and development, implementation and monitoring of savings initiatives, with regular updates to Finance and Resources Committee
Demographic changes leading to rising service demands	Provisions made in MTFP (Medim-Tern Financial Plan) and regular reviews of the adequacy thereof
Future funding settlements (and distribution risk)	Provisions included in MTFP Regular monitoring of public expenditure projections and active membership of relevant professional forums, promptly recognising potential or actual grant variations in MTFP (including population-related variation) Progress in development of a longer planning timeframe to recognise the potential for variation from baseline assumptions in any given year and, by extension, an ability for additional savings measures to be accelerated Active contributions to discussions on funding distribution
Income	Service Level Agreements with external users, application of appropriate debt policies (including, where appropriate, upfront payment for services delivered) and regular monitoring of income levels as a prompt to remedial action Monitoring of impact of newly introduced changes
Legislative changes	Provisions made in MTFP and regular reviews of the adequacy thereof On-going monitoring of impacts of welfare reform and other relevant legislation on expenditure and income Active membership of relevant professional forums
Legal claims and inquiries	The Council explicitly provides for a number of known risks and liabilities. Funding could, however, be drawn down from the unallocated General Fund balance to meet unanticipated or additional costs.
Major infrastructure projects	Regular progress monitoring through Change Boards, particularly at key milestones, with documented escalation procedures Senior Finance representation on all Project Boards Review of tender prices Reprioritisation of Sustainable Capital Budget Strategy in view of wider cost pressures Opportunities considered to lock out borrowing rate risk

Projected Movement in General Fund

Appendix 2

General Fund	Opening Balance at 1.04.23 £000	Actual/planned use 2023/24 £000	Projected Balance at 1.04.24 £000	Planned (Uses) / Contributions £000	Projected Balance at 31.03.25 £000	
<u>Balances Set Aside to Manage Financial Risks and for Specific Investment</u>						
Balances set aside for specific investment	115,347	(1,641)	113,706	(23,306)	90,400	Funding set aside for specific projects or initiatives, including monies for Ukraine and Syrian Refugee Resettlement (projected balance of £30.6m as of 31 March 2024), Enterprise Resource Planning (£4.2m), Trams to Newhaven (£13.0m), welfare reform (£5.8m) and future liabilities for large-scale infrastructure (£37.5m). £14.9m of this £37.5m has now also been earmarked for RAAC-related liabilities, of which £6m is assumed in 2024/25.
Council Priorities Fund	13,638	(13,638)	0	0	0	Monies set aside from previous years' underspends which will be utilised to fund emerging Council priorities or expenditure pressures. Following the decision of Council on 2 November 2023, this sum has been fully committed, should it be required, to offset in-year pressures within the Edinburgh Integration Joint Board.
Contingency and workforce restructuring	13,597	(1,000)	12,597	0	12,597	Monies held to cover costs of workforce management changes including staff severance costs, which may be utilised to support future change programmes.
Dilapidations Fund	4,257	(4,000)	257	0	257	Monies set aside to meet costs arising from the termination of property leases and other related contractual commitments to facilitate rationalisation of property. The planned use in 2023/24 forms part of the £5m in-year application of reserves approved as part of the revenue budget for 2023/24.
Insurance Fund	22,726	(1,200)	21,526	0	21,526	Insurance Funds are held to defray any loss where the Council could have insured against a loss but has not done so and for paying premiums on an insurance policy. This includes the power to meet excesses on insurance policies and other claims arising from on-going legal inquiries.

General Fund	Opening Balance at 1.04.23 £000	Actual/planned use 2023/24 £000	Projected Balance at 1.04.24 £000	Planned (Uses) / Contributions £000	Projected Balance at 31.03.25 £000	
COVID-19 mitigation reserve	33,318	(13,318)	20,000	(11,200)	8,800	Reserve created primarily in recognition of the continuing cost and income impacts of the pandemic. In accordance with the Budget Framework report considered by the Finance and Resources Committee on 25 January, it is envisaged that additional one-off support of up to £3.2m will be drawn down in 2024/25 relative to previous assumptions.
Service Concession - Financial Flexibilities	0	75,600	75,600	(18,900)	56,700	Financial flexibilities granted by the Scottish Government to recognise the liabilities for service concessions over the useful life of the asset rather than the contract life, applied with effect from 1 April 2023. The net movement in 2023/24 reflects the creation of the reserve offset by one year's drawdown as part of balancing the overall revenue budget.
<u>Balances Set aside from Income Received in Advance</u>						
Licensing and Registration Income	5,503	(49)	5,454	0	5,454	Monies representing licensing income related to cabs, houses in multiple occupation, liquor and landlord registration. The Council is not permitted to use these monies on other services.
Other Minor Funds	178	0	178	(58)	120	Minor funds for other specific projects.
Pre-paid PPP monies and lifecycle costs	4,639	279	4,918	228	5,146	Monies set aside in recognition of the phasing issues related to grant monies, for lifecycle costs of projects.
Council Tax Discount Fund	5,250	196	5,446	0	5,446	Monies set aside as a result of reducing Council Tax second home discounts under existing legislation. Use of the fund is prescribed by the Scottish Government and is restricted to supporting the development of affordable housing. It forms part of the Strategic Housing Investment Fund (SHIF), alongside income from the Repairs and Renewals fund. The movement in any given year reflects the combined impact of Council Tax income set aside and investment funding drawn down.

	Opening Balance at 1.04.23 £000	Actual/ planned use 2023/24 £000	Projected Balance at 1.04.24 £000	Planned (Uses) / Contributions £000	Projected Balance at 31.03.25 £000	
Unspent revenue grants	8,034	(3,004)	5,030	(1,845)	3,185	Monies set aside at the year end, in accordance with proper accounting practice, where income has been received prior to the relevant expenditure being incurred.
City Strategic Investment Fund	1,082	48	1,130	145	1,275	Primarily represents funds initially set aside for strategic regeneration priorities (£2.150m originally approved) and to provide match funding for new city development opportunities (£0.5m).
COVID-19 advances	4,381	(3,967)	414	(155)	259	Reserve reflecting service-specific COVID funding received in 2020/21 and 2021/22 but permitted to be spent in future years.
Balances Set Aside for Investment in Specific Projects which will Generate Future Savings						
Spend to Save Fund, Energy Efficiency and Salix CEEF	4,502	(1,843)	2,659	(820)	1,839	Funds set aside to assist service areas deliver revenue savings in future years through provision of one-off upfront revenue investment. Scheme repayments will be used to support further new initiatives. Movements shown reflect approved uses of fund for development of Council's MTFP, EICA Bouldering project and TVL Project Manager, offset by planned scheme repayments.
Balances Set Aside under Devolved School Management Scheme and Pupil Equity Fund						
Balances held by schools under DSM / Pupil Equity Fund	4,023	(1,523)	2,500	0	2,500	Balances set aside for Devolved School Management Scheme and Pupil Equity Fund. There will always be a balance at March as the DSM scheme and PEF are based on an academic year.
Unallocated General Fund	25,831	(2,177)	23,654	2,160	25,814	Unallocated funds held against the risk of unanticipated expenditure and/or reduced income arising in any particular year, in line with Council reserves policy. The movement in 2023/24 primarily reflects the potential need to meet an element of the cost of the in-year non-teaching pay award from the Council's unallocated reserve, with this sum then reimbursed by the Scottish Government in 2024/25.
Total General Fund	**266,306**	**28,763**	**295,069**	**(53,751)**	**241,318**	