

Finance and Resources Committee

10.00am, Thursday, 8 September 2022

Potential financial flexibilities to address pay-related pressures

Executive/routine Executive
Wards
Council Commitments

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are recommended to note:
- 1.1.1 the contents of this report and officers' initial assessment that the benefit of available flexibilities in addressing pay-related pressures, particularly in 2022/23, may be limited; and
 - 1.1.2 that further engagement will be undertaken, as appropriate, with relevant service areas, COSLA and the Scottish Government to determine areas where spend in future years might subsequently be redirected to address pay-related pressures.

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2. Executive Summary

- 2.1 This report provides an initial overview of existing funding streams which are directly, or indirectly, linked to the delivery of national priorities and, as such, have been suggested as potentially addressing wider pressures related to the in-year and future impacts of the 2022/23 pay award.

3. Background

- 3.1 At the meeting of Council on 25 August 2022, members considered a motion from Councillor McVey and a series of amendments and addenda on on-going staff pay negotiations. The approved motion incorporated an amendment from Cllr Mumford as follows:
- Notes that the negotiations between the Scottish Government, COSLA and trade unions are currently ongoing;
 - Notes with concern that the Scottish Government has suggested use of reserves to fund the ongoing revenue cost of pay and further notes that the statement from COSLA on 19th August states that continued discussions with the Scottish Government must involve consideration of flexibilities in Local Government funding;
 - Anticipates that Edinburgh Council may soon be asked to feed in to discussions about what flexibilities we would require from Scottish Government to enable us to meet higher staffing costs;
 - **Therefore asks for a report to the next Finance and Resources Committee Meeting setting out Edinburgh's current ring-fenced and directed funding streams, and any pre-existing recommendations on flexibilities;**
 - Mandates the Council Leader to reflect the discussions and recommendations of the Committee through their role on COSLA; and

- Additionally mandates the convener of the Finance and Resources Committee to convene additional emergency meetings should this input from Edinburgh Council be required outwith the regular meeting cycle.

- 3.2 This report seeks to address the specific action highlighted in bold above, focusing on the Council's revenue budget.
- 3.3 As of the time of writing, discussions around the 2022/23 employee pay award remain in progress and a verbal update will be provided at the meeting. A report elsewhere on today's agenda estimates a recurring funding pressure, based on the most recent offer, of £3.1m, with a risk that this may increase. Continuing high levels of inflation are also expected to place significant pressure on 2023/24's pay award, where provision equal to 3% of the overall paybill is currently assumed.
- 3.4 Due to the short timescale between approval of the motion and publication of reports for this Committee, the content of this report should be seen as a first step in informing this consideration and members of the Committee will be kept apprised as the process develops.
- 3.5 It is also important to emphasise that, while of a similarly technical nature, the issues explored in this report are distinct from those related to the service concession financial flexibility referenced in the budget update report elsewhere on today's agenda. Whereas the service concession flexibility is essentially one of timing, this report examines areas where existing or planned Scottish Government funding could potentially be freed up by reducing overall expenditure demands.

4. Main report

Local Government Finance Settlement, 2022/23

- 4.1 The Local Government Finance Settlement (LGFS) for 2022/23 is based on total assumed revenue expenditure by councils of some £14 billion, with Edinburgh's share of this sum being £1.140 billion. This total comprises a series of discrete elements as noted below:

	£m
Grant-Aided Expenditure	707.5
Baselined redeterminations	155.3
Former ringfenced grants	72.4
General purpose additional funding since 2008/09	42.0
Loans charge (i.e. borrowing) support	25.3
Contribution from funding floors	19.3
Expenditure funded by ringfenced grants	56.7
Additional funding, 2022/23	61.3
	1,139.8

- 4.2 An overview of the principles underpinning the Local Government Finance Settlement was previously considered by the Finance and Resources Committee on 7 March 2019.

Constituent elements of the overall LGFS

- 4.3 **Grant-Aided Expenditure (GAE)** represents the total of a detailed and complex series of needs-based calculations covering the full range of the Council's core services. While these calculations underpin the Council's total level of external funding support, they do not prescribe how this funding is used, with this instead determined by the Council, subject to meeting relevant statutory duties.
- 4.4 **Baselined redeterminations** and **former ringfenced** grants relate, in the main, to previous national commitments and, as such, are also available to support delivery of the Council's wider priorities. Included amongst these are, however, sums previously provided to increase overall teacher numbers and, in that sense, could be considered directed in nature.
- 4.5 Following the "freezing" of most sums allocated through the GAE process in 2007/08, a further allocation of **general purpose funding** is provided to address increases in demand, inflationary and other relevant factors since that time. The Council also receives some support for **historic borrowing** and contributions from the stability and 85% per capita **funding floors**.
- 4.6 While the distinction is not absolute, the remainder of this report focuses on current ringfenced grants and monies provided in 2022/23 for the delivery of new, or expanded, commitments. Looking forward, it may also be possible to consider opportunities for redirecting future planned Scottish Government investment for priorities still to be implemented as part of a wider review of the affordability of existing commitments. Irrespective of how this is achieved, however, there are likely to be service consequences.
- 4.7 Agreement of available flexibilities may be best co-ordinated at national level to ensure consistency of approach, thereby avoiding creating a "postcode lottery" of differences in service provision depending on location, while also ensuring any required legislative changes are co-ordinated effectively. These considerations do, however, need to strike an appropriate balance between consistency and local discretion and democratic accountability.

Continuing ring-fenced grants

- 4.8 The LGFS contains a number of ring-fenced grants where funding is provided, and must be used, for a specific named purpose. For the 2022/23 Settlement, these grants and Edinburgh's respective allocations (shown in brackets) are:
- (i) **Early Learning and Childcare (ELC) expansion**, including deferral pilots - £531.0m (£41.3m);
 - (ii) **Community Justice** - £86.5m (£8.0m);

- (iii) **Pupil Equity Funding (PEF)** - £120.0m (£7.1m);
- (iv) **Gaelic** - £4.4m (£0.3m); and
- (v) **Inter-Island Ferries** (for Highland, Argyll and Bute and Orkney and Shetland Islands Councils only, therefore no allocation to the Council) - £32.1m.

- 4.9 The sums for **Early Learning and Childcare** are additional to pre-existing amounts contained within GAE and support the delivery of 1,140 hours' total provision. Following a review of the overall quantum provided for ELC expansion, the Scotland-wide sum was reduced for the 2022/23 Settlement, with a revised distribution formula also being introduced on a phased basis, resulting in a significant loss of funding for the Council. As such, the Council's existing allocation is likely to be fully utilised to support continued delivery of the current policy.
- 4.10 Any savings at national level would be unlikely to be delivered without fundamental changes to the policy, such as providing fewer hours, limiting parental choice or reviewing current entitlement to automatic funded provision from August 2023 in cases of deferred primary school start.
- 4.11 Sums provided for **Community Justice** have also been declining in real (i.e. inflation-adjusted) terms in recent years and, as such, it is anticipated that sums provided will be required in full during 2022/23, particularly as the majority of sums concerned relate to direct staffing or commissioned services.
- 4.12 **Pupil Equity Funding (PEF)** is provided at individual school level to support actions to tackle the poverty-related attainment gap. It is anticipated that the Council's overall allocation of attainment-related funding will increase over slightly over the coming years as a result of the redistribution of relevant funding from the existing nine Challenge Authorities (of which Edinburgh is not one) to all thirty-two authorities, although the corollary is a significant loss of funding within these Challenge Authorities.
- 4.13 Across Scotland as a whole, significant sums have been carried forward annually as a result of in-year PEF underspends, although activity in 2020/21 and 2021/22 was affected by the pandemic. Options for flexibility in this area might therefore include reducing the overall quantum of funding provided or managing funding on an authority-wide, more thematic basis (rather than at individual school level) although given existing staffing commitments, any savings may not be delivered until future years.

Wider potential flexibilities

- 4.14 Besides the designated ringfenced grants noted in the previous section, flexibilities might also be extended to consider either current or future Scottish Government commitments. Given the magnitude of pay-related pressures, the following analysis concentrates on higher-value funding streams, particularly those within education and health and social care.

Recruitment of at least 3,500 teachers and 500 classroom assistants/pupil support over the current Scottish Parliamentary term

- 4.15 A total of £65.5m has already been provided as part of the 2022/23 Local Government Finance Settlement to support the recruitment of 1,000 additional teachers and 500 additional classroom/pupil support assistants. It is estimated that at least £125m would be required to allow for the recruitment of a further 2,500 teachers and thus meet the current commitment in full. A wide range of permutations to reduce expenditure is possible, reflecting decreases in the respective numbers of teachers and classroom/pupil support assistants employed. Given existing staffing contracts, however, any material release of funding is likely only to be delivered over the longer term.

Baselining of £80m of additional teacher/pupil support

- 4.16 These additional sums, now incorporated in the core settlement, fund the costs of 1,400 teachers and 250 support staff initially employed on a temporary basis during the pandemic. As with the equivalent investment above, a range of options could be considered, although any material level of savings would again likely not be delivered over the short term.

Changes to pupil/teacher ratios

- 4.17 While there are no specific legislative requirements around the pupil/teacher ratio, these are implicit in guidelines or legislation on maximum class numbers. Increases in permitted class sizes would be expected to reduce teacher numbers over time but these would need to be considered in the context of their potential impact on the achievement of other education-related objectives.

Reductions in class contact time

- 4.18 The Scottish Government has indicated a commitment to reduce class contact time by an hour and a half per week during the current Scottish Parliamentary term. While this policy remains to be implemented and thus any saving would accrue in future years, this commitment could either be removed or different options (e.g. providing a non-teaching professional) considered in providing this additional cover.

Other school-related policy changes

- 4.19 The Scottish Government has also earmarked sums to support a range of targeted initiatives to foster improved inclusion within schools, including (i) removal of core curricular charges and charges for instrumental music tuition, (ii) expansion of free school meal provision to P4 and P5 (and, later in the Parliamentary term, to P6 and P7), (iii) enhanced school counselling and wider pupil health and wellbeing services and (iv) holiday support, particularly for those in more deprived areas. Taken together, this investment totals some £150m in 2022/23. The extent of any available savings in 2022/23 would be limited, however, as some sums have already been spent or commitments to do so are already in place. In a number of instances, relevant legislation would also require to be changed.

Funding for Integration Joint Boards (IJBs)

- 4.20 As part of existing funding arrangements, councils are required to maintain previous years' funding levels and pass on in full additional sums to IJBs. A total of £576m of additional funding was provided Scotland-wide in 2022/23, with the Edinburgh IJB's share being some £50m. It is possible that sums could be freed up by allowing councils greater flexibility in either the overall level of sums passed on or how these funds may then be used by IJBs, although these flexibilities would clearly need to be considered in terms of their potential service impacts.

Other areas for potential consideration

- 4.21 Significant Scottish Government funding has been made available to support employability services in recent years and while demands on these funds are likely to increase given wider economic pressures, there may be opportunities to realise savings through better use of existing funding which is often provided late in the year and accompanied by significant reporting requirements.
- 4.22 Following the removal as part of the 2022/23 Scottish Budget of specific restrictions on the level of Council Tax increases councils are able to apply, future years' assumptions around rises (where 3% annual increases are currently assumed) could also be reconsidered. Each additional 1% would raise around £3.2m of additional revenue and this could form part of a wider strategy to address cost pressures apparent within the budget framework.
- 4.23 Although use of the flexibilities would depend on local circumstances, there may also be opportunities to use capital funding to free up an element of revenue resources.

5. Next Steps

- 5.1 Following the agreement to explore potential financial flexibilities as a means of addressing pay-related pressures, initial discussions are underway between COSLA, on behalf of Scotland's councils, and the Scottish Government on areas that may be within scope and the basis on which these flexibilities could be made available. Members of the Committee will be kept updated as this process develops.

6. Financial impact

- 6.1 Based on the level of provision contained within the Council's revenue budget framework and the £140m of additional funding made available by the Scottish Government, the most recent non-teaching staff pay offer for 2022/23 would give rise to a recurring pressure estimated at £3.1m. This sum forms part of an increased overall projected funding gap for 2023/24 of £70.4m. This gap assumes

that the agreed teachers' settlement is contained within the existing net level of provision.

- 6.2 It is also anticipated that continuing high levels of inflation will give rise to pressures in respect of the 2023/24 pay award, where an increase of 3% is currently assumed.

7. Stakeholder/Community Impact

- 7.1 At this stage, there is no direct relevance to the report's contents, although any proposed changes would need to be assessed in terms of their impacts on the delivery of local and national objectives.

8. Background reading/external references

- 8.1 [Principles of the Local Government Finance Settlement](#), Finance and Resources Committee, 7 March 2019

9. Appendices

None