

The City of Edinburgh Council

10.00am, Thursday, 18 February 2021

Local Government Finance Settlement 2021/22

Executive/routine Executive
Wards
Council Commitments

1. Recommendations

- 1.1 It is recommended that members of Council note both the provisional outcome of the Local Government Finance Settlement and its resulting impact on existing financial planning assumptions as part of setting the Council's Revenue Budget for 2021/22 and Sustainable Capital Budget Strategy 2021-2031.

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Local Government Finance Settlement 2021/22

2. Executive Summary

- 2.1 Updates on the respective revenue and capital budget frameworks were considered by the Finance and Resources Committee on 2 February 2021, with these reports referred to Council to inform today's budget-setting meeting. Given the timing of the Scottish Draft Budget and Local Government Finance Settlement (LGFS) announcements (confirmed on 28 January and 1 February respectively), these reports were necessarily based on estimates of grant funding levels and associated conditions of funding support.
- 2.2 While the potential remains for changes to result from both the Draft Budget's Scottish Parliamentary consideration and the UK Budget announcement, at this stage £14.2m of additional revenue resources are available in 2021/22 for allocation by members. Given the significant remaining shortfalls in subsequent years of the framework, however, the use of the available money on a one-off basis or in providing recurring savings would assist in closing future years' funding gaps.

3. Background

- 3.1 On 28 January 2021, the Cabinet Secretary for Finance presented a draft one-year Scottish Budget and LGFS to the Scottish Parliament. Following this announcement, the accompanying Finance Circular, providing details of grant funding allocations at local authority level, was then issued on 1 February.
- 3.2 At this stage, the figures contained within the Settlement remain provisional, pending both the Draft Budget's Parliamentary passage and confirmation of the UK Budget on 3 March. This said, additional funding and/or flexibilities for Local Government may also be introduced as part of securing sufficient Parliamentary support for the Draft Budget's approval.
- 3.3 As in previous years, any necessary amendments to reflect changes in allocations resulting from the Settlement checking process will be contained within the overall quantum of funding within the LGFS. As of the time of writing, however, no material changes are known to have been identified.

4. Main report

Impact of the provisional LGFS on the budget framework

- 4.1 Analysis of the Settlement is continuing as additional details and clarification are received. Based on work undertaken to date, however, the provisional level of revenue grant funding is more favourable than assumed in the report presented to the Finance and Resources Committee on 2 February.

Revenue grant funding

- 4.2 Expressed on a like-for-like basis, the Scotland-wide revenue budget settlement shows an overall increase of 0.9% on the level of grant funding provided in 2020/21. Edinburgh's increase is around 1.6%, due primarily to a combination of a number of population-based distributional gains and the continuing operation of the second funding floor, whereby all authorities are guaranteed to receive total funding equal to at least 85% of the per capita average for Scotland. When compared to the level of funding assumed within the budget framework, this results in the receipt of additional income of £17.4m.

Non-Domestic Rates

- 4.3 Following the introduction of a range of temporary Non-Domestic Rates reliefs in 2020/21, the Cabinet Secretary's announcement confirmed a number of further changes for 2021/22. The basic property rate (the poundage) will be reduced from 49.8 pence to 49 pence. In addition, there will be an at-least three-month extension into 2021/22 of current 100% retail, hospitality, leisure and aviation relief. Taken together, these changes will reduce the Council's estimated expenditure in this area by some £1.3m.

Integration Joint Boards (IJBs)

- 4.4 The LGFS also contains £72.6m of funding to be transferred from the Scottish Government Health portfolio to local authorities for investment in adult health and social care and mental health services delegated to integration joint boards, comprising £34m to allow continuing delivery of the Living Wage Foundation rate, £10.1m for uprating of free personal care and nursing care payments and £28.5m for on-going implementation of the Carers Act. Edinburgh's estimated share of these sums is £6.9m and this funding will be passed on in full to the Edinburgh Integration Joint Board (EIJB).
- 4.5 This funding should be additional and not substitutional, such that local authority adult social care budgets for allocation to IJBs must be at least £72.6m greater than 2020/21 recurring budgets. As such, it is officers' understanding that the proposed £4.7m savings target included in the budget framework may not, at least at this stage, be applied and by extension, this offsets an element of the favourable overall movement in the Council's revenue grant funding level.
- 4.6 Despite the increase in resources available to the EIJB resulting from not applying this saving to its baseline budget, members should note that full pass-through of the

additional resources contained within the LGFS will only marginally improve the underlying overall EIJB funding gap relative to the position reported to the Board on 15 December. This is because, in contrast to recent years, no unhypothecated sums (i.e. monies provided on a non-specific basis) have been reflected within the Settlement, with the £6.9m instead representing recognition of known cost pressures, funding for which had largely already been assumed by the EIJB. Further discussions are therefore required with the Chief Finance Officer of the EIJB to understand fully these implications, alongside consideration of the equivalent settlement for NHS Lothian.

Impact of changes in grant funding and other budget framework assumptions

- 4.7 Taking account of the changes outlined in the preceding sections results in an updated position as follows:

	£m
Funding available for allocation per report to Finance and Resources Committee, 2 February	0.2
Positive change in revenue grant funding relative to framework assumptions	17.4
Savings in Non-Domestic Rates relative to framework assumptions	1.3
Inability to apply planned savings target to EIJB	(4.7)
Revised funding available following provisional LGFS	14.2

Council Tax freeze

- 4.8 In view of the specific pressures on households hastened by the pandemic, the LGFS also includes an additional £90m available to councils choosing to freeze Council Tax at 2020/21 levels, with Edinburgh's allocation of this sum, equivalent to compensating a 3.1% rise, being £9.6m. The budget framework currently contains an assumption that Council Tax rates will be increased by 4.79% in 2021/22, generating £14.8m of additional income. Agreeing to a freeze would therefore result in a net cost of £5.2m which would require to be met from the additional overall level of funding noted in the table above.

Opportunities for additional investment

- 4.9 Even if Council Tax levels were to be frozen, this updated position provides some scope for members to vary other existing framework assumptions, including fees and charges increases and/or to introduce additional investment in tackling poverty, enhancing wellbeing and promoting sustainability or other priority areas. Given the absence of a balanced budget in 2022/23 (where an incremental gap of £19.7m is currently projected), however, the use of the available money on a one-off basis or in providing recurring savings would assist in closing future years' funding gaps.

- 4.10 A number of potential options for application of this investment have been provided to members.

Sums remaining to be distributed

- 4.11 The Cabinet Secretary's announcement also included £259m of non-recurring COVID-related funding to be made available in 2021/22, the distribution of which will be agreed by COSLA Leaders (and, as such, is not reflected in the figures above). While, given the Council's share of sums previously provided on a general needs basis, this may result in the provision of further funding of some £20.5m, in view of the potential downside risks linked to the impact of continuation of current restrictions well in to 2021/22 and longer-term behavioural change, these sums are not assumed to be available to offset other savings requirements at this time.
- 4.12 Following the earlier receipt of £18m from the initial tranche of the income compensation scheme, the LGFS also confirmed that a further £110m of Scotland-wide funding will be made available in this area in respect of losses suffered in 2020/21, the distribution arrangements for which will be discussed with COSLA. This funding, other things being equal, would be expected to reduce the remaining expected call on the Council's unallocated reserves during the current financial year. Any further Barnett Consequentials accruing to Scotland in 2021/22 as a result of the operation of the equivalent scheme in England will also be passed on in full to local authorities.
- 4.13 Members will be kept apprised of the level of funding accruing to the Council under each of these elements. Updates will also continue to be provided around any changes in available financial flexibilities, including potential application of the annuity-based PPP flexibility.

Capital Settlement

- 4.14 The level of core capital grant settlement and ring-fenced funding for affordable housing confirmed in the LGFS was in line with current assumptions and, in light of the £172m ten-year projected funding shortfall across the programme as a whole, no additional resources are available for allocation at this time.

Public sector pay policy

- 4.15 While not directly applicable to local government, the Cabinet Secretary also confirmed the Scottish Government's Public Sector Pay Policy for 2021/22, comprising an increase of at least 3% for those earning up to £25,000, a 1% increase for those earning between £25,000 and £80,000 and a flat-rate £800 increase above this level. Given the potential, nonetheless, for this policy to inform the level of settlement reached with the Local Government workforce and based on modelling undertaken to date, application to the Council would fall within the overall level of provision included within the revenue budget framework (which, in turn, is based on a total level of provision equivalent to a 2% increase across all staffing groups).

5. Next Steps

- 5.1 The revised level of resources outlined in this report forms the starting point for the respective budget motions brought forward for consideration at today's meeting. A number of potential options for application of this investment have also been provided to members.
- 5.2 Should additional resources result from the Draft Scottish Budget Bill's Parliamentary consideration and/or the UK Budget, a further update report will be presented to the Finance and Resources Committee in due course.

6. Financial impact

- 6.1 Following confirmation of the provisional LGFS, £14.2m of additional revenue resources are available in 2021/22 for allocation by members. Given the absence of a balanced budget in 2022/23 (where an incremental gap of £19.7m is currently projected), however, use of the available money on a one-off basis or in providing recurring savings would assist in closing future years' funding gaps.

7. Stakeholder/Community Impact

- 7.1 A detailed report elsewhere on today's agenda summarises the response to the Council's recent engagement on budget priorities for 2021/22 and beyond and includes relevant supporting material from other engagement activity on priorities and life experiences during the COVID-19 pandemic

8. Background reading/external references

- 8.1 [Council Business Plan and Budget 2021/26](#), Finance and Resources Committee, 2 February 2021
- 8.2 [Sustainable Capital Budget Strategy 2021-2031](#), Finance and Resources Committee, 2 February 2021

9. Appendices

- 9.1 None