Finance and Resources Committee

10.00am, Thursday, 16 June 2022

Revenue Budget 2022/27 Framework: progress update

Executive/routine
Wards
Council Commitments

1. Recommendations

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

1.1.1 note the contents of the report and, in particular, the continuing urgent need to identify savings options to address significant projected funding gaps from 2023/24; and

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

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Report

Revenue Budget 2022/27 Framework: progress update

2. Executive Summary

2.1 The report updates members on the overall budget position for 2022/23, including the provisional outturn for 2021/22, before setting out the main implications for the Council's medium-term financial planning framework of the publication of the Scottish Government's Resource Spending Review on 31 May.

2.2 The report also provides an overview of the process and progress in delivering savings options to address future years' financial gaps.

3. Background

3.1 On 24 February 2022, Council approved a balanced revenue budget for 2022/23 based on the Council's provisional grant funding allocation and a 3% increase in Council Tax rates. Following approval of the Local Government Finance Order for 2022/23 on 2 March, this grant funding allocation has now been confirmed.

3.2 A subsequent report to the Finance and Resources Committee on 3 March highlighted to members the main aspects of the approved budget, including:

(i) £9.86m of **additional one-off service investments** (shown in Appendix 1), progress in the delivery of which, alongside the associated outcomes, will be reported to the Committee during the year;

(ii) **additional sums to support local economic recovery and address the cost of living impacts on low-income households**, with the majority of Edinburgh's £6.4m share of £80m of Scotland-wide funding being used to support the most vulnerable households by committing to provide a cash grant of £150 to each of the 33,000 low-income households across the city and £100 for every child within a low-income household, determined with reference to free school meal eligibility;

(iii) **£25.3m of provisions in respect of the on-going financial impacts of the pandemic**, including sums provided to recognise continuing homelessness pressures, loss of the Lothian Buses dividend, support to the Council's

ALEOs (Arm's-Length External Organisations) and reduced parking and commercial rental income; and

(iv) £19.2m of **newly-approved savings**, primarily in corporate budgets. While the majority of these savings are anticipated to be realised in full, there will nonetheless be a need for Executive Directors to take appropriate remedial action during the year to manage known and emerging risks and pressures within their respective areas of responsibility.

3.3 While the Council has approved a balanced budget for 2022/23, significant financial challenges remain going forward. Current projections indicate a need to deliver at least £63m of recurring savings in 2023/24, increasing to £144m over the period to 2026/27.

3.4 Since the approval of the budget, the wider environment within which the Council operates has also been subject to significant change. The UK is facing rates of inflation not seen for many decades, fuelled by supply chain shortages exacerbated by international events, alongside the challenges of recovering from the COVID-19 pandemic.

3.5 This report's purpose is therefore threefold:

(i) to update members on the overall budget position for 2022/23, including the provisional outturn for 2021/22;

(ii) to advise of the main implications for the Council's medium-term financial planning arising from publication of the Scottish Government's Resource Spending Review on 30 May; and

(iii) to provide an overview of the process and progress in delivering savings options to address future years' financial gaps.

4. Main report

Projected outturn, 2021/22

4.1 As part of setting 2022/23's budget on 24 February, members assumed the availability of an overall underspend for 2021/22 of at least £2.628m, this being consistent with the latest in-year monitoring forecast considered by the Finance and Resources Committee.

4.2 It is anticipated that the Council's unaudited accounts for 2021/22 will be presented to the meeting of Council on 30 June. While additional details will be provided at that time, the provisional outturn for 2021/22 shows an overall underspend of some £3.9m, thus addressing the immediate assumed funding requirement noted above. In addition, the actual level of drawdown from reserves required to offset pandemic-related impacts was lower than the budgeted level of provision, providing an additional contingency against subsequent years' impacts.

4.3 Given the range of pressures outlined in subsequent sections of this report, it is recommended that any remaining sum over and above that required to address this immediate requirement be set aside as a contingency against other risks or expenditure commitments within the framework for 2022/23 or subsequent years.

Inflationary pressures

4.4 As has been extensively documented, current and projected rates of inflation are at levels not witnessed since the 1980s.

4.5 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.

4.6 While in some instances the contract uplift to which the Council is exposed is capped, in a number of other cases, such as the PPP1 and PPP2 schools contracts, the applicable uplift is calculated with reference to current (high) inflation rates or, in the case of energy, influenced by extraordinary global pressures.

4.7 The like-for-like contract price for gas is expected to increase by more than 150% in 2022/23, with electricity tariffs also increasing by some 26% and a risk that these may rise further from October 2022. Longer-term projections are inherently more speculative but current expectations are for electricity prices to increase further in 2023/24. These increases give rise to an estimated pressure of £9m in 2022/23, with the risk of a further £5m (i.e. cumulative £14m) budgetary shortfall in 2023/24.

4.8 Many other areas of the Council's expenditure are also affected by exceptional inflationary pressures. Requests for significant uplifts to contract rates have been received in respect of food and catering, fuel and home-to-school transport, as well as children's services and homelessness services, the last-mentioned reflecting pass-throughs of cost pressures including, but not restricted to, energy. While by no means exhaustive, requests across these areas alone have given rise to a £4m annual, and likely recurring, pressure.

4.9 These pressures are also anticipated to result in continuing increases in demand for a number of Council services. Inflation for the poorest households has been assessed to run at 4% above the overall average, with the result that the real-terms value of benefits is eroded, exacerbating existing health and other inequalities. Increasing debt levels may also result in a heightened risk of homelessness.

Teachers' pay award, 2021/22

4.10 The 2021/22 pay award for most non-teaching (Scottish Joint Council - SJC) staff was agreed in November 2021 and paid as part of December 2021's salary. As of the time of the Committee's last meeting on 3 March, however, negotiations in respect of the teachers' (Scottish Negotiating Committee for Teachers - SNCT) award remained in progress.

4.11 Following their meeting on 25 February 2022, COSLA Leaders agreed a revised offer comprising a 1.22% increase effective from April 2021 and a further 1% increase payable from January 2022 for most teaching staff, along with a £100 non-consolidated one-off payment. Members of the Education Institute of Scotland (EIS), Scotland's largest teaching union, voted, by a margin of 80% to 20%, to accept this offer for 2021/22 while re-emphasising their 10% claim for 2022/23, leading to recommended acceptance of the revised offer by the SNCT. Backdated sums due were paid as part of May's salary.

4.12 Due to the tripartite nature of negotiations, the Scottish Government has agreed to meet on a recurring basis the additional sums over and above the wider Scottish Public Sector Pay Policy (SPSPP) that were necessary to secure settlement.

Pay claims, 2022/23

4.13 Pay claims for the main bargaining groups have now been lodged. The SJC claim is for a £3,000 flat-rate increase to all spinal column points (equivalent to an overall Scotland-wide average increase of 11.6%), underpinned by a minimum hourly rate of pay of £12. The SNCT claim is for a 10% uplift across all spinal points. The Chief Officer claim seeks an agreement that is no better and no worse than the other bargaining groups.

4.14 In March, COSLA Leaders (as employer) agreed to make an undifferentiated offer of a 2% uplift to all bargaining groups on the basis of parity for all which has been both a key concern and agreed position in recent years.

4.15 The SJC Trade Unions have conducted consultative ballots, all of which have returned substantial votes in favour of moving to an industrial action ballot if no significantly improved offer is made. The GMB's ballot on industrial action will run from 6 June until 26 July, with Unite conducting a similar ballot closing on that day.

4.16 The budget framework makes provision for an average increase of 3% across all staffing groups in each of the next five years. While this is at the higher end of assumptions made by councils in Scotland, the claims received would clearly exceed this sum by a considerable margin and thus their underlying unaffordability, without the provision of significant additional funding, remains.

4.17 Given resource availability and wider pressures, through gradually returning public sector staffing levels to pre-pandemic levels by 2026/27, the Scottish Government's Resource Spending Review (RSR) signals an intention to maintain overall public sector pay bills at 2022/23 levels.

Overall position, 2022/23

4.18 As noted in the preceding sections, the Council's budget is subject to an unprecedented level of inflation-linked pressures. Besides the energy-related pressure of £9m, other areas of third party spend are also subject to claims for significant uplifts.

4.19 In view of the extent of these claims, members of the Corporate Leadership Team (CLT) have agreed the need for all Directorates to take steps to ensure that supply chain disruptions are identified and price increase requests managed to mitigate budget and service impact on Council services. A central register has been created to capture both requests for price increases received from third party suppliers and any agreed contract price increases to allow oversight and monitoring of the potential risk to Council budgets and/or service delivery.

4.20 Contract managers have additionally been requested, in the first instance, to explore efficiencies that could mitigate these price increases, such as demand management, reducing the volume of deliveries (where applicable) and providing suppliers with guarantees on future volumes. It is acknowledged, however, that some requests will require to be accommodated to ensure service continuity and supplier resilience over the immediate and longer term.

4.21 Given the evolving situation, it is difficult to predict with accuracy the level of in-year pressure resulting from the inflation-linked issues, including pay, noted in the preceding sections of the report. Consideration of corporate budgets has, however, identified potential savings across a number of areas, including continuation of underspends apparent in the provisional outturn for 2021/22[1], application of the budget framework risk contingency, inflation provision and other timing-related savings. On this basis, at this stage it is anticipated that known non-pay inflation pressures can be accommodated within a balanced overall position. The key area of risk, however, is around pay award provision. By means of illustration, every 1% in excess of the framework level of provision would hasten a pressure of some £6.2m.

4.22 A more detailed update will be provided to members of the Committee as part of the first in-year revenue monitoring report, anticipated to be in September.

Edinburgh Integration Joint Board (EIJB) budget, 2022/23

4.23 At the meeting of the EIJB on 22 March, members considered a progress update on the development of the Board's budget for 2022/23.

4.24 The report set out the latest available information, including the budgets which will be delegated from NHS Lothian and the Council and compared these to projected costs based on the forecast outturn for 2021/22, anticipated growth and assumptions around additional resources. The modelling contained within the report indicated that delivering financial balance by the end of 2022/23 is achievable but there remains some risk as not all of the mitigations can be quantified at this point. Tripartite working with the EIJB's partners is continuing and an update will be presented to the Board's next meeting.

[1] These underspends include additional Council Tax income relative to budget and non-application of elements of in-year inflationary provisions.

Scottish Government's Resource Spending Review and Medium-Term Financial Strategy

4.25 On 31 May, the Cabinet Secretary for Finance and the Economy presented the Scottish Government's Resource Spending Review (RSR). The RSR provides, albeit at a high aggregated level, indicative sectoral planning allocations for public expenditure for the period from 2022/23 to 2026/27 inclusive. After a succession of one-year funding settlements for bodies across the public sector, its contents are therefore of assistance in developing funded organisations' medium-term financial planning. It should be emphasised, however, that the RSR does not supersede the annual Scottish Budget process which will continue to be subject to Parliamentary discussion and determination, including the precise quantum of funding included within the Local Government Finance Settlement[2] and its distribution amongst authorities.

4.26 Publication of the RSR was complemented by the accompanying issuing of the Scottish Government's Medium-Term Financial Strategy (MTFS). The MTFS provides a medium-term perspective on the public finances, supporting a broad approach to budget evaluation and formation. Its content is, in turn, informed by projections produced by the independent Scottish Fiscal Commission and UK-wide Office for Budgetary Responsibility.

4.27 The MTFS sets outs three scenarios, respectively referred to as the upside, central and downside scenarios but with the main emphasis upon the central one which also forms the basis of the assumed expenditure allocations within the RSR. Within this finite overall level of resource, the need to make difficult choices is highlighted.

4.28 In overall terms, this central scenario reflects an increase in cash-terms resource available to the Scottish Government of some 13.5% (4.7% when expressed in real, inflation-adjusted terms) over the period between 2022/23 and 2026/27. The RSR identifies four specific overarching priorities for allocation of these sums: tackling child poverty; addressing the climate crisis; securing a stronger, fairer and greener economy; and delivering excellent public services.

4.29 Of this overall growth, 90% is allocated to support increases in health and social care and social security spend over the period to 2025/26, the former linked to the Scottish Government's commitment to increase frontline health spend by 20% over the term of the current Scottish Parliament. By extension, this reduces the element of additional resources available to other areas.

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[2] The quantum of funding contained within the Local Government Finance Settlement currently reflects the transfer of sums from other Scottish Government portfolios. This level of detail has not been included within the RSR although confirmation has been provided that sums transferred in respect of (i) Health and Social Care, (ii) Early Learning and Childcare and (iii) additional Teachers, worth £1 billion combined, will be maintained.

4.30 The spending allocation for Local Government is unchanged over the period from 2022/23 to 2025/26[3], before increasing by £100m in 2026/27. This corresponds to an overall cash-terms increase of 0.9% over the period compared to the 13.5% across the budget as a whole (or a real-terms reduction of nearly 8%).

4.31 In acknowledging that the allocations for those areas without specific prioritisation will be challenging, the RSR points to a renewed impetus to deliver savings across the public sector, with an assumption that all areas will deliver annual efficiencies of 3%. Adoption of hybrid working practices and the consequent ability to reduce the size of the public sector estate through co-location and/or rationalisation is highlighted, as are potential synergies and efficiencies in procurement, enhanced use of digital technology and, where appropriate, greater use of cost recovery in service delivery. While all of these areas could potentially contribute to addressing future years' spending gaps within the Council, robust business cases will require to be developed prior to scrutiny by elected members.

4.32 The RSR reiterates the Scottish Government's commitment to develop a "new deal" with Local Government underpinned by a fiscal framework. This includes:

(i) building on the Review of Local Democracy and developing a deeper dialogue and debate on how the Scottish and Local Government will work together to achieve better outcomes for people and communities;

(ii) seeking to balance greater flexibility over financial arrangements for local government with increased accountability for the delivery of national priorities so that both partners can have certainty over inputs and outcomes alongside scope to innovate and improve the delivery of services to local communities;

(iii) exploring greater scope for discretionary revenue-raising, such as the Visitor Levy and the newly-created Workplace Parking Levy, as well as reforms to the current Council Tax system;

(iv) exploring further with COSLA, Digital Office and Revenue Scotland how best to transform the digital administration of the Non-Domestic Rates system;

(v) confirming that further flexibilities requested by COSLA will be made available to councils for existing service concession arrangements such as PFI or NPD-funded projects; and

(vi) ensuring these decisions are supported by a phased approach towards alignment with the CIPFA Code of Practice for Local Authority Accounting through a comprehensive Capital Accounting Review.

[3] As is the case with current arrangements, the Scottish Government will continue to underwrite the assumed level of non-domestic rates income underpinning the Local Government Finance Settlement.

4.33 The implications of the penultimate and final points are discussed later in the report.

4.34 While again emphasising that these are sector-wide planning totals and not indications of the actual funding to be contained within the Local Government Finance Settlement, they are nonetheless broadly consistent with the budget framework “flat-cash” assumptions in each of the next three years. The RSR did, however, confirm the baselining of the £120m of additional funding for Local Government introduced as part of the 2022/23 Draft Budget’s Parliamentary consideration, of which Edinburgh’s share was £9.652m. The implications of this baselining and how it affects the overall position, taking into account other known or emerging risks, is considered later in this report.

Service concession financial flexibility

4.35 In late January, the Cabinet Secretary for Finance and the Economy wrote to CIPFA/LASAAC regarding local government’s request for a change to the service concession flexibility. This request sought to allow, in accounting terms, the principal element of debt repayments to be spread over the (longer) life of the asset and not the contract term, with the effective “credit” from prior years’ overpayments also available to fund additional expenditure.

4.36 Considerable discussion ensued between CIPFA/LASAAC, LASAAC, Directors of Finance and civil servants to ensure there was a full understanding of the issues and context for some of the issues raised in the Cabinet Secretary’s letter. A requested report on a Capital Accounting Review was prepared by Scottish Directors of Finance, with a response also provided to the Scottish Government by CIPFA/LASAAC on the issues requested. While expressing her gratitude for these contributions, the Cabinet Secretary has indicated that she considers these to be partial and/or inconclusive.

4.37 The Cabinet Secretary’s letter confirms that the flexibilities noted in Paragraph 4.35 will be made available to councils on the basis requested. Use of these flexibilities will, however, be subject to both (i) robust local consideration to ensure such use is prudent and sustainable and (ii) explicit approval by a Council decision. In addition, the flexibilities may only be applied to *existing* concession arrangements.

4.38 Granting of the requested flexibility is also contingent upon commissioning an independent Capital Accounting Review which will consider, amongst other things, the on-going appropriateness of statutory mitigation provisions alongside alignment to the Code of Practice on Local Authority Accounting.

4.39 Statutory mitigation is statutory guidance issued by Scottish Ministers for the accounting treatment for specified transactions or types of transactions undertaken by a local authority. It is usually issued where the accounting practice under the Code has been determined to result in an improper charge against the General Fund in the Local Authority financial statements and thus has a consequential impact on the funding available for the provision of local services. Further detail on the remit of the review will be provided by the Minister for Public Finance, Planning and Community Wealth in due course.

4.40 While use of the concession flexibility is not dependent upon the outcome of the capital accounting review, there is a risk that the timing-related benefit of the former is outweighed by the absolute additional accounting cost of the latter. At this stage, while modelling work on the potential benefit of the flexibility will continue, it is not recommended that it be relied upon to address an element of next or future years' gaps until greater clarity is available on the review's remit and likely direction.

Planning assumptions, 2023/24 and subsequent years

4.41 The baselining of the £120m of additional Scotland-wide funding provided as part of the 2022/23 Scottish Budget's Parliamentary approval represents a favourable movement relative to current financial planning assumptions. In view of the range of wider inflationary risks, including pay, outlined within this report, however, it is likely that additional recurring funds will be required to manage these pressures and, as a result, no changes are being made to the projected gaps contained within the Council's medium-term framework at this time. As such, there remains an incremental gap of £63m in 2023/24, increasing to £144m over the period to 2026/27. Additional background to this requirement, along with the key budget framework assumptions, is included in Appendix 2.

4.42 An update forming the basis of a more detailed financial strategy, including consideration of potential funding gaps over a longer ten-year timeframe, will be brought to the Committee's next anticipated meeting in September.

Future years' savings requirements and development of corresponding savings proposals

4.43 The urgent need to initiate a structured medium to longer-term savings programme was highlighted in both the Council's Best Value Assurance Report and the external auditor's report for 2020/21.

4.44 In recognising this urgency, a dedicated project lead has been appointed. Directorates have been requested to identify potential options, captured by means of a standard template detailing service and performance impacts, risks and dependencies, with reference to the priorities set out in the Council's business plan.

4.45 Given the extent of the challenge noted above, members will likely need to make increasingly difficult choices about the Council's priorities, including considering service reductions, across all service areas to maintain expenditure in line with available income.

4.46 A further update will be provided to the Committee's next meeting in September.

5. Next Steps

5.1 Given the range of pressures outlined within the report, Executive Directors will likely require to bring forward measures to offset residual service pressures and risks within their respective areas of responsibility during 2022/23. The adequacy of budget framework provision in respect of the on-going financial impacts of the pandemic will also be kept under close review with a view to taking any necessary remedial action.

5.2 Officers will continue to develop potential options to address future years' savings gaps and an update will be provided at the Committee's next meeting.

6. Financial impact

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

6.2 While the Council has approved a balanced budget for 2022/23, it faces significant financial challenges going forward. Current projections indicate a need to deliver at least £63m of recurring savings in 2023/24, increasing to £144m over the five-year period to 2026/27.

7. Stakeholder/Community Impact

7.1 There is no direct relevance to the report's contents, although proposals brought forward as part of the exercise above will be the subject of full public consultation later in the year.

8. Background reading/external references

8.1 2022/23 Financial Plan, Edinburgh Integration Joint Board, 22 March 2022

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

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

8.4 Revenue Budget Framework 2022/27 – Progress Update, Finance and Resources Committee, 3 February 2022

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

9. Appendices

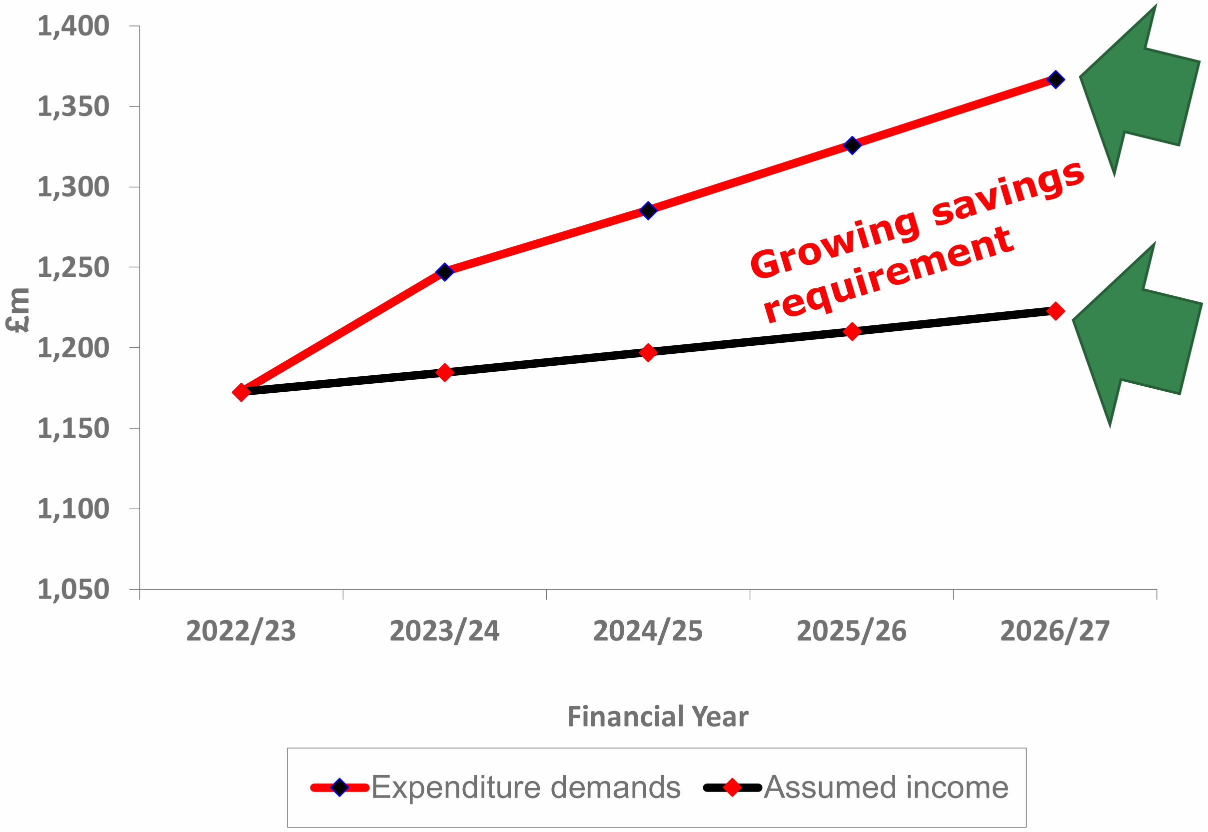
One – Approved service investments, 2022/23

Two – Revenue budget framework projected savings requirements and key assumptions, 2022/23 to 2026/27

Approved one-off service investments, 2022/23

	£000
Improvements to HR systems	2,000
Easing the cost of living crisis	1,100
Deep cleaning the city, graffiti removal and street cleaning	1,072
Roads and pavements maintenance	1,000
Children's Services - additional investment	1,000
Net-zero	500
Social care adaptations	500
Park facilities improvements	450
Play parks (CFCR)	325
Neighbourhood Action Team	250
Local community festivals and events	200
Energy for Edinburgh	200
Temporary toilets in premier parks	200
Hostile vehicle mitigation barriers	180
Taxi regulation and enforcement	160
Short-term lets regulation and monitoring	150
Food growing	130
Defibrillators in schools	112
Participatory Budgeting support	100
Portobello Kilns restoration	61
Pentland Park rangers	60
Libraries re-opening support	60
"Forever Edinburgh" website development	50
Total	**9,860**

Projected savings requirements, 2023/24 to 2026/27



- Demographic pressures
- Pay awards
- Inflation
- Legislative reform

- Assumed cash-terms freeze in grant funding
- 3% increase in Council Tax
- c. 5% increase in discretionary fees and charges

Key revenue budget planning assumptions

	2022/23	2023/24	2024/25	2025/26	2026/27	Notes
Pay award	3%	3%	3%	3%	3%	Each 1% increase equates to £6.2m at 2022/23 prices
Contract and other inflation increases	3%	3%	3%	3%	3%	Each 1% increase equates to up to £3m at 2022/23 prices, depending on in-scope expenditure
Total provision for **recurring expenditure and income impacts of pandemic** (£m)	25.3 (now confirmed)	11.0	9.0	9.0	9.0	Actual expenditure/income in 2020/21 was £69m and budget framework provision in 2021/22 was £39m
Demographic provision (Education and Children's Services and Place) (£m)	5.0 (now confirmed)	5.0	5.0	5.0	5.0	Allocation primarily covers increasing pupil and growing household numbers
Government grant and retained Non-Domestic Rates income - assumed year-on-year change in like-for-like core funding	+1%* (now confirmed)	0%	0%	0%	0%	Each 1% equates to £7.8m at 2022/23 funding levels
Council Tax - increase in rate (or receipt of "freeze" compensating funding)	3% (now confirmed)	3%	3%	3%	3%	Each 1% equates to £3.2m at 2022/23 funding levels

*- excludes one-off additional resources of £9.652m. Assumptions in orange shading are subject to particular current pressure.