

# Finance and Resources Committee

10.00am, Thursday, 16 January 2025

## Response to a motion from Cllr Staniforth – National Insurance Contributions for ALEOs

Executive/routine  
Wards

### 1. Recommendations

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- 1.1 Members of the Finance and Resources Committee are asked to:
  - 1.1.1 note the estimated direct and potential indirect cost impacts to the Council of changes in employer's National Insurance contribution rates effective from April 2025; and
  - 1.1.2 refer this report to Council for consideration as part of the 2025/26 budget-setting process.

**Dr Deborah Smart**

Executive Director of Corporate Services

Contact: Richard Lloyd-Bithell, Service Director: Finance and Procurement,  
Finance and Procurement Division, Corporate Services Directorate

E-mail: [richard.lloyd-bithell@edinburgh.gov.uk](mailto:richard.lloyd-bithell@edinburgh.gov.uk)

## Response to a motion from Cllr Staniforth – National Insurance Contributions for ALEOs

### 2. Executive Summary

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- 2.1 The report provides estimates of the direct and potential indirect costs to the Council of changes in employer's National Insurance rates effective from April 2025. An update is also provided on timescales for confirmation of corresponding funding allocations to mitigate the impact of these changes on public sector organisations.

### 3. Background

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- 3.1 At the meeting of the Finance and Resources Committee on 19 November 2024, members considered a motion from Cllr Staniforth concerning the potential cost impacts on the Council's Arm's Length External Organisations (ALEOs) of changes in employer's National Insurance contributions effective from April 2025. In considering the motion, members of the Committee agreed an addendum requesting details of relevant costs across a range of the Council's direct and indirect expenditure, including the Housing Revenue Account, ALEOs and commissioned and contracted services.
- 3.2 In agreeing the motion, the Committee specifically:
- (i) noted that in the Westminster budget, National Insurance rose to 15% (from 13.8%) for employers and that the threshold for paying it lowered to salaries above £5,000 (from £9,100);
  - (ii) noted that the Scottish Government will receive additional funding from the Barnett formula as a result of this tax increase;
  - (iii) noted that it can, and should, be expected that the Scottish Government use at least part of that increase to fund councils such that paying the additional tax for their workforce is not an extra financial burden on those hard-pressed councils and provides full cost recovery;
  - (iv) noted that council-funded ALEOs, such as Edinburgh Leisure, will also see an increase in the amount of National Insurance they will pay as employers

and that in the case of Edinburgh Leisure, as it employs a large number of part-time staff, the lowering of the threshold for payment will be particularly burdensome; and

- (v) therefore requested that the Finance and Resources Convenor write to the Scottish Finance Minister and make representation to COSLA that, in addition to being funded enough to pay the extra tax for their own workforce, councils should be funded enough that they can also pass on to council-funded ALEOs enough to pay the extra tax for their workforce.

### 3.3 The Committee also agreed the following as an addendum:

- (i) noted that the UK Government has committed to additional funding for the Scottish Government to cover Employer National Insurance Contributions (ENICs) for the public sector in Scotland;
- (ii) noted that the public sector in Scotland is proportionally larger than in England, and public sector workers receive better pay, therefore Barnett Consequentials will not cover the additional cost of the UK Government budget decision to increase ENICs in Scotland;
- (iii) noted that the UK Government have not confirmed what will be covered by the additional funds for the 'public sector' and notes concerns that there is a lack of clarity on certain areas which, if not covered, could represent significant additional cost to local authorities;
- (iv) recognised the need for clarity on the potential costs of this UK government policy on council services;
- (v) to receive a report in one cycle which sets out the potential additional annual costs of ENICs on these areas:
  - a. The Housing Revenue Account
  - b. ALEOs
  - c. Commissioned services
  - d. Contracted services
  - e. Third sector organisations delivering programmes through grants
  - f. Any other external organisation delivering services on behalf of the council
- (vi) to share with COSLA, the Scottish Government and the UK Government the accurate information about the additional costs that could be incurred by Edinburgh Council to continue delivering services; and
- (vii) that the convener write to the UK Government requesting that they fully cover those costs, and writes to the Scottish Government requesting that

they pass on in full any funding received to cover the additional ENICs for the public sector.

- 3.4 In addition to the above motion, the potential financial impact of the changes, alongside corresponding mitigating funding to be made available, has formed the basis of other related motions and Council Questions.

## 4. Main report

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- 4.1 On 30 October 2024, the Chancellor of the Exchequer confirmed that employer's National Insurance contributions would be increased from the current rate of 13.8% to 15% with effect from April 2025. In addition, the announcement confirmed that the threshold at which these contributions become payable would be reduced from the current £9,100 of employee earnings per annum to £5,000. Additional revenues raised by this measure will be used to increase public expenditure.

### Direct cost impacts

#### Council

- 4.2 Projections to estimate the additional direct costs arising from these changes are a product of a number of assumptions, including the level of employee pay award for 2025/26. Based on the revenue budget framework assumption of 3%, however, it has been estimated that the impact on the Council for its directly employed staff, excluding the Housing Revenue Account noted separately below, is an annual increase in employer contributions payable of **£18.9m**.

#### HRA – Revenue Budget

- 4.3 On a similar basis of calculation to the above, the estimated additional cost of the changes to the HRA in 2025/26 is **£0.9m**. This sum comprises the costs of employees directly charged to the HRA and staff employed by the Council (principally in Housing Operations) fully recharged to the HRA.

### Potential indirect cost impacts

#### ALEOs

- 4.4 The annual cost of the above-noted changes for directly employed staff has been estimated for the Council's largest ALEOs, namely Lothian Buses, Edinburgh Trams, Edinburgh Leisure, Edinburgh International Conference Centre and Capital Theatres. This sum totals **£2.6m** in 2025/26.

#### Commissioned services

- 4.5 The Council commissions services across a number of areas. By a considerable margin, the largest of these areas is for adult social care, with a corresponding estimated additional cost of **£7.5m** assuming full pass-through of relevant expenditure.

- 4.6 The combined estimated additional cost across children’s, early years and homelessness commissioned services is **£1.5m**. This sum again represents the estimated applicable increase in employee cost uplifts in these contracts should these costs be passed on in full.
- 4.7 While the Council’s expectation would be for each of the cost increases above to be contained within existing agreed contractual rates, any specific provider requests will be considered in line with existing procedures.

**Contracted services**

- 4.8 Estimating cost impacts across the range of the Council’s other contracts would require a detailed analysis of the relevant cost bases of all of these contracts which, for reasons of practicality and commercial confidentiality, is not available. Based on external advice received, it has been estimated, however, that the potential pass-through from suppliers of additional costs incurred as part of the Council’s General Fund capital programme may be up to **£3.5m**, with the equivalent HRA capital programme sum being **£1.5m**.
- 4.9 Taking account of the various exclusions above and assuming that 50% of revenue contract costs are employee-related, this would result in a further potential increase in costs across the Council of some **£4.7m**.

**Grant-funded organisations**

- 4.10 As with contracted services above, detailed quantification of the impacts on grant funding recipients in respect of Council-funded support would require detailed analysis at individual organisation level. On the assumption that around 75% of relevant costs are employee-related, however, the changes would result in an additional cost of up to **£0.350m**.

**Overall direct and indirect General Fund revenue budget impact**

- 4.11 As noted in the preceding sections, the direct additional cost to the Council’s General Fund revenue budget is estimated to be £18.9m, with a further indirect potential exposure of up to £16.7m, assuming full pass-through of additional costs as shown in the table below. The Council will, however, start from a position of seeking to contain claims from contractors or other external organisations within existing contract sums.

	<b>£m</b>
ALEOs	2.6
Commissioned services - adult social care	7.5
Commissioned services - other	1.5
Contracted services	4.7
Grant-funded organisations	0.4
	<b>16.7</b>

- 4.12 As of the time of writing, the Scottish Government has not received confirmation from the UK Government as to the specific level of additional funding to be made available to offset increased costs arising from these changes and it has been suggested that this confirmation might not be received until the time of the UK Government Spring Forecast in late March 2025, after the point at which councils are required to set their budgets for the coming year. Given this, COSLA and the Scottish Government have agreed to lobby jointly both for earlier confirmation of compensating funding and to address, in full, the direct and potential indirect impacts of the changes. A verbal update will be provided at the meeting.
- 4.13 In the meantime, the Convener of the Finance and Resources Committee will write to COSLA, the Scottish and UK Governments in accordance with the terms of the motion, pressing for the full direct and indirect impacts of the changes to be recognised and corresponding funding to be passed to the Scottish Government and thereafter to Local Government.

## **5. Next Steps**

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- 5.1 Estimates of additional cost impacts will continue to be refined and, where relevant, any exceptional claims for variations to contracts and/or other agreements considered.

## **6. Financial impact**

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- 6.1 As noted in the preceding sections, the direct additional cost of the changes to the Council's General Fund revenue budget is estimated to be £18.9m, with a further potential indirect exposure of up to £16.7m, assuming full pass-through of additional costs. The Council will, however, start from a position of containing claims from contractors or other external organisations within existing contract sums.
- 6.2 Additional provision will be considered as appropriate within the 2025/26 budget as greater certainty is received concerning both (i) the extent of the Council's potential exposure to pass-through of increased external costs and (ii) the level of compensating funding to be received from the Scottish Government, in turn linked to the pass-through of Barnett Consequentials or other compensating funding.

## **7. Equality and Poverty Impact**

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

## **8. Climate and Nature Emergency Implications**

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

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

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9.1 There are no direct impacts arising from the report's contents.

## **10. Background reading/external references**

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10.1 [Motion from Councillor Staniforth - National Insurance Contributions for ALEOs](#), Finance and Resources Committee, 19 November 2024

## **11. Appendices**

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11.1 None