Governance, Risk and Best Value Committee

10.00am, Tuesday, 14 December 2021

Revenue Budget Monitoring 2021/22 – month six position – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on the Revenue Budget Monitoring 2021/22 – month six position, to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

Stephen S Moir
Executive Director of Corporate Services

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Referral Report

Revenue Budget Monitoring 2021/22 – month six position

2. Terms of Referral

2.1 On 9 December 2021, the Finance and Resources Committee considered a report which updated members on the projected Council-wide revenue budget position for the year based on analysis of month six expenditure and income data.

2.2 The Finance and Resources Committee agreed:

2.2.1 To note that a balanced overall revenue monitoring position continued to be forecast in the current year.

2.2.2 To note, nonetheless, the potential for further expenditure pressures to emerge during the remainder of the year and thus the on-going need for pressures, savings delivery shortfalls and risks to be fully and proactively managed within all Directorates and the Health and Social Care Partnership.

2.2.3 To note that a further update would be provided to the Committee at its next meeting on 3 February 2022.

2.2.4 To note the proposed updates to planning assumptions affecting the incremental gaps in 2022/23 and subsequent years of the budget framework and that these would be reviewed following the announcement of the Local Government Finance Settlement on 20 December 2021.

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

2.2.6 To approve the allocation of £0.348m to address the financial impacts flowing from the recommendations of the two recent inquiry reports.

3. Background Reading

3.1 Finance and Resources Committee – 9 December 2021 - Webcast

3.2 Minute of the Finance and Resources Committee – 9 November 2021

4. Appendices

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

Finance and Resources Committee

10.00am, Thursday, 9 December 2021

Revenue Budget Monitoring 2021/22 – month six position

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

1. Recommendations

1.1 Members of the Finance and Resources Committee are recommended:

1.1.1 to note that a balanced overall revenue monitoring position continues to be forecast in the current year;

1.1.2 to note, nonetheless, the potential for further expenditure pressures to emerge during the remainder of the year and thus the on-going need for pressures, savings delivery shortfalls and risks to be fully and proactively managed within all Directorates and the Health and Social Care Partnership;

1.1.3 to note that a further update will be provided to the Committee at its next meeting on 3 February 2022;

1.1.4 to note the proposed updates to planning assumptions affecting the incremental gaps in 2022/23 and subsequent years of the budget framework and that these will be reviewed following the announcement of the Local Government Finance Settlement on 20 December 2021; and,

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

Stephen S. Moir
Executive Director of Corporate Services

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Report

Revenue Budget Monitoring 2021/22 – month six position

2. Executive Summary

2.1 The report updates members on the projected Council-wide revenue budget position for the year based on analysis of month six expenditure and income data. While a balanced overall position continues to be forecast, there remains some uncertainty around the on-going impacts of the pandemic on the Council and its ALEOs and, more immediately, the level of the teachers' pay award for 2021/22. The position will therefore continue to be kept under active review and a further update brought to the Committee on 3 February 2022.

2.2 Following the in-depth review considered by the Committee in October, the report then proposes a number of further changes to existing financial planning assumptions covering the five-year period to 2026/27. The net impact of these changes is broadly neutral in the first two years of the framework, resulting in revised gaps of £8.737m and £54.695m in 2022/23 and 2023/24 respectively. Due primarily to the assumed continuing loss of the Lothian Buses dividend, later years' gaps have increased by between £6m and £7m, with the restated estimated five-year gap now some £133m.

3. Background

Revenue budget, 2021/22

3.1 Members of Council approved a balanced one-year revenue budget for 2021/22 on 18 February 2021. In so doing, however, it was noted that there remained the potential for further changes to emerge based on the outcome of both the UK Budget and the Draft Scottish Budget's Parliamentary consideration, as well as the availability and associated conditions of use of a number of financial "flexibilities", particularly the service concession-related flexibility.

3.2 Given this, a further update on the revenue budget framework was considered by the Finance and Resources Committee on 20 May. Applying carried-forward and in-year COVID-related funding presented an opportunity to increase significantly the level of framework provision for the continuing impacts of the pandemic in both

2021/22 and 2022/23 whilst, at the same time, fully addressing the incremental residual savings requirement in the later year.

3.3 The report considered by the Committee also set out an opportunity to invest up to £21m in 2021/22 and 2022/23 to address remaining service pressures, anticipated savings delivery shortfalls and member priorities. On 27 May, Council approved total investment across these areas in 2021/22 of £21m but with a number of the service investments giving rise to continuing liabilities totalling £3.3m in 2022/23.

Month three monitoring forecast

3.4 On 12 August 2021, members of the Committee considered the first in-year Council-wide revenue monitoring forecast for 2021/22, based on analysis of the first three months' financial data. While a balanced overall position was projected, it was noted that there remained significant uncertainty around the on-going impacts of the pandemic on the Council and its ALEOs and, more immediately, from the level of the employee pay award for 2021/22.

3.5 A further interim update was then presented to members of the Committee on 7 October, continuing to point to a balanced overall position for the year, albeit still subject to the risks noted above.

4. Main report

COVID-related impacts

4.1 Following the decision of Council on 27 May, the revised 2021/22 budget makes provision for £39m of continuing COVID-related impacts as shown in the table below.

Area of expenditure pressure/income loss	£m
Reductions in parking income	8.0
Reductions in commercial rental income	5.0
Lothian Buses - loss of dividend	6.0
Arm's-Length External Organisations (ALEOs) - support for Edinburgh Leisure	6.0
ALEOs – other	1.0
Personal Protective Equipment	1.0
Homelessness	5.0
Other income/expenditure[1]	7.0
Total funding for COVID impacts	**39.0**

4.2 In the case of homelessness services, the £5m shown above is supplemented by a further additional £5m contained within the framework baseline. In approving the

[1] Other income/expenditure represents sums set aside in recognition of various anticipated continuing instances of increased expenditure, or reductions in income, linked to the pandemic. These provisions include additional staffing costs in waste and cleansing and for the processing of support payments for both individuals and businesses, as well as assumed reductions in income for the Council's outdoor centres, cultural venues and community access to schools.

£21m of additional investment on 27 May 2021, a further £2m was then added to this sum, meaning that in total, the 2021/22 budget reflects an increase of £12m on the budgeted level of provision in this area in 2020/21.

4.3 While no further unallocated COVID-related funding has been received in 2021/22, this total COVID-related provision of £39m approved in May continues to be assessed as sufficient at this time. Although parking income has levelled off in recent weeks, it is currently forecast to be contained well within the indicative loss above. While levels of outstanding debt continue to be tracked on a monthly basis, loss of commercial rental income is similarly expected to be maintained within the approved level of provision, with further details contained in a report elsewhere on today's agenda.

4.4 Should the actual level of required in-year COVID-related provision be less than the £39m assumed above, given the significant subsequent decreases in equivalent provision to £25.3m, £11m and £3m respectively over the next three years of the framework, it is proposed that any unallocated funds in 2021/22 be used to supplement these provisions rather than facilitate additional expenditure or address subsequent years' savings gaps.

Support for ALEOs

4.5 **Lothian Buses** has already advised the Council that it will not be in a position to pay any dividend in the current financial year. While passenger numbers have been steadily increasing and are currently at around 60% of pre-COVID levels, Transport Scotland has confirmed that transport operator funding to address the additional net costs of operating safely at a time of reduced demand will continue to be provided to bus operators until at least the end of March 2022, with a similar arrangement also confirmed for **Edinburgh Trams (ET)**. At this stage, therefore, no net call on Council funding is being assumed in either case.

4.6 Projections beyond the current year for both organisations are inherently more uncertain and dependent, amongst other factors, upon timescales for (and the extent of) workplace and further and higher education facility re-opening, tourism levels (including use of Edinburgh Airport), customer confidence and any continuation of external funding support. The position for ET is further complicated by the knock-on impacts of both the introduction of free bus travel for those under the age of 22 from 31 January 2022 and planned construction works in York Place in advance of the opening of the extension to Newhaven in Spring 2023.

4.7 Additional in-year support of some £0.250m for the **Transport for Edinburgh** parent company is also assumed within the overall Place Directorate outturn detailed in Paragraph 4.18.

4.8 Based on current demand patterns, it is expected that the required level of support for **Edinburgh Leisure** will be contained within the £6m set aside for this purpose. The precise level of support required, however, is dependent upon a range of factors including timescales for facility opening/re-opening (whether due to

construction delays or public health requirements) and wider patronage during the remainder of the year. As of October, overall fitness membership income remained some 30% below pre-COVID levels.

4.9 The timescales for relaxation of current restrictions and regaining of customer confidence will also be crucial for the **Edinburgh International Conference Centre** and **Capital Theatres** going forward**.**

4.10 Each ALEO has provided a submission to inform a wider scenario planning exercise based on optimistic, neutral and pessimistic assumptions for both the current and following financial year. Representatives of each of the Council's ALEOs will also attend the meeting to outline in further detail their respective financial positions and prospects and to respond to any specific questions members of the Committee may have.

Directorate projections

4.11 In addition to monitoring the on-going impacts of the pandemic, Executive Directors continue to oversee the delivery of approved savings and management of pressures within their respective areas of responsibility. The approved budget framework for 2021/22 reflects £12m of additional baselined investment in recognition of underlying service pressures, as well as applying a higher required level of assurance for savings to be included within it. While these measures have provided a degree of contingency against the emergence of significant in-year pressures within services, it remains the role of Executive Directors to manage these fully when they do arise and to maintain expenditure within budgeted levels.

Corporate Services

4.12 As set out in further detail in a report elsewhere on today's agenda, the Executive Director of Corporate Services continues to project a balanced overall position for the services within his area of responsibility. Financial controls applied during 2020/21, including control of recruitment to all non-essential vacant posts and agency worker use, will continue to be applied during the current year. Controls will also be applied to discretionary expenditure where no legal or contractual commitment exists, to mitigate potential budget pressures.

4.13 As approved by members of the Committee on 18 November, the Directorate forecast reflects up to £0.350m of additional expenditure linked to increasing internal audit capacity during the remainder of the year. This sum is assumed to be offset, in full, by savings elsewhere in the Directorate, such that a balanced overall position is forecast.

Education and Children's Services

4.14 The Executive Director of Education and Children's Services is projecting a balanced overall monitoring position as of month six. Forecast pressures within the service, including those in respect of out-of-council residential and secure accommodation and Devolved School Management (DSM) budgets, are currently

projected to be fully offset through savings elsewhere within the budget and the receipt of additional Scottish Government funding. While elements of the approved savings relating to home to school transport, the libraries strategic review, efficiency and management savings and fees and charges are also assessed as at risk of not being delivered at this time, these are being contained within the overall balanced position.

Temporary Accommodation

4.15 Given on-going structural changes resulting in the relocation of a number of services to an expanded Place Directorate, the balanced overall position above does not include continuing additional demand within homelessness services with, at this stage, a residual pressure of £2.8m forecast. This sum represents a significant increase from the £1.2m reported at month three, in turn attributable to a continuing rise in the number of households in temporary accommodation, with the projection based on an assumption that the current level of increase will continue for the remainder of the year.

4.16 By means of illustration, the overall number of households accommodated increased by some 27% between March 2020 and September 2021, with an almost 50% increase in the use of more expensive bed and breakfast and shared accommodation due to limitations in supply. This growth reflects, to a significant extent, a nearly six-fold increase in the number of European Economic Area nationals and those with no recourse to public funds (NRPF) requiring to be accommodated to support wider public health objectives during the pandemic. Research undertaken by COSLA has shown this to be a specific Edinburgh phenomenon and officers are therefore working with colleagues in COSLA and the Scottish Government to explore potential funding opportunities to address at least some of the pressure concerned.

4.17 The full-year effect of this continued growth would result in the service starting 2022/23 with a pressure of approximately £7m relative to the £10m currently assumed in the budget framework and a corresponding increase in the proposed level of provision in this area is therefore discussed further later in this report.

Place

4.18 The Executive Director of Place is highlighting core budget pressures currently without mitigation totalling £0.443m, representing an improvement of some £1.149m relative to the position reported at month three, along with a number of other risks where corresponding mitigating actions are being developed.

4.19 This improvement is primarily attributable to Sunday parking income of £0.558m (previously netted off against COVID-related parking income shortfalls but now presented separately) and net favourable movements within Waste and Cleansing totalling £0.831m. Key factors contributing to the latter include signs of reduction in waste tonnages and savings resulting from new haulage and recycling contracts.

4.20 The Executive Director and his Senior Management Team will continue to consider regular updates and develop corresponding actions with a view to bringing net expenditure back within approved levels by the end of the year.

Corporate budgets

4.21 The month four report to the Committee's previous meeting highlighted a number of variances at Council-wide or corporate level. While detailed analysis is continuing, in particular, around the loans charge forecast, at this stage these sums remain largely unchanged from those noted at that time and are summarised below.

	£m
Favourable variances	
Loans charges	(6.000)
Other non-service specific costs[2] (including inflationary uplift provisions)	(2.748)
Non-domestic rates poundage uplift not required	(0.505)
Unfavourable variances	
Senior Management Review/VERA savings – shortfall in delivery	1.995
Council Tax Reduction Scheme – additional demand	0.895
Discretionary rates relief	0.220
Net favourable variance	**(6.143)**

2021/22 Local Government employees national pay negotiations

4.22 The baseline level of provision for staff pay awards contained within the approved budget equates to an average of 2% across all staff groups. As of the time of writing of the last report, the then current employer's offer would have resulted in an additional, recurring cost pressure of £1.6m and this sum was included within the balanced overall position shown.

4.23 On 29 October, following a period of negotiations between COSLA and the Local Government trade unions, COSLA made a revised pay offer to the Scottish Joint Council (SJC; non-teaching trade unions). This offer comprises the following elements:

(i) an increase in the Scottish Local Government Living Wage rate to £9.78 per hour;

(ii) an £850 increase in salary for those earning under £25,000, based on a thirty-seven hour working week (this equates to a 3.36% to 4.72% pay increase, depending on starting salary);

[2] Previous months' forecasts have netted off the pressure in respect of the potential pay award for 2021/22 against the Council's inflationary uplift provisions. Given the evolving status of pay award discussions, the estimated net cost of settlement, based on the current position, is summarised in the following section.

(iii) a 2% increase for those earning between £25,000 and £40,000;

(iv) a 1% increase for those earning between £40,000 and £80,000; and

(v) an £800 flat-rate increase in salary for those earning over £80,000 annually.

4.24 In addition, staff will receive a one-off payment backdating the award to 1 January 2021, increasing the value of payments (ii) to (v) by a quarter. Following consultation with their respective memberships, all three SJC unions have now voted to accept this revised offer.

4.25 The estimated additional Scotland-wide cost of this backdated element is £48.5m. The Scottish Government has agreed to make available an additional £30m to support a settlement, with the remaining £18.5m cost being met directly by Scotland's councils. Following agreement of the distribution basis at the COSLA Leaders' meeting on 26 November, the Council's anticipated share of the £30m of Scottish Government funding is £2.38m.

4.26 The back-dating of the employer's offer, net of the Scottish Government funding contribution, results in a net additional cost to the Council estimated at £1.3m. When added to the £1.6m pressure resulting from the previous offer, this results in an overall additional cost relative to budgetary assumptions of £2.9m.

4.27 A separate offer has been made to the representative teaching unions, being a 1.22% year-on-year increase across all spinal column points, along with three months' backdating per the SJC offer. On 12 November, it was confirmed that this offer had been unanimously rejected by the EIS Salaries Committee and teachers' representatives. As of the time of writing, next steps were being considered.

4.28 The net additional cost of £1.3m at Paragraph 4.26 above is based on the revised employer's offer to both non-teaching and teaching staff. Given the rejection of the teachers' offer, however, there is the potential for further cost pressures on the Council to achieve settlement.

Overall position

4.29 Taken together, the favourable corporate variances above offset in full the pressures highlighted within the Place Directorate and Temporary Accommodation and in respect of the non-teaching pay award for 2021/22, allowing a balanced position to continue to be forecast as summarised in Appendix 1.

4.30 There remains, however, uncertainty around the on-going impacts of the pandemic on the Council and its ALEOs and, more immediately, the level of the teachers' pay award for 2021/22. It therefore remains crucial that Executive Directors and the Chief Officer of the Edinburgh Health and Social Care Partnership fully manage pressures, risks and savings delivery shortfalls within their respective core budgets if the greater stability of the framework approved by members on 27 May is not to be compromised.

Approved investments in priorities, pressures and savings shortfalls mitigations

4.31 In setting the Council's 2021/22 revenue budget on 18 February 2021, members approved some £14.2m of additional investment aligned to wider Business Plan priorities. Following the receipt of significant additional COVID-related funding after the budget was set, this was supplemented on 27 May 2021 by a further £21m of investment in member priorities and sums to address service pressures and projected in-year savings shortfalls.

4.32 At this stage, there is relatively little change since the position reported to the Committee on 12 August and a detailed update will therefore be provided as part of the month eight report on 3 February 2022. Any in-year underspends against these investments will not automatically be carried forward into 2022/23 and thus can be considered in the context of addressing future years' savings requirements.

Delivery of approved savings

4.33 Progress against the delivery of approved savings is summarised in Appendix 2. At this stage, some 90% of savings by value are assessed as green or amber, indicating that delivery is anticipated, albeit in some cases subject to the taking of further actions and/or management of risks. Anticipated shortfalls in respect of red-assessed savings are reflected within the relevant projections outlined above.

Confirmation of 2020/21 outturn

4.34 Following the conclusion of the 2020/21 audit process, an in-year underspend of £7.918m has been confirmed. Of this sum, £7m was allocated by members on 27 May 2021 and a further £0.022m earmarked for potential costs of the ReDrawing Edinburgh project on 26 August. Of the remaining sum of £0.896m, £0.148m represents unrealised gains resulting from compliance with accounting standards but not available for spending on frontline services, leaving £0.748m available for members' determination.

4.35 Members have previously allocated up to £1m of funding to meet the associated costs of the independent inquiries into matters connected to the death of a Council employee and the Council's whistleblowing arrangements and organisational culture. Following the meeting of Council on 25 November, a further £0.4m from the £0.748m has now been set aside to allow both inquiries to be completed.

4.36 There are also likely to be significant financial impacts flowing from the recommendations of the inquiry reports. These have yet to be fully assessed and an update will be provided when the Chief Executive reports back to Council. It is proposed, however, that the remaining £0.348m be provisionally earmarked for this purpose.

Edinburgh Integration Joint Board (EIJB)

4.37 In March 2021, the EIJB agreed the 2021/22 financial plan and associated savings and recovery programme. Recognising that the additional measures which would be required to balance the plan would have a significant negative impact on performance gains and, ultimately, on outcomes for people, the board made the difficult decision to support a budget which did not deliver financial balance. At this point, the plan had a deficit of £9.3m and the EIJB Chief Officer and EIJB Chief Finance Officer were supported to continue tripartite efforts with colleagues in the Council and NHS Lothian to bridge this shortfall.

4.38 As part of the additional service investment approved by Council on 27 May, members then allocated £2.5m of further support to the EIJB, reducing the financial gap to £6.8m. In addition to this underlying remaining funding gap, while progress continues to be made in developing associated implementation plans, it is being assumed that the majority of the purchasing-related savings of £11.2m implicit within the delegated budget will not be delivered.

4.39 As of the time of writing, tripartite discussions with the partners are continuing to address the residual gap. In 2020/21, COVID-related costs were met in full by the Scottish Government via the local mobilisation planning (LMP) process, with funding released at various points during the year. Given that pandemic-related costs will span financial years, elements of funding received last year were held in reserves by integration authorities and carried forward into 2021/22.

4.40 For this financial year, the Scottish Government will release additional funds when these reserves, which for Edinburgh total £11.6m, are exhausted. Quarter 1 LMP returns were submitted to the Scottish Government at the end of July and funding allocations for integration authorities are currently being assessed, taking into account amounts carried forward in reserves. Scottish Government officials have reiterated that any specific areas where funding pressures are impacting on service delivery should be flagged at the earliest opportunity for consequent consideration of financial support.

4.41 The Scottish Government's approach to supporting financial balance considers the 'core' and 'COVID' positions separately. While officials continue to provide assurance that sufficient funding will be available to meet COVID-associated costs in full, unachieved savings are currently being classed as core overspends and funding is therefore not confirmed at this point. As this is a national issue, however, Health Boards and Integration Authorities are optimistic that a treatment consistent with 2020/21, when slippage on delivery was recognised in the LMPs, will be agreed.

Capital accounting review and availability of financial flexibilities

4.42 As of the time of writing, the review of capital accounting remains on-going. A workshop with the Scottish Government was held in early November, highlighting the importance of retaining existing statutory mitigation and exploring how changes

could support essential capital investment and play a key role in supporting post-COVID recovery. Following conclusion of the review, it is hoped that a decision on any additional service concession-related flexibilities beyond those currently being offered will be made promptly.

4.43 While formal confirmation is awaited and may be subject to agreement by the UK Treasury, it is understood that the Scottish Government may also extend the availability of the existing capital receipt- and loans fund-related flexibilities for a further year, meaning that any decisions on their use could be deferred until 31 March 2023.

UK Government Budget

4.44 The UK Government announced a multi-year 2021 Spending Review and Autumn Budget on 27 October, including planning totals for UK Departments and the devolved administrations for both revenue and capital expenditure for the period from 2022/23 to 2024/25 inclusive. The Office for Budgetary Responsibility (OBR) forecasts a more optimistic overall picture than previously anticipated, with the UK economy returning to pre-pandemic levels by the start of 2022 and the unemployment peak also reduced.

4.45 The Chancellor announced headline real-terms increases for all Departmental budgets (including devolved administrations) over the three-year period, albeit these were largely front-loaded, with slight real-terms reductions in 2023/24 and 2024/25. It should also be noted that COVID-related funding is included within these figures and, as such, there will be no separate allocations as in 2021/22.

4.46 Inflation is expected to continue to increase significantly, peaking at 4.4% (or higher) in early 2022, giving rise to additional pressures on inflation-based contracts, energy costs and pay settlements and potential increases in interest rates which could feed through to reductions in public spending.

4.47 Analysis of the impacts of the Chancellor's announcement is continuing. While the headline increase in the Scottish block grant in 2022/23 is around 10%, it is understood that fiscal framework adjustments, existing Scottish Government commitments and the likely allocation of significant favourable Barnett consequentials to Health may significantly reduce, or remove, the increase in the overall level of grant for Local Government. At this stage, it has also not been confirmed whether the Scottish Government will pass on to councils around £70m of Barnett consequentials in respect of employer's National Insurance contribution increases effective from April 2022 understood to form part of the headline increase above.

4.48 The Scottish Budget will be introduced on 9 December 2021. Although the announcement will only cover one year, this will be accompanied by the publication of the Scottish Government's Medium-Term Financial Strategy which will provide relevant context and frame its strategic approach to fiscal policy. The Local Government Finance Settlement, also covering one year, will then be

announced on 20 December. The Scottish Government has provisionally indicated that revenue and capital allocations for 2023/24 and 2024/25 will be announced in May 2022, although the attendant level of detail is not yet clear.

Review of budget framework assumptions

4.49 The budget framework progress update report to the Finance and Resources Committee on 7 October presented the results of the review of the Council's revenue budget planning assumptions over the five-year period from 2022/23 to 2026/27. As noted at that time, these assumptions are regularly reviewed and a small number of further proposed changes are outlined in the table below and the following sections.

	2022/23	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000	£000
Restated funding gap as reported to Finance and Resources Committee on 7 October 2021	8,237	54,513	71,295	98,587	126,350
Subsequent changes and impact on gap:					
Revision to **pay award provision**, 2022/23 (increasing from 2% to 3%)	6,055	6,237	6,424	6,616	6,815
Revision to **grant funding assumption**, 2022/23 (increased from -0.7% to essentially "flat cash")	(6,055)	(6,055)	(6,055)	(6,055)	(6,055)
Homelessness - further provision for continuing service pressure (overall provision now £15m/£12m/£12m/£12m/£12m)	5,000	5,000	5,000	5,000	5,000
Indicative provision for staff-related costs arising from additional public holiday for **Queen's Platinum Jubilee**	500	0	0	0	0
Assumed continuing loss of **Lothian Buses dividend**	0	0	6,000	6,000	6,000
Savings in **corporate budgets/release of risk contingency** in 2022/23 to offset additional homelessness provision above	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Updated estimated funding gap	**8,737**	**54,695**	**77,664**	**105,148**	**133,110**

Pay award, 2022/23

4.50 Earlier sections of the report outlined the difficult pay award negotiations for 2021/22. In view of both the level of increase required to achieve settlement in 2021/22 and inflationary forecasts for 2022/23, it is considered prudent to revise the overall level of provision in this area from 2% to an average of 3% across all staff

groups, increasing the 2022/23 gap by £6.055m, with compounded increases thereafter.

Grant funding, 2022/23

4.51 With the caveats noted in Paragraph 4.47, most commentators consider the front-loaded nature of the block grant allocation to offer the potential for a comparatively better level of settlement for Local Government in 2022/23 relative to the budget framework's current assumptions. This allocation may additionally or alternatively include offsetting funding to acknowledge the impact of increases in employer's National Insurance contributions, for which £5.9m is currently included within the Council's funding gap. It is therefore considered appropriate to revise the grant funding forecast for 2022/23 back to one of essentially "flat cash", fully offsetting the effect of the increase in pay award provision noted above.

Homelessness

4.52 As noted earlier in the report, household numbers in temporary accommodation have been increasing steadily since March 2020. While there is an expectation that the preventative measures implemented in 2021/22 will slow this rate of increase, even if overall numbers remain at current levels, a full-year pressure of £5m in excess of the current budget framework of £10m is anticipated, with this pressure increasing to more than £7m if the current rising trend continues.

4.53 On this basis, it is proposed that the existing level of provision be increased by £5m (to £15m in total) and maintained at that level for the duration of the budget framework. Officers will also seek to intensify current efforts to make the case for the provision of additional funding given Edinburgh's pivotal role in supporting wider public health objectives in this area.

Corporate budgets

4.54 A review of corporate budgets has identified an opportunity, through a combination of (i) actual and anticipated capital programme slippage and the consequent savings in loans charges and delaying of the associated additional running cost requirement linked to this new investment and (ii) release of a risk contingency, to provide up to £5m annually across the five-year period of the framework to offset the additional required investment in homelessness services above.

Queen's Platinum Jubilee

4.55 At the meeting of Council on 23 September 2021, members agreed to the granting of an additional fixed day's leave for all employees on 3 June 2022 to mark Her Majesty the Queen's Platinum Jubilee. While the sums concerned remain to be confirmed, this will give rise to enhanced payments and other costs for employees and services still requiring to operate on this date. An indicative, one-off provision of £0.500m has therefore been included in 2022/23.

Lothian Buses dividend

4.56 The budget framework currently assumes loss of the Lothian Buses dividend for the period to 2023/24. In view of on-going uncertainty as to the level of future patronage given changes, in particular, in working patterns, it is now considered prudent to remove this assumed income from the full five-year period of the framework.

Overall impact of above changes

4.57 The net impact of the above-mentioned changes is broadly neutral in the first two years of the framework, resulting in revised gaps of £8.737m and £54.695m in 2022/23 and 2023/24 respectively. Due to the assumed continuing loss of the Lothian Buses dividend, later years' gaps have increased by between £6m and £7m, with the restated estimated five-year gap now some £133m.

4.58 All of these assumptions will be reviewed in light of the Scottish Budget announcement on 9 December and, in particular, confirmation of the Local Government Finance Settlement on 20 December.

Lauriston Castle Charitable Trust

4.59 At the Special Meeting of the Finance and Resources Committee on 18 November, clarification was sought on reporting timescales for the review of the Council's governance arrangements of its charitable trusts, including the Lauriston Castle Charitable Trust.

4.60 A report under the B agenda was presented to the Finance and Resources Committee in August 2021 and a further report will be presented to Council on 10 February to set out proposals in this regard, including the appointment of individual councillors as trustees. The arrangement between the Trust and the Council will also be formalised in a Service Level Agreement, which will clarify what resources are allocated to the Trust.

5. Next Steps

5.1 The cost and income impacts of the coronavirus pandemic will continue to be actively tracked and refined as additional clarity is received on the timing and nature of the easing of current restrictions.

5.2 Executive Directors require to bring forward measures to offset in full the savings delivery shortfalls and residual service pressures within their respective areas of responsibility. While the report notes an overall reduction in the level of these pressures, the development of corresponding sustainable actions is required both to reduce any in-year call on the Council's earmarked reserves and enhance the sustainability of the budget framework.

5.3 The estimates and assumptions underpinning future years' funding gaps will be reviewed upon publication of the Scottish Budget on 9 December and thereafter the announcement of the Local Government Finance Settlement on 20 December.

6. Financial impact

6.1 The report notes a range of significant expenditure pressures, both in respect of Council services and impacts on the activities of the Council's ALEOs. While a balanced in-year position is currently being forecast, the financial impacts of the pandemic are expected to continue at least into the medium term and will, alongside management of risks and pressures, thus be subject to on-going review as part of maintaining the integrity of the revised budget framework approved by Council on 27 May.

6.2 While the balanced current-year position is welcomed, it is important not to lose sight of the more fundamental need to bring forward a comprehensive and sustainable savings plan, rooted in the Council's priorities, to address significant projected funding gaps from 2023/24 onwards.

7. Stakeholder/Community Impact

7.1 A detailed report summarising the response to the Council's recent engagement on budget priorities for 2021/22 and beyond, including relevant supporting material from other engagement activity on priorities and life experiences during the COVID-19 pandemic, was considered by the Finance and Resources Committee on 2 February and referred on to Council as part of the 2021/22 budget-setting meeting.

8. Background reading/external references

8.1 Finance Update, Edinburgh Integration Joint Board, 26 October 2021

8.2 Revenue Budget Update 2021/26 – progress update, Finance and Resources Committee, 7 October 2021

8.3 Revenue Monitoring 2021/22 – Month Three Position, Finance and Resources Committee, 12 August 2021

8.4 Revenue Budget Framework 2021/26 Update – referral from the Finance and Resources Committee, The City of Edinburgh Council, 27 May 2021

8.5 Revenue Budget 2020/21 and 2021/26 Budget Framework Update, Finance and Resources Committee, 4 March 2021

8.6 Coalition Budget Motion, The City of Edinburgh Council, 18 February 2021

9. Appendices

9.1 Appendix 1 – 2021/22 Revenue Budget – Projected Expenditure Analysis

9.2 Appendix 2 – Approved savings and required pressures mitigations, 2021/22 – current status

2021/22 Revenue Budget - Projected Expenditure Analysis - Period 6

Appendix 1

	Revised Budget	Period Budget	Period Actual	Period Variance	Projected Outturn	Outturn Variance	Percentage Variance
Directorate / Division	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	
Corporate Services (including Chief Executive's Office)	78,899	44,165	41,572	(2,593)	78,899	0	0.0
Education and Children's Services	425,552	188,162	185,051	(3,111)	425,552	0	0.0
Health and Social Care	238,758	119,907	129,438	9,531	238,758	0	0.0
Place	167,068	38,753	41,080	2,327	167,511	443	0.3
Homelessness Services	44,552	30,276	32,286	2,010	47,352	2,800	6.3
Lothian Valuation Joint Board	3,833	1,917	1,917	0	3,833	0	0.0
Directorate / Division total	**958,662**	**423,180**	**431,344**	**8,164**	**961,905**	**3,243**	**0.3**
Non-service specific areas							
Loan Charges	83,903				77,903	(6,000)	(7.2)
Other non-service specific costs less sums to be disaggregated:	35,288				32,540	(2,748)	(7.8)
- Apprenticeship Levy	2,075	1,038	1,031	(7)	2,075	0	0.0
- Non-Domestic Rates (poundage uplift)	505				0	(505)	n/a
- Energy	694				694	0	0.0
- Discretionary Rates	500				720	220	44.0
Covid Investment	23,975	n/a	n/a	n/a	23,975	0	0.0
Tram Shares	8,500	0	0	0	8,500	0	0.0
Council Tax Reduction Scheme	26,605	n/a	n/a	n/a	27,500	895	3.4
Staff early release costs	2,500	n/a	n/a	n/a	2,500	0	0.0
Senior Management Review/VERA savings	(2,940)	n/a	n/a	n/a	(945)	1,995	(67.9)
Pay award - additional costs	0	n/a	n/a	n/a	2,900	2,900	n/a
Net Cost of Benefits	(127)	n/a	n/a	n/a	(127)	0	0.0
Interest and investment income	(401)	0	0	0	(401)	0	0.0
Non-service specific areas total	**181,077**	**1,038**	**1,031**	**(7)**	**177,834**	**(3,243)**	**(1.8)**
Movements in reserves							
Net contribution to / (from) earmarked funds	(31,966)	0	0	0	(31,966)	0	0.0
Movements in reserves total	**(31,966)**	**0**	**0**	**0**	**(31,966)**	**0**	**0.0**
Sources of funding							
General Revenue Funding	(607,637)	(303,819)	(303,819)	0	(607,637)	0	0.0
Non-Domestic Rates	(188,796)	(94,398)	(94,398)	0	(188,796)	0	0.0
Council Tax	(311,340)	(155,670)	(155,670)	0	(311,340)	0	0.0
Sources of funding total	**(1,107,773)**	**(553,887)**	**(553,887)**	**0**	**(1,107,773)**	**0**	**0.0**
In-year (surplus) / deficit	**0**	**(129,670)**	**(121,512)**	**8,158**	**0**	**0**	**0.0**

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

Education and Children's Services	Current savings assessment				Notes
Saving	Green	Amber	Red	Black	
	£m	£m	£m	£m	
Early Years (restructure of staffing)	0.300				Vacancies in place
Edinburgh Leisure Service Payment	0.380				Inflationary increase withheld
Police Funded Officers	0.478				Notice given
Instrumental Music Service	0.150				Vacancies in place but potential risk to service delivery. Additional funding has been provided as part of Scottish Government's first 100 days commitment for ending charges for music tuition in schools and will be used to address non-delivery of saving.
Quality Improvement Officers	0.120				Vacancies in place but potential risk to service delivery
Strategic Service Reviews: Libraries and Adult Learning			0.250		Consultation was due to start in June 2021, but this has been paused pending completion of other senior management/tier 3 reviews. Implementation would have had to be fully in place by 1st January to deliver the required saving in 2021/22 budget and so will not now be delivered as scheduled.
Library Opening Hours			0.050		Consultation was due to start in June 2021, but this has been paused pending completion of other senior management/tier 3 reviews. Implementation would have had to be fully in place by 1st January to deliver the required saving in 2021/22 budget and so will not now be delivered as scheduled.
School Efficiencies (DSM)	0.600				Full-year effect of 2020/21 savings
Mainstream DSM	0.300				Saving expected to be delivered
Transport Review	0.600		0.300		Logistic and Travel Hub in initiation phase to look at mitigations. £0.6m Council mitigating funding allocation for 2021/22 approved by Council on 27 May 2021.
Efficiencies - Mgt Savings	0.081		0.277		Green element based on Grade 9+ VERAs approved by CLT. Balance will be delivered through the C&F/Place review if this is re-started.
Night Noise Team	0.100				Saving has been delivered in full from deleting vacant posts.
Fees and Charges average 5% uplift	0.086	0.085	0.085		£86K provided from non-income budgets so green. Balance currently assumed 50/50 due to COVID impact and will be reviewed as greater clarity on community access to schools and adult education is achieved.
TOTAL	**3.195**	**0.085**	**0.962**	**0.000**	

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

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

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

Corporate (including budget assumptions)	Current savings assessment				Notes
Saving	Green	Amber	Red	Black	
	£m	£m	£m	£m	
Borrowing Costs	10.000				Full delivery is anticipated, with additional in-year savings contributing to a balanced overall position for the year.
Procurement	0.100				Will be delivered in full through reductions in gainshare payable
Council Tax	5.500				While full delivery is anticipated, the position will be kept under review in light of changes in the Council Tax base, the in-year collection rate and required level of bad debt provision in 2020/21.
Past service pension costs - incremental reductions in liability	0.500				Will be delivered in full based on current year's projection and continuing timing-based reductions in sums payable
TOTAL	**16.100**	**0.000**	**0.000**	**0.000**	

Total	24.768	3.362	2.957	0.000