

Finance and Resources Committee

10.00am, Thursday, 21 September 2023

Revenue Budget Framework 2024/29 – progress update

Executive/routine
Wards

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are asked to note:
 - 1.1.1 the updates to financial planning assumptions set out in the report, resulting in an increased estimated gross 2024/25 savings requirement of at least £58.6m covering the Council and the Edinburgh Integration Joint Board (EIJB), with further significant incremental funding gaps in subsequent years;
 - 1.1.2 the potential for an element of this requirement to be met from known and proposed reforms to Non-Domestic Rates and Council Tax but that this remains subject, as appropriate, to national and local policy decisions;
 - 1.1.3 the resulting urgent need to accelerate development of proposals through the Council's Medium-Term Financial Plan (MTFP) and from Directorates to address these shortfalls;
 - 1.1.4 that many of these proposals will involve increasingly difficult choices about the Council's priorities, including service reductions, across all service areas to maintain expenditure in line with available income; and

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- 1.1.5 the intention to bring forward these proposals for consideration through a process of Executive Committee and public engagement, the detail of which will be confirmed in the report to the Committee's next meeting on 21 November.

Revenue Budget Framework 2024/29 – progress update

2. Executive Summary

- 2.1 The report sets out the outcome of the most recent review of the Council's financial planning assumptions, pointing to an increased estimated gross savings requirement in 2024/25 of at least £58.6m covering the Council and the Edinburgh Integration Joint Board (EIJB), with further significant incremental funding gaps in the subsequent years of the budget framework.
- 2.2 Given this position, the report highlights the urgent need to accelerate development of proposals through the Council's Medium-Term Financial Plan (MTFP) and Directorates to address these shortfalls. It is intended that these proposals will therefore be brought forward for consideration through a process of Executive Committee and public engagement, the detail of which will be confirmed in the report to the Committee's next meeting on 21 November.

3. Background

- 3.1 On 20 June 2023, members of the Committee considered the outcome of the most recent review of the Council's financial planning assumptions for the five-year period to 2028/29, pointing to a projected residual funding gap of £37.6m in 2024/25, increasing to £94.9m by 2026/27 and £172.7m by 2028/29.
- 3.2 The report also outlined the main elements of the MTFP to address these budgetary challenges, including the approach to identifying savings and efficiencies in both the near and longer term.
- 3.3 In considering the report's contents, members approved an amendment and addendum respectively, requesting that:
- (i) all officer savings proposals and any tactical savings affecting local services required to balance the budget in the financial year 2024/25 should be submitted to Committee for public scrutiny and subject to public consultation in the calendar year 2023; and
 - (ii) officers produce a report for the 21 September meeting of the Committee setting out a process to discuss with political groups, COSLA, the Scottish

Government, legal experts and other relevant parties the options available to the Council when setting Council Tax for 2024/25, including but not limited to:

- providing cost-of-living awards based on Council Tax banding;
- enhancing Council Tax discount schemes; and
- creating additional local Council Tax payment schemes.

- 3.4 This report therefore includes a proposed timetable and approach for the 2024/25 budget process taking account of the desire for public engagement. An update elsewhere on today’s agenda examines the current landscape and options directly available to the Council in respect of changes to Council Tax (essentially limited by national legislation and regulation) and makes recommendations on how the Council best influences consideration of wider reform in this area.
- 3.5 The report also includes a number of improvements following the lessons learned exercise undertaken as part of the 2023/24 budget process.

4. Main report

Review of key expenditure and income planning assumptions

- 4.1 The update to the Committee’s previous meeting on 20 June 2023 set out revised estimated funding gaps for the five-year period of the budget framework as shown below. These gaps did not explicitly include any assumed call on the Council in respect of the Edinburgh Integration Joint Board (EIJB) but with this acknowledged as a wider risk.

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Updated gap after offsetting corporate savings	37.6	69.2	94.9	123.8	172.7

- 4.2 This position reflected the net impact of a number of key planning assumptions, a summary of which is provided in **Appendix 1**. These assumptions remain essentially unchanged at this time, including a 3% annual increase in Council Tax rates. As requested at the Committee’s meeting on 20 June 2023, however, variants on these 3% increases are also detailed in Appendix 1. A sensitivity analysis illustrating the impact of changes in the most material contributors to the overall gap, namely the level of employee pay award and grant funding settlement, is furthermore included.
- 4.3 The gaps above incorporated a recurring £10m annual provision to acknowledge a number of potential liabilities and risk factors. The notional composition of this sum, alongside a number of additional then-unquantified financial risks for which no specific provision was therefore made, is included in **Appendix 2**.

- 4.4 The report to the Committee's meeting on 20 June noted that the Scottish Government's Medium-Term Financial Strategy (MTFS) indicated that overall funding was not forecast to keep pace with expenditure demands across the Scottish Budget as a whole, with a £1bn deficit forecast in 2024/25, increasing to £1.9bn by 2027/28. The Scottish Government had therefore reiterated a need for difficult and prioritised spending decisions to be made across the full period covered by the MTFS. Given that Local Government is not expected to be prioritised as part of the Scottish Government's wider budget deliberations, this requirement applies in particular to councils. It is anticipated, however, that a one-year only financial settlement will be announced as part of the Scottish Budget in December 2023.

Scottish Government/COSLA Partnership Agreement

- 4.5 On 30 June 2023, COSLA and the Scottish Government signed [a new Partnership Agreement](#) setting out a vision for a more collaborative approach to delivering a number of shared priorities. The agreement includes a commitment to improved budgetary engagement and specifically agreement, by September 2023, of a principle-based fiscal framework between the Scottish Government and Local Government. A joint review of specific grants and in-year transfers to Local Government will also be undertaken by October 2023 with a view to identifying those funding streams which can be baselined into core grant from 2024/25, creating more freedom and flexibility to address shared priorities in locally appropriate ways.
- 4.6 On 2 August, the UK and Scottish Governments then agreed a number of changes to the [current UK-wide fiscal framework](#), including an increase from £300m to £600m in the Scottish Government's revenue borrowing powers in the event of taxation revenues forecasting errors (thereby addressing an adverse reconciliation adjustment that would otherwise have been applied to the 2024/25 budget) and index-linking all limits and powers, thus maintaining their value in real terms.
- 4.7 While these developments are to be welcomed, of themselves they are unlikely to secure the wider underlying financial sustainability of local government and thus further prioritisation of activity is essential if the delivery of critical services is not to be compromised.

Edinburgh Integration Joint Board (EIJB)

- 4.8 As reported elsewhere on today's agenda, a significant in-year EIJB pressure of £16.7m is being forecast. At this stage, a funding gap of at least £21m is projected for 2024/25, with this sum assuming both full delivery of £21.3m of approved savings and no additional growth in required purchasing expenditure (where significant pressures are apparent in the current year) relative to planning assumptions. This projection also assumes that, as in 2023/24, no additional grant funding will be received for in-year demographic growth pressures of some £10m.

- 4.9 While the £21m above has indicatively been added to the Council's funding gap in the analysis that follows, it is expected that corresponding savings options to address at least an element of this requirement will be brought forward for consideration by the EIJB. It is likely, however, that a gap will remain which will need to be considered as part of the Council's budget-setting process.

Brunstane Primary School investigative works and decant costs

- 4.10 As noted in the revenue monitoring report elsewhere on today's agenda, there is a risk, subject to the outcome of on-going site investigations, that the current decant and required remedial works give rise to costs in future years. A further update will be provided in the next report to the Committee on 21 November 2023.

Reinforced Autoclaved Aerated Concrete (RAAC) Panels – remedial costs

- 4.11 There is likewise a risk that the results of RAAC-related surveys necessitate ceiling replacements and other structural modifications in affected buildings. Given that these costs will likely be of a revenue nature, it may be possible, through use of the Capital Fund, to free up sums to meet loans charge principal repayments and thereby release a corresponding revenue sum to offset partially the RAAC-related liabilities. It is also possible that additional funding may stem from any UK-wide funding announcements in this area.

Edinburgh Trams

- 4.12 Tram patronage in the calendar year to date is well above budgeted assumptions, resulting in a significant reduction in the level of required support from the Council. Given that operations commenced in June 2023, continuation of these trends would be expected to see a level of saving relative to the (full-year) 2024/25 support budget. At this stage, however, it is proposed not to assume any saving relative to the budgeted level of provision pending confirmation of further months' actual passenger volumes and clarity on required infrastructure asset renewal expenditure where a sum in excess of budgeted levels has been requested.

Revised position

- 4.13 Taking into account the projected deficit in the EIJB, the revised assumed savings requirement for 2024/25 has increased to £58.6m, with further risks around unfunded costs for both the Brunstane Primary School decant and remedial works and required RAAC-related ceiling repairs and other modifications noted above.
- 4.14 There are also risks that the overall gap may increase due to (i) inflationary-linked uplifts in excess of budget framework provision (including the £7.6m full-year effect of the current non-teaching pay award for 2023/24 if recurring funding is not made available by the Scottish Government), (ii) the impact of continuing high interest rates on borrowing costs, (iii) savings delivery shortfalls carried forward into future years and (iv) a failure to manage current and potential pressures within service areas as highlighted in the month three monitoring report. Following the decision of Council on 31 August 2023, the Council may also require to make available

recurring funding of up to £0.5m to allow Edinburgh Leisure to pay all staff the Real Living Wage.

Potential revenue-raising measures

- 4.15 As outlined in the report to the Committee's previous meeting on 20 June 2023, a number of potential revenue-raising measures are under consideration either locally or as part of national consultations.

Devolution of Non-Domestic Rates Empty Property Relief (EPR)

- 4.16 At the Committee's previous meeting on 20 June 2023, members agreed in principle to a number of changes to the Council's EPR policy with effect from 1 January 2024 while noting that a final report, incorporating feedback from the business community and other stakeholders, would be brought back to the Committee in the autumn. If the proposals are implemented, the overall liability may increase annual billable sums by around £14m. The actual level of additional income generated could, however, be significantly lower, reflecting actual collection rates, the offsetting liability assumed by the Council for newly empty properties since April 2023 and the specifics of the final approved scheme.

Council Tax – consultation on second homes and empty properties

- 4.17 A Scotland-wide consultation on Council Tax for second homes and empty properties closed on 11 July. This may give rise to additional income depending on the extent of changes permitted, Council policy and the effectiveness of the policy in bringing properties back into use.

Council Tax multipliers consultation

- 4.18 On 12 July, the Scottish Government and COSLA launched a joint consultation on potential revisions to existing Council Tax "multipliers" for higher-banded properties, varying between a 7.5% (Band E) and 22.5% (Band H) increase. Based on the profile of domestic properties within the city, some 38% of households would be affected by the proposals, with around £25.5m of additional income raised locally but, in accordance with the underlying needs basis of the Local Government Finance Settlement, a lower overall increase in available resources after Scotland-wide redistribution of £14.1m. The consultation also seeks views on whether the changes could be introduced on a phased basis from 2024/25, the effect of which would be to reduce the benefit in earlier years.
- 4.19 In contrast to the devolution of Non-Domestic Rates Empty Property (EPR) relief to individual local authority level, it is important to emphasise that any revisions to the multipliers would be applied on a Scotland-wide basis and, as such, the decision is outside the Council's direct control.
- 4.20 Taken together, these measures offer a potential means of addressing a significant element of the incremental 2024/25 gap but remain subject to considerable

uncertainty, whether (in the case of the Council Tax reforms) due to decisions still to be taken at national level or, in the case of NDR EPR, the effectiveness of the Council's policy in bringing empty properties back into use. In addition, these measures would not make a contribution towards subsequent years' incremental gaps.

Development of the Medium-Term Financial Plan (MTFP) and Directorate savings proposals

- 4.21 Work to develop the specific workstreams and savings comprising the MTFP is in progress and these will be brought forward for member and public engagement once the relevant scope, including associated savings, dependencies and risks, is fully understood. It is acknowledged, however, that the pace of both MTFP and Directorate-specific proposal development needs to be accelerated as a matter of urgency to identify options sufficient to address in full the residual gaps while allowing for some slippage in delivery and/or elected member choice. Proposals will also require to demonstrate clear additionality (for example not offsetting existing pressures or contributing towards delivery of pre-existing savings) to be included within the budget framework.
- 4.22 A number of proposed core budget strategy principles have also been developed, including restricting, where relevant, actual expenditure to the level of external funding provided for specific national policy initiatives. Managers have also been asked to preserve any underspends as they arise. Given the extent of service pressures, risks and future years' gaps, however, it is clear that increasingly difficult decisions will be required if the integrity of the budget framework is to be maintained.

Timetable

- 4.23 An indicative budget timetable for 2024/25 is included as **Appendix 3**. It is intended that specific proposals developed through the MTFP and directly within Directorates will be brought forward for consideration through a process of Executive Committee and public engagement, the detail of which will be confirmed in the report to the Committee's next meeting on 21 November.

5. Next Steps

- 5.1 Development of specific proposals through both the MTFP and within Directorates will continue with a view to subsequent elected member and public engagement as noted above.
- 5.2 Officers will also continue to monitor closely key planning assumptions and reflect these as appropriate within the budget framework.

6. Financial impact

- 6.1 The report sets out a series of changes arising from the most recent review of the Council's expenditure and income planning assumptions, resulting in a revised funding gap of £58.6m in 2024/25, with significant incremental requirements thereafter.
- 6.2 The Change Programme shows a potential contribution of up to £15.5m in 2024/25 based on projects being commenced this year, rising to £48.0m by 2026/27. Although indicative targets have been set, as set out in Paragraph 4.21, further detailed scoping of these workstreams is required before the related savings can be incorporated within the budget framework, with any shortfall against these targets increasing the level of required savings from Directorate-specific proposals or other means.
- 6.3 Even assuming full delivery of Change Programme-related savings, this will be insufficient to bridge the overall financial gaps and, as such, this requirement will need to be addressed through the identification and delivery of Directorate budget proposals.

7. Equality and Poverty Impact

- 7.1 There are no direct relevant impacts arising from the report's contents.

8. Climate and Nature Emergency Implications

- 8.1 There are no direct relevant impacts arising from the report's contents.

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

- 9.1 There is no direct relevance to the report's contents, although specific proposals brought forward as part of the MTFP and through Directorates will be the subject of elected member and public engagement. Further details in this area will be included in the report to the Committee's next meeting on 21 November 2023.

10. Background reading/external references

- 10.1 [Finance Update](#), Edinburgh Integration Joint Board, 8 August 2023
- 10.2 [Financial Strategy and Medium-Term Financial Plan \(MTFP\)](#), Finance and Resources Committee, 20 June 2023
- 10.3 [Lessons Learned Exercise by CLT on the 2023/24 Budget Setting Process](#), Finance and Resources Committee, 20 June 2023

- 10.4 [Revenue Budget 2023-24 Update - referral from the City of Edinburgh Council](#), Finance and Resources Committee, 30 March 2023
- 10.5 [Liberal Democrat Group Budget Motions](#), City of Edinburgh Council, 23 February 2023
- 10.6 [Revenue Budget Framework 2023/27 – progress update](#), Finance and Resources Committee, 7 February 2023

11. Appendices

- 11.1 Appendix 1 – Key assumptions within the budget framework, 2024/25 to 2028/29
- 11.2 Appendix 2 – Budget framework provision for potential liabilities and risk factors and additional financial risks
- 11.3 Appendix 3 – Indicative timeline for 2024/25 budget

Key assumptions within the budget framework, 2024/25 to 2028/29

	Note	2024/25	2025/26	2026/27	2027/28	2028/29	At 2023/24 levels, every 1% change would result in following change from core assumptions
Staff pay award (all staff; average provision)		3%	3%	3%	3%	3%	£7.3m
Contract inflation (general)	1	3%	3%	3%	3%	3%	£0.8m
Contract inflation (PPP and related contracts)	2	3%	3%	3%	3%	3%	£0.6m
Electricity (tariff increase)	3	10%	3%	3%	3%	3%	£0.2m
Gas (tariff increase)	3	34%	3%	3%	3%	3%	£0.1m
Non-Domestic Rates poundage		2.5%	2.5%	2.5%	2.5%	2.5%	£0.3m
COVID-related service impacts - total provision	4	£9m	£9m	£9m	£9m	£9m	n/a
Demographic provision	5	£3.9m	£3.9m	£3.9m	£3.9m	£3.9m	n/a
Council Tax (rate)	6	3%	3%	3%	3%	3%	£3.5m
Council Tax (buoyancy)		0.75%	0.75%	0.75%	0.75%	0.75%	£3.5m
Government grant core funding year-on-year change	7	0%	0%	0%	0%	0%	£9.0m
Discretionary fees and charges (average)		5%	5%	5%	5%	5%	£0.2m

Note 1 - in recognition of the exceptional impact of successive years' inflation on the Council's revenue budget, the framework also includes an additional £5m provision, baselined from 2023/24. This sum is notionally allocated to (i) anticipated pressures in costs of fuel, (ii) additional sums payable in respect of the Millerhill gate fee and the Council's NSL parking enforcement contract and (iii) a range of uplifts due on Education and Children's Services fees and contracts.

Note 2 - the level of uplift applicable to the Council's PPP contracts is the Retail Price Index (RPI) rate in February of the preceding financial year. The actual level of uplift applied, however, is tempered by application of the relevant "constraining factor" to the borrowing-based element.

Note 3 - level of provision is based on Scottish Procurement Utilities Guidance, taking into account wholesale prices and pre-purchased volumes. Future years' figures remain subject to considerable uncertainty given low pre-purchased volumes, the effects of year-on-year reconciliations and wider sectoral volatility.

Note 4 - the £9m total indicatively comprises (i) the continuing assumed loss of the Lothian Buses dividend, (ii) a £2m reduction in parking income and (iii) £1m of additional support for Edinburgh Leisure.

Note 5 - the sum shown comprises £3.6m for Education and Children's Services, of which some £2.3m is assumed to be directed to schools to reflect changes in pupil numbers, and £0.3m to Place to reflect the impact of increasing household numbers on waste collection and recycling costs.

Note 6 - including the effect of compounding, additional income generated by successive 4% and 5% increases would be as follows:

	4% annual increases	5% annual increases
	£m	£m
2024/25	3.485	6.971
2025/26	3.618	7.236
2026/27	3.751	7.501
2027/28	3.883	7.766
2028/29	4.020	8.041
	18.757	37.515

Note 7 - the level of change shown for 2024/25 is based on Edinburgh's confirmed allocation as part of the 2023/24 Local Government Finance Settlement. Subsequent years' allocations are based on Local Government-wide planning allocations included within the Scottish Government's Resource Spending Review published in May 2022.

The budget framework also includes £27.3m of net additional investment relative to the 2020/21 approved budget in respect of homelessness services.

Due to their materiality, the most significant determinants of the incremental funding gap in 2024/25 are (i) the level of pay award and (ii) the change in the Council's core grant funding settlement. The table below illustrates how variation in these factors might, other things being equal, affect the incremental savings requirement based on the updated gap:

		Pay awards				
		1%	2%	3%	4%	5%
Grant funding settlement	+2%	26.0	33.3	40.6	47.9	55.2
	+1%	35.0	42.3	49.6	56.9	64.2
	"Flat cash"	44.0	51.3	58.6	65.9	73.2
	-1%	53.0	60.3	67.6	74.9	82.2
	-2%	62.0	69.3	76.6	83.9	91.2

Budget framework provision for potential liabilities and risk factors

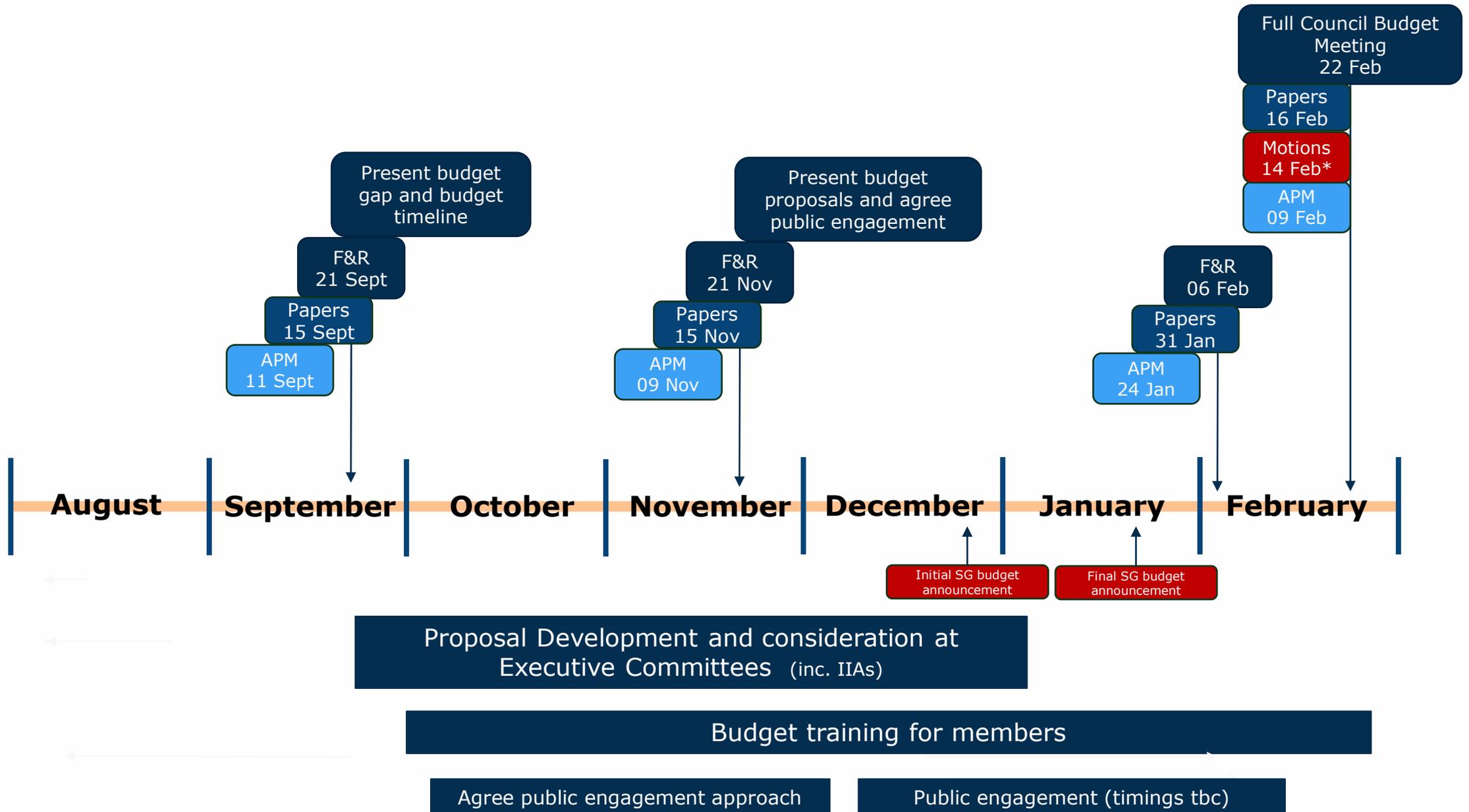
A number of other risks and potential liabilities have been identified as follows, leading to the inclusion within the budget framework of a recurring £10m risk contingency with effect from 2024/25.

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
SWIFT replacement (indicative costs)	1.2	1.9	1.9	1.9	1.9
Refresh of education devices	0.0	0.0	0.0	2.0	2.0
Teachers' superannuation – potential 1% increase in employer contributions	1.8	1.9	1.9	2.0	2.0
Non-teaching pay award for 2023/24 - recurring liabilities of an additional 1% = £4.5m	4.6	4.8	4.9	5.1	5.2
Lothian Valuation Joint Board - additional requisition	0.3	0.5	0.7	0.9	1.1
Impact of increased NDR relief for Meadowbank on Council's grant funding allocation (assuming no pass-through to Edinburgh Leisure)	0.7	0.7	0.7	0.7	0.7
	8.6	9.8	10.1	12.6	12.9

Additional financial risks

The report to the Committee's meeting on 20 June 2023 noted a number of additional financial risks which were not able to be quantified at the time and where officers would update the financial projections should they be deemed likely to materialise. These risks included but were not limited to:

- (i) **further demand-led and/or income recovery-related pressures in Homelessness** and, in the medium term, funding for the Council's **Ukraine response**;
- (ii) **additional required support for the Edinburgh Integration Joint Board (EIJB)**, some of which is likely to be recurring (a specific update in this area is provided in the report);
- (iii) the **affordability of future planned borrowing** once pre-borrowing is utilised, particularly given anticipated reductions in capital grant funding noted above; and
- (iv) the **potential for downward revision to the Council's grant funding allocation** from 2025/26 following incorporation of 2022 census population data (by means of illustration, the 2011 census indicated that Edinburgh's population had been overestimated by some 20,000, resulting in a significant subsequent reduction in grant funding).



*tbc at full council 28 Sept