

# Finance and Resources Committee

2.00pm, Thursday, 8 February 2018

## Revenue Budget Framework 2018/23: Progress Update

Item number 5.1  
Report number  
Executive/routine  
Wards  
Council Commitments:None

### Executive Summary

On 7 November 2017, members of the Finance and Resources Committee considered the Council's revenue budget framework mid-year review. The report provided an update on progress in delivering the savings approved for implementation in 2017/18 and advised as to the outcome of a review of the main income and expenditure factors included within the long-term financial plan. The report furthermore highlighted a number of risks and demand-led pressures affecting, in particular, the Health and Social Care and Safer and Stronger Communities functions.

Taking into account both updated projections of grant funding and the need to address underlying structural deficits within the two service areas above on a sustainable basis, the report set out a revised in-year 2018/19 savings requirement of £20.9m, with significant further incremental annual savings requirements thereafter, together totalling £151.2m by 2022/23. While the Committee approved the release for public engagement of specific and themed proposals with the potential to address in full the estimated savings requirement in 2018/19, it was emphasised that the precise requirement would be determined by the Local Government Finance Settlement announced on 14 December 2017 and any subsequent amendments resulting from both the consultation period on the accompanying Finance Circular and Parliamentary consideration of the Draft Scottish Budget Bill. This report therefore updates members on the anticipated outcome of the Settlement and, in particular, its impact on the budget framework.

## Revenue Budget Framework 2018/23: Progress Update

### 1. Recommendations

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- 1.1 Members of the Finance and Resources Committee are asked to:
  - 1.1.1 note the impact of the provisional 2018/19 Local Government Finance Settlement on the 2018/23 revenue budget framework;
  - 1.1.2 consider, as appropriate, the officer recommendations in allocating additional available grant funding relative to framework assumptions;
  - 1.1.3 note, nonetheless, the estimated remaining savings requirements across the overall period of the framework; and
  - 1.1.4 refer the report to Council as part of the budget-setting process.

### 2. Background

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- 2.1 On 7 November 2017, members of the Finance and Resources Committee considered the Council's revenue budget framework mid-year review. The report provided an update on progress in delivering the savings approved for implementation in 2017/18 and advised as to the outcome of a review of the main income and expenditure factors included within the long-term financial plan. The report furthermore highlighted a number of risks and demand-led pressures affecting, in particular, the Health and Social Care and Safer and Stronger Communities functions.
- 2.2 Taking into account both updated projections of grant funding and the need to address underlying structural deficits within the two service areas above on a sustainable basis, the report set out a revised in-year 2018/19 savings requirement of £20.9m, with significant further incremental annual savings requirements thereafter, together totalling £151.2m by 2022/23. The savings requirement in each year of the framework assumes:
  - (i) delivery of all previously-approved savings;
  - (ii) a 3% annual increase in Council Tax; and
  - (iii) management of other risks and pressures over and above those for which specific additional budgetary provision has been made.
- 2.3 In considering the report's contents, members of the Committee also approved the release for public engagement of a number of specific proposals to a total value of £17.393m, with the balance of the incremental savings requirement for 2018/19 to be met through a number of Council-wide themes. Taken together, these

proposals, if all approved and the associated savings delivered, would address in full the estimated savings requirement in 2018/19. While the report noted that implementation and delivery of these, or alternative, proposals would go a significant way towards re-establishing financial stability across the period of the budget framework, it was emphasised that the 2018/19 proposals are best seen as a first step on a longer journey.

- 2.4 Members will be aware that the Council's budget framework, by necessity, included estimates of grant funding for 2018/19 and subsequent years based on best-available independent projections of likely levels of public expenditure and relative Scottish Government policies, priorities and commitments over the short- to medium-term. Following the announcement of the Local Government Finance Settlement on 14 December 2017 and subsequent changes arising from the consultation period on the accompanying Finance Circular and the wider Draft 2018/19 Scottish Budget's Parliamentary consideration, however, this report provides details of the implications of the Council's provisional funding allocation for the budget framework.

### **3. Main report**

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#### **Background**

- 3.1 The Cabinet Secretary for Finance and the Constitution presented a one-year Local Government Finance Settlement to the Scottish Parliament as part of the 2018/19 Draft Scottish Budget on 14 December 2017. As in previous years, the draft Settlement has been subject to a number of weeks' consultation, with any Council Leader not agreeing to the full package of measures included within it asked to notify the Cabinet Secretary in writing, setting out the reasons, by 2 February 2018. No such letter was submitted by the Council Leader. Comments on the calculations underpinning the accompanying Finance Circular were similarly invited and, as a consequence, the allocations within it remained provisional at the time of issue. Members are reminded that any reallocations of funding resulting from agreed distributional changes are made within the overall level of resources provided within the Settlement and there is thus the potential for any council's final allocation to vary from the provisional level intimated therein.
- 3.2 Receipt of each council's full funding allocation is dependent upon increasing Council Tax levels by no more than 3% in 2018/19 and continuing adherence to national commitments around maintaining current pupil:teacher ratios and guaranteeing a place for every probationary teacher who requires one under the Teacher Induction Scheme.
- 3.3 The funding package reflects baselining of the £130m of revenue resources initially provided on a one-off basis as part of the revised Local Government Finance Settlement in February 2017. It also includes additional revenue and capital monies to facilitate expansion of early learning and childcare provision and further investment of £66m to support implementation of the Carers (Scotland) Act 2016,

continued payment of the Living Wage and increases in personal and nursing care payments. Given these additional monies received through the Local Government Finance Settlement, recurring Social Care Fund investment will be maintained at 2017/18 levels. While local authorities will be expected to prioritise their financial support for social care, the Settlement contains no specific requirements with regard to the level of financial “offer” to be made to Integration Joint Boards in 2018/19.

### **Scotland-wide and Edinburgh-specific 2018/19 Settlement as initially announced on 14 December 2017**

- 3.4 Compared on a like-for-like basis and taking account of monies provided in respect of new commitments and/or pressures, the headline year-on-year Scotland-wide decrease in revenue funding announced on 14 December 2017 was around £150m, or 1.6%, a somewhat lower level of decrease than had been anticipated by local authority commentators.
- 3.5 While, subject to the outcome of the consultation process, the grant allocations remained provisional, on the basis of the figures contained within the accompanying Finance Circular, Edinburgh’s equivalent reduction was marginally higher than the national average at 1.7%, equating to some £12.2m. Although the Council’s share of the core, needs-based indicators has increased (reflective of the city’s relative population growth), the continuing effect of significant reductions in Edinburgh’s level of historic debt has resulted in a significant reduction in borrowing support. As a result, the Council remains firmly within the funding floor, with £21.6m of support provided to offset the level of grant reduction that would otherwise have been faced.
- 3.6 Following amendments to the basis of calculation first introduced in 2017/18, while Edinburgh’s per capita funding levels remain the lowest in Scotland, only Aberdeen City Council received additional funding as part of the Scottish Government policy whereby no authority receives less than 85% of the per capita average level of revenue support.

### **Revision to funding floor calculation**

- 3.7 As part of the consultation on the content of the Finance Circular, an error came to light in the calculation of the funding floor. The floor is a stability mechanism that, in times of reducing resources, has the effect of minimising the level of year-on-year reduction faced by any authority, thereby allowing the corresponding decrease in expenditure to be phased in over a longer period.
- 3.8 The floor is self-funding, meaning that any resources provided to support authorities facing higher reductions are met by means of contributions from those authorities receiving more favourable relative settlements. Following the issuing of a revised Settlement, the Council’s contribution reduced by £3m to £18.6m. By extension, the Council’s grant funding allocation fell by a further £3m, with the year-on-year level of grant reduction, at that stage, increasing to around 2.2%.

## **Scottish Parliamentary consideration of the Draft Scottish Budget Bill**

- 3.9 Previous reports have noted the potential for further changes to result from the Draft Budget's consideration by the Scottish Parliament. As part of the Stage 1 Budget Bill Debate on 31 January, a number of further amendments were introduced by the Cabinet Secretary. These revised budget proposals were approved by 69 votes to 56 and now move onto the next stage in the legislative process ahead of a final Parliamentary vote on 21 February.
- 3.10 Following a re-assessment of the total level of grant funding to be made available to councils, an additional £170m has been introduced into the Local Government Finance Settlement for 2018/19. This total comprises £159.5m of support to be allocated across councils in accordance with shares of overall assessed expenditure need and £10.5m specifically in respect of funding support for inter-island ferries for Orkney and Shetland Islands Councils. While a number of differing comparisons of the relative change in the level of Settlement can be made, on a like-for-like basis relative to the Council's planning assumptions, receipt of these additional monies results in an overall Scotland-wide year-on-year cash-terms increase of about 0.1%.
- 3.11 Based on its proportionate needs share of 7.77%, Edinburgh's allocation from the additional resources of £159.5m is £12.399m. While an element of the funding will be paid in March 2018, the full sum is being provided in respect of 2018/19.

### **Implications of level of grant settlement for Council's budget framework**

- 3.12 The Council's revenue budget framework assumed a headline decrease in grant of 2.9%, along with non-continuation of the £130m referenced at 3.4 above. Taken together, these factors resulted in an estimated total reduction of about 4.3%. The provisional actual level of reduction of 0.4%, inclusive of the additional monies noted at 3.12 above, therefore results in a favourable movement of 3.9% (equating to £27.1m) relative to framework assumptions.
- 3.13 While no further changes are anticipated at this stage, following consideration by the Scottish Parliamentary's Finance Committee on 15 February, the final Parliamentary debate will take place (with formal approval expected) on 21 February. Members will be kept apprised of any further changes resulting from this Parliamentary consideration.

### **Potential application of additional funding relative to framework assumptions**

- 3.14 An indicative allocation of some of the £27.1m of funding identified above, taking into account a number of national and local commitments, pressures and policies, is provided in the following sections. The proposals' starting point assumes approval and delivery of all of the specific proposals that were the subject of recent public engagement and that none of the service investment funded through the £10m of "one-off" monies in 2017/18 continues. In addition, it assumes delivery of £9.8m of savings previously approved for implementation in 2018/19, including £4.2m through the Asset Management Strategy.

<b>Officer proposals based on actual funding settlement</b>	<b>£m</b>	<b>£m</b>
Property condition surveys and repairs and maintenance		8.5
Health and Social Care - additional funding		4.0
Private Sector Leasing (PSL) - contract renewal/uplift		0.9
Extension of broad principles of Scottish Government 2018/19 pay award to Local Government		3.5
Unallocated funding		<b>10.2</b>
<b>Total</b>		<b>27.1</b>

### **Asset Management Strategy**

- 3.15 The update report considered by the Finance and Resources Committee on 23 January indicated that some £2.6m of Asset Management-related savings previously approved for delivery in 2018/19 were assessed as red, with a further £0.9m at amber. The budget framework proposals for 2018/19 include an additional £0.539m of staffing-related savings.
- 3.16 A number of primarily one-off savings to be delivered in 2018/19, alongside maintenance of the level of performance factor implicit in the staff-related saving above, have now been identified, with the potential to address in full the £3.5m of red- and amber-assessed savings. This notwithstanding, sustainable savings measures, particularly those relating to process efficiencies and estate rationalisation, are being developed by officers, fully accepting that such savings will require cross-party political support and approval to secure longer term financial stability

### **Looked-After Children and Young People**

- 3.17 A marked increase in the number of children requiring to be looked after within the Council's own residential facilities is placing additional pressure on the numbers of out-of-council placements required. While a range of mitigating actions is being examined, there is a risk that this expenditure pressure and any subsequent growth will not be able to be managed in full in 2018/19. On this basis, regular updates on this issue will be provided to members.

### **Property condition surveys and repairs and maintenance**

- 3.18 A report setting out the outcomes of the property condition surveys and the consequent requirement for a planned programme of backlog maintenance across the Council's operational estate was also considered at the Finance and Resources Committee's meeting on 23 January. Following in-depth analysis, this assessment points to a total in-year requirement in 2018/19 of £8.5m, based on the expected profile of the first year's capital works. The delivery plan, aligned to the financial profile contained in the report, is being developed on the assumption that the required funding will be available as set out. Subject to members' approval, the budget framework will be revised to incorporate the additional required revenue

provision to support the further capital requirement of £48.9m emerging from this assessment.

### **Health and Social Care**

- 3.19 The £4m sum for Health and Social Care, alongside a corresponding assumed contribution from NHS Lothian, is intended to facilitate the provision of care packages to individuals previously assessed as requiring support, alongside provisions for new demographic demand and the part-year care requirement emerging from those individuals currently awaiting an assessment. Going forward, it is envisaged that the full-year impact of this increased demand will primarily be met from release of capacity through telecare, support planning and brokerage and homecare/re-ablement initiatives.
- 3.20 Discussions are continuing with NHS Lothian to supplement any additional investment provided by the Council, with decisions in this area subject to ratification by both the Edinburgh Integration Joint Board and NHS Lothian. On-going work is also taking place to assess both the service demand and capacity available to increase service provision next year.

### **Private Sector Leasing (PSL)**

- 3.21 It is anticipated that, following this Committee's in-principle approval at its previous meeting on 23 January, arrangements to extend the current PSL contract will be finalised later in February 2018. These revised arrangements will require payment of the increased rent and management fees rates implicit in the uplift at 3.15 above to allow the Council to continue to meet its statutory responsibilities in this area. Approving the extension of this contract and the associated increase in cost is a key part of continuing to deliver against Council commitments to address homelessness in the city.

### **Pay awards**

- 3.22 While Local Government pay awards are separately negotiated through COSLA, as part of the Cabinet Secretary's announcement on 14 December 2017, a revised Scottish Government public sector pay policy for 2018/19, comprising the following elements, was confirmed:
- (i) a 3% increase for all staff whose annual remuneration is less than £30,000;
  - (ii) a 2% increase for staff whose salary falls between £30,000 and £80,000; and
  - (iii) a £1,600 capped maximum increase for those staff earning more than £80,000.
- 3.23 The detailed application of this policy, particularly the appropriate level of increase to apply to staff in the middle banding, requires to be confirmed. Based on a literal application of the principles above, however, the additional annual cost to the Council of matching this offer would be about £2.2m.

- 3.24 As part of the Draft Scottish Budget Bill's consideration by the Scottish Parliament, the Cabinet Secretary for Finance and the Constitution subsequently announced a change in the Scottish Government's public sector pay policy on 30 January, increasing to £36,500 (from £30,000) the upper threshold to which the 3% pay increase applies. Based on an assessment of the additional Council staff now brought into scope of the higher percentage increase, the estimated full-year cost relative to the policy announced on 14 December 2017 is £1.3m, bringing the total additional cost relative to budget framework assumptions to £3.5m.
- 3.25 While it is anticipated that, as in previous years, pay awards will be negotiated between COSLA and the representative trade unions at a Scotland-wide level, the officer recommendation reflects this additional liability as indicative of the upward pressure on staff salaries that would be anticipated to result from a relaxation of the Scottish Government's policy.
- 3.26 In view of the general heightening of expectations around staff pay awards witnessed by the levels of claim lodged by both the representative teaching and non-teaching trade unions, however, it may be prudent to increase further the level of provision across all staffing groups to 3%. While not included in the proposals at 3.15 above, adoption of this assumption would result in a further increase of £1.9m i.e. to £5.4m in total, relative to the budget framework baseline.

#### **Development of "themed" savings**

- 3.27 A series of meetings between the Chief Executive and Executive Directors, supported by the relevant Principal Accountants, has been held with a view to identifying additional, or accelerating existing, proposed savings that could contribute towards the £3.5m of "themed" savings assumed within the budget consultation and framework in 2018/19. Whilst the wider focus has been on the immediate budget requirements for 2018/19, these meetings have had the main purpose of ensuring that the medium-term financial framework and savings profile for the next four years are being actively developed and are wholly aligned to the Council's emergent Change Strategy. While these proposals and opportunities focus on the medium term and are intended to enable the delivery of savings from 2019/20 onwards, some of them may be able to be accelerated into 2018/19.
- 3.28 At this stage, £1m of additional officer proposals, representing a combination of service efficiencies and acceleration from later years' initiatives, have been identified and corresponding one-page templates will be made available to all Groups prior to Council's budget-setting on 22 February 2018.
- 3.29 In addition to this primarily medium-term work, as an agreed part of this wider review, consideration of the Council's corporate budgets has identified additional savings opportunities as follows:
- (i) £1m of recurring savings in loan charge provision, based on anticipated slippage within the current year's capital programme reflected in the month nine monitoring position reported to the Finance and Resources Committee on 23 January 2018;

- (ii) £1m of additional Council Tax income evident within updated assessments of the size and profile of the city's Council Tax base; and
- (ii) £0.5m of additional interest on the Council's available cash balances, assumed for one year only at this stage, following the recent increase in base interest rates.

### **Overall position for 2018/19**

- 3.30 Taken together, these identified corporate savings and other unallocated funding offer the potential for a total of £10.2m of additional investment in addition to that set out in Paragraph 3.15. Given that a significant savings requirement remains to be addressed in subsequent years of the framework, members may wish to identify, in particular, items of a one-off nature.
- 3.31 This investment could be used to support a range of expenditure including that of a preventative nature or, alternatively, rejection of, or amendment to, the level of previously-approved or proposed savings. The further reading section contains a link to the report setting out the approved uses of the £10m of one-off investment in 2017/18 that may form part of this consideration.
- 3.32 At its meeting on 23 November 2017, Council considered a motion from Cllr Hutchison seeking clarification on the feasibility of analysing the Council's budget according to the statutory or non-statutory nature of the activities concerned. Whilst relevant legislation sets out a range of powers and duties, no definitive and accepted list of such services exists. In addition, the extent and nature of statutory provision is, in many cases, not formally prescribed.
- 3.33 To provide additional transparency and further inform members' consideration, however, an analysis of the Council's principal areas of expenditure is included at Appendix 1.

### **Future years**

- 3.34 In view of the larger financial challenges anticipated in subsequent years of the framework, work to develop additional proposals involving service redesign, improved demand management and service prioritisation will continue to be accelerated in line with the intention to present a four-year, sustainable plan, built upon the Programme for the Capital and aligned to the Change Strategy, to the Finance and Resources Committee in September 2018. A review of the financial framework assumptions will also be undertaken as part of the four-year budget planning exercise.

### **Barclay Review on Non-Domestic Rates**

- 3.35 Following the earlier publication of the recommendations of the Barclay Review on Non-Domestic Rates, the Cabinet Secretary for Finance and the Constitution made a ministerial statement to Parliament on the Scottish Government's response on 12 September 2017. This response signalled an intention, subject to Parliamentary approval, to implement the majority of the Review's recommendations, including granting a year's relief for newly-constructed and expanded properties, introducing

more frequent revaluations, full rates relief for childcare facilities and conducting a comprehensive review of the operation of the Small Business Bonus Scheme.

- 3.36 The Scottish Government indicated that it would engage further with key stakeholders concerning the Review's recommendations on entitlement to charitable relief for local authority arm's length leisure and cultural trusts and independent schools, before publishing its response to these proposals by the end of 2017.
- 3.37 On 28 November 2017, the Cabinet Secretary confirmed that existing rates relief for local authority arm's length organisations (ALEOs), including Edinburgh Leisure and the Festival City Theatres Trust, would be maintained, thereby avoiding a potential annual liability of around £2.5m across the two organisations. The Cabinet Secretary further intimated, however, that rates relief would not be granted for any further proposed ALEOs.
- 3.38 As part of the Scottish Budget announcement, the Cabinet Secretary also intimated that existing charitable relief for independent schools (except special schools) would be removed from 2020/21. Overall changes in school roll projections will continue to be monitored and inform demographic-related projections contained within the Council's Long-Term Financial Plan.

## **4. Measures of success**

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- 4.1 Relevant measures in setting the revenue budget include:
- Accurate capturing and quantification of the key determinants of the Council's overall expenditure requirement and available sources of income, allowing a balanced overall budget for 2018/19 and subsequent years to be set as part of a sustainable longer-term framework;
  - Development of savings and investment options aligned to the Council's priority outcomes, with due opportunity provided for public consultation and engagement; and
  - Subsequent delivery of the approved savings, particularly where these are linked to additional service investment, along with key service performance indicators.

## **5. Financial impact**

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- 5.1 Delivery of a balanced budget in any given year is contingent upon the development, and subsequent delivery, of robust savings, alongside management of all risks and pressures, particularly those of a demand-led nature.
- 5.2 By adopting more prudent assumptions with respect to grant funding levels, the budget framework has offered elected members the potential to consider a wider range of savings and investment options.

## **6. Risk, policy, compliance and governance impact**

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- 6.1 An annual report on the risks inherent in the budget process (contained elsewhere on today's agenda) is considered by the Finance and Resources Committee and referred to Council as part of setting the revenue and capital budgets.
- 6.2 The savings assurance process is intended to ensure that, as far as is practicable, those proposals approved by Council deliver the anticipated level of financial savings in a way consistent with the expected service impacts outlined in the respective budget proposals.
- 6.3 A summary of progress in respect of savings delivery is reported to the Finance and Resources Committee on a quarterly basis, with additional detail and commentary on risks, mitigations and alternative measures (as appropriate) reported to Executive Committees.

## **7. Equalities impact**

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- 7.1 While there is no direct additional impact of the report's contents, all budget proposals are now subject to an initial relevance and proportionality assessment and, where appropriate, a formal Equalities and Rights Impact Assessment is then undertaken. A report on material impacts arising from the budget proposals and associated planned mitigating actions is included elsewhere on today's agenda. The equalities and rights impacts of any substitute measures identified to address savings shortfalls are similarly assessed.

## **8. Sustainability impact**

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- 8.1 While there is no direct additional impact of the report's contents, the Council's revenue budget includes expenditure impacting upon carbon, adaptation to climate change and contributing to sustainable development. In addition, all budget proposals are now subject to an upfront assessment across these areas, with the main impacts included elsewhere on today's agenda.

## **9. Consultation and engagement**

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- 9.1 As in previous years, an extensive programme of engagement on the specific proposals and wider themes comprising the framework has been undertaken. A separate report on the main areas of feedback emerging from this year's citizen budget engagement exercise is included elsewhere on today's agenda.

## 10. Background reading/external references

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- 10.1 [Capital Coalition Budget Motion](#), City of Edinburgh Council, 9 February 2017
- 10.2 [Revenue and Capital Budget Framework 2018/23 – progress update](#), Finance and Resources Committee, 5 September 2017
- 10.3 [Revenue Budget Monitoring 2017/18 – Update](#), Finance and Resources Committee, 28 September 2017
- 10.4 [Revenue Budget Framework 2018/23: Mid-Year Review](#), Finance and Resources Committee, 7 November 2017
- 10.5 [Approved 2017/18 – 2020/21 Revenue Budget and 2017/18 – 2021/22 Capital Investment Programme – plans for supplementary investment](#), Finance and Resources Committee, 23 March 2017

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## 11. Appendices

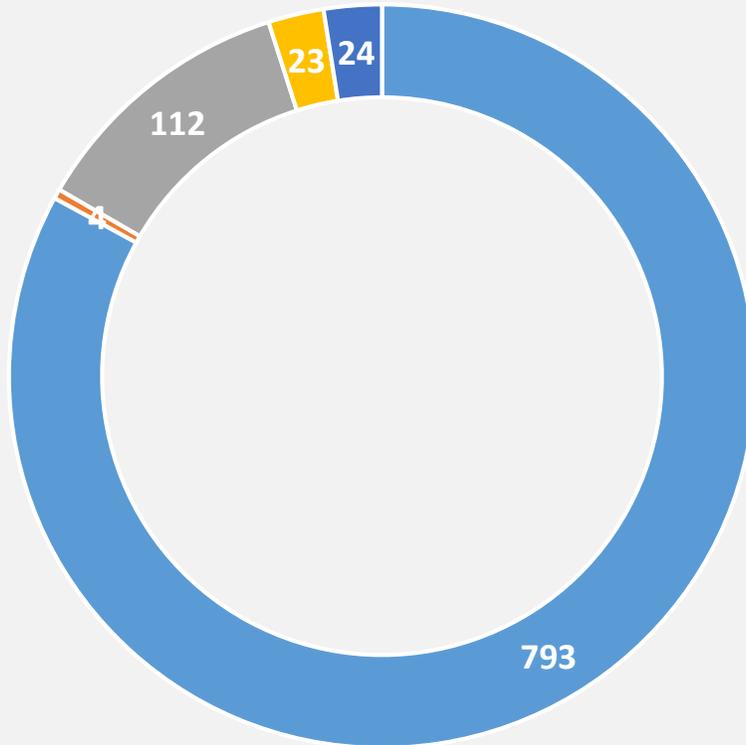
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Appendix 1 – Corporate and service-by-service analysis of 2017/18 approved revenue budget

# Revised Council revenue budget, 2017/18

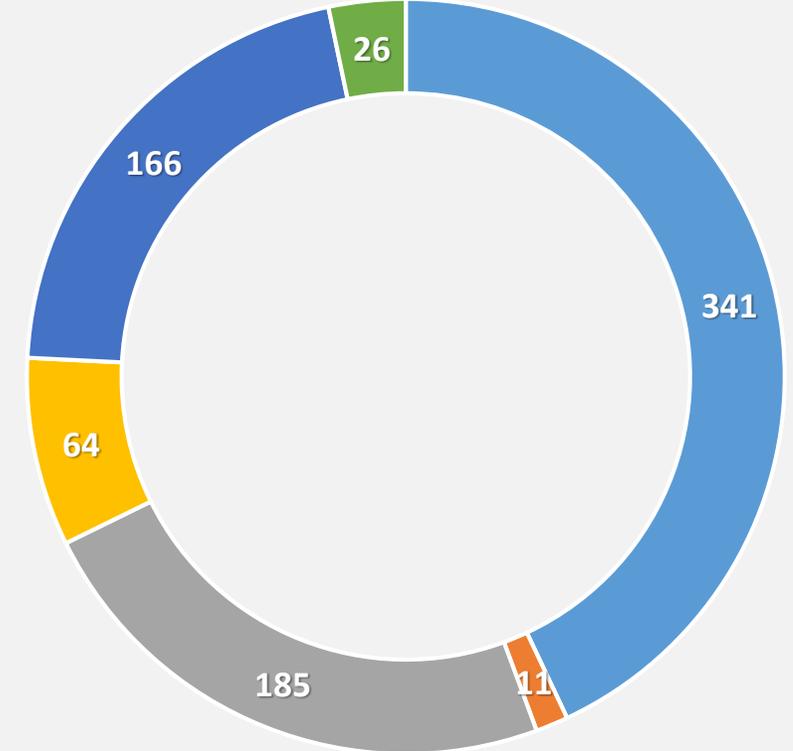
# Appendix 1

Net Budget (£m) – General Fund £956m



- Total net service expenditure
- Loan charges
- Other corporate exp
- Lothian Valuation Joint Board
- Council Tax Reduction Scheme

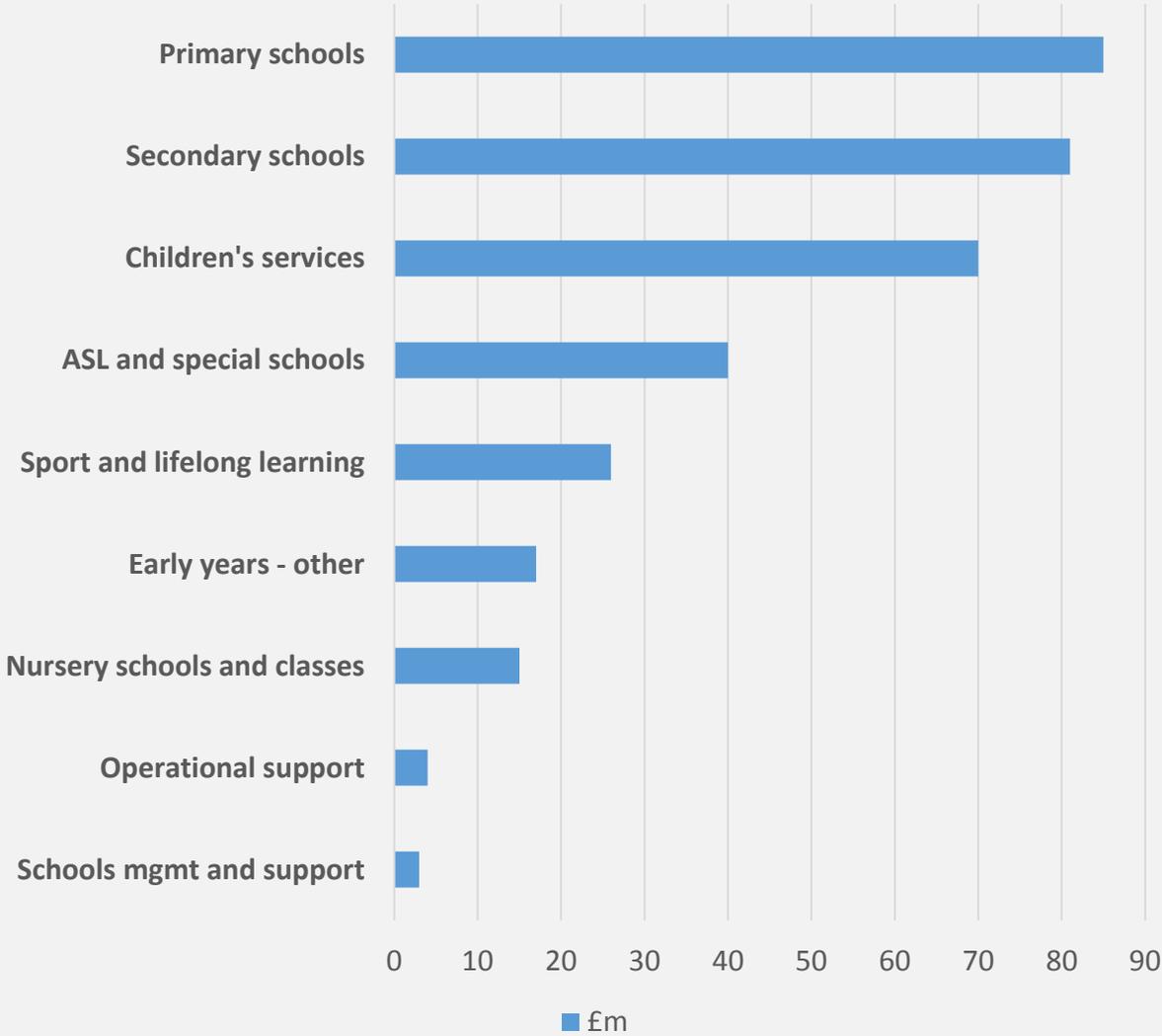
Net Budget (£m) – Service Expenditure £793m



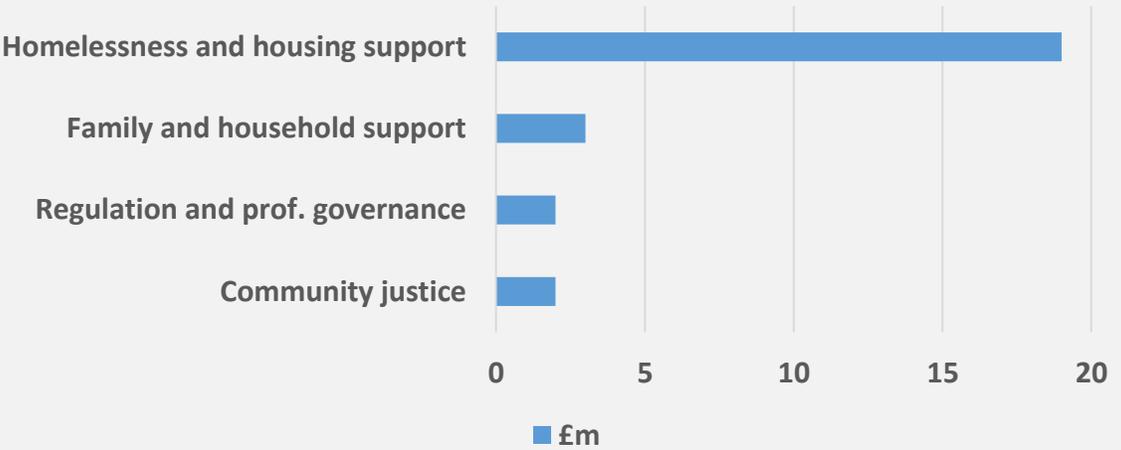
- Communities and Families
- Health and Social Care
- Resources
- Chief Executive
- Place
- Safer and Stronger Communities

# Financial context – Council Budget

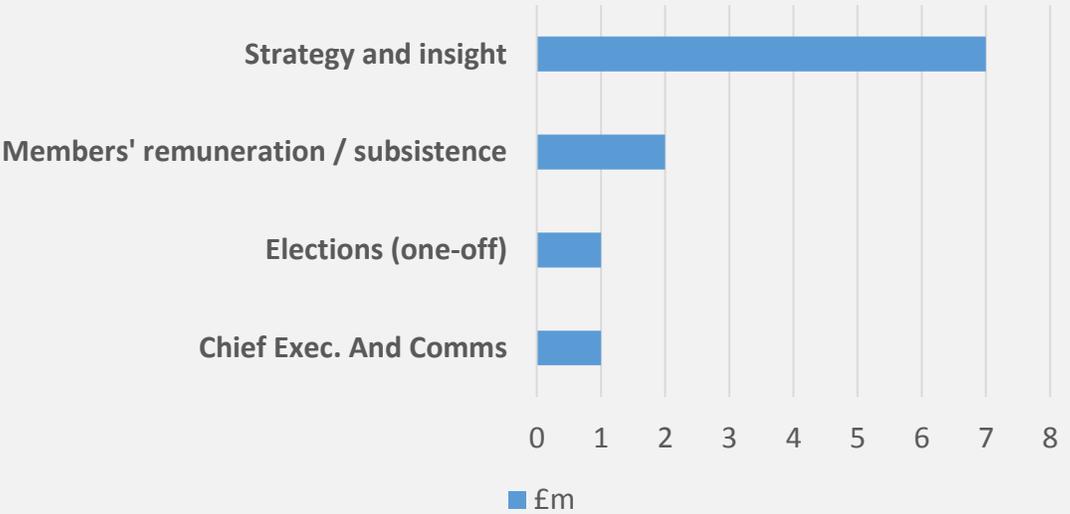
## Communities and Families - £341m



## Safer and Stronger Communities - £26m

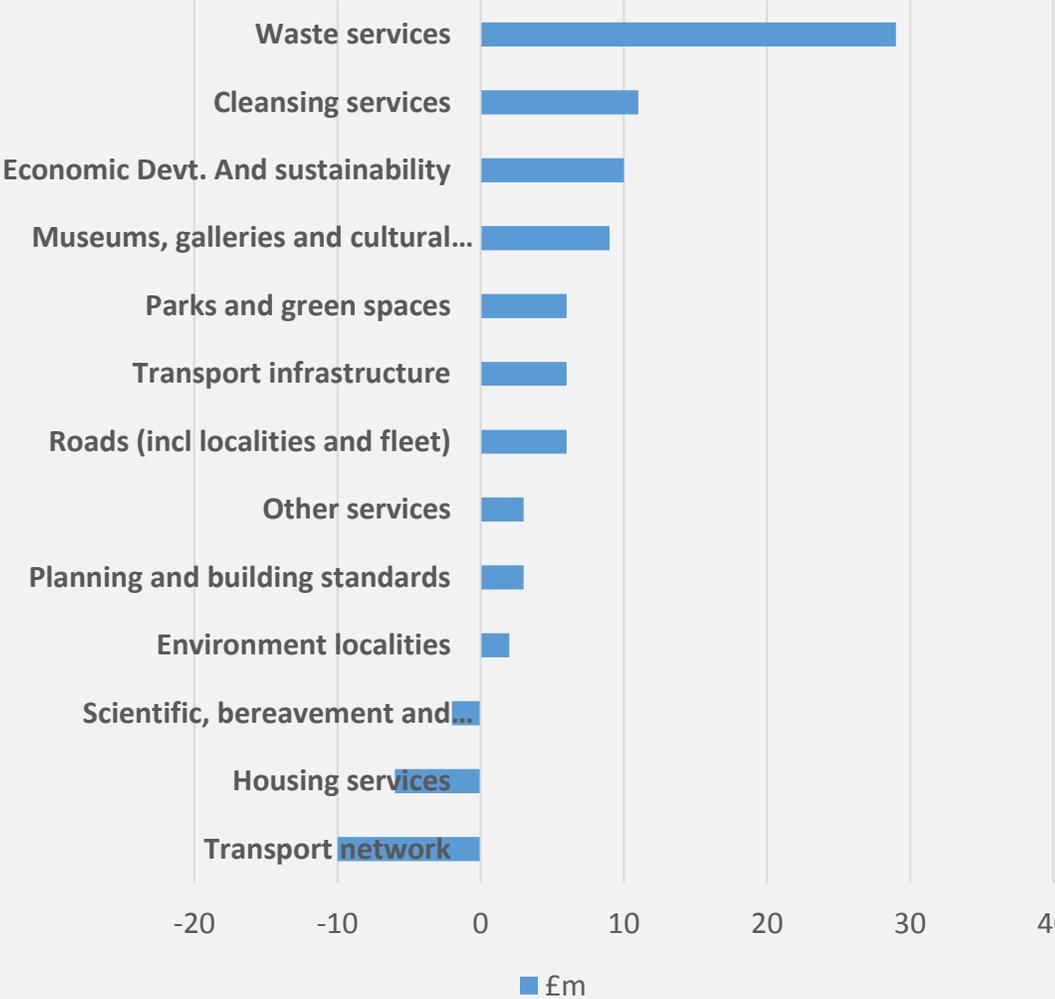


## Chief Executive - £11m

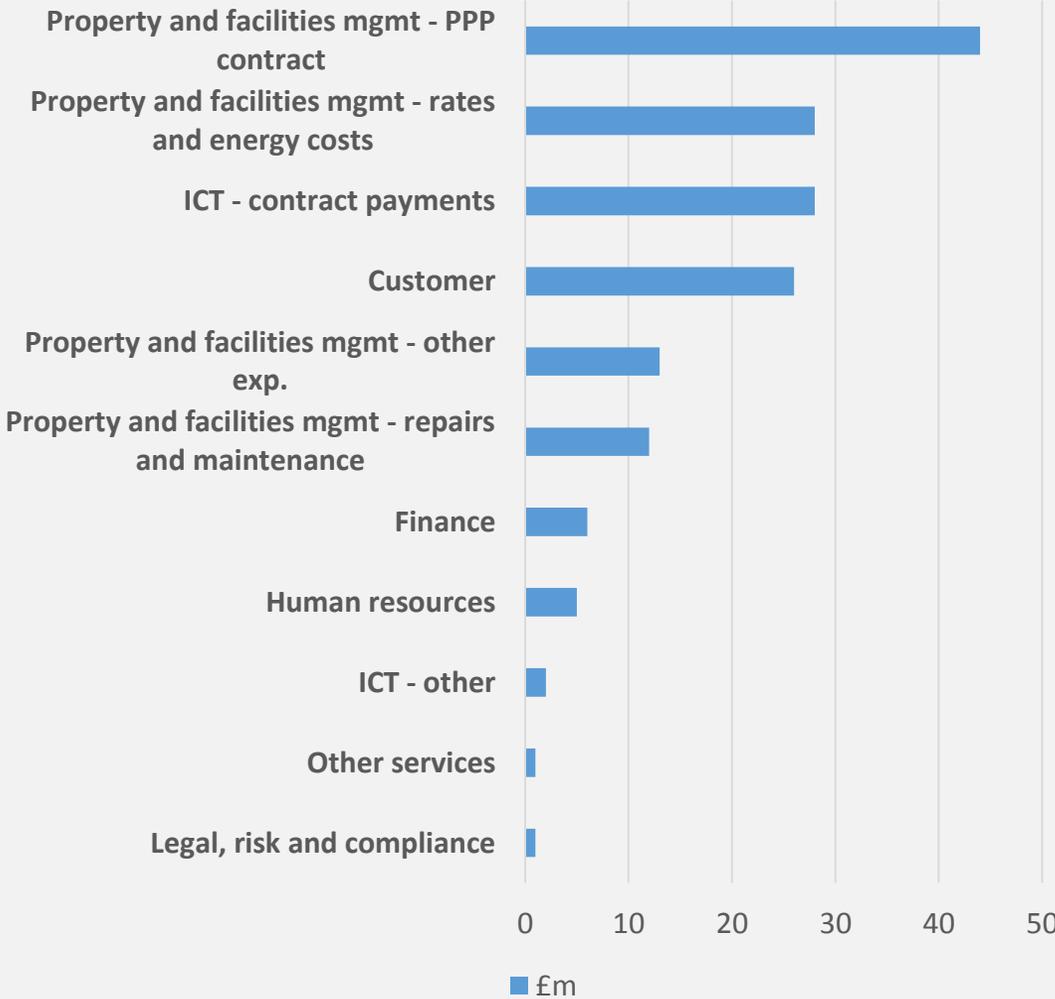


# Financial context – Council Budget

Place - £64m

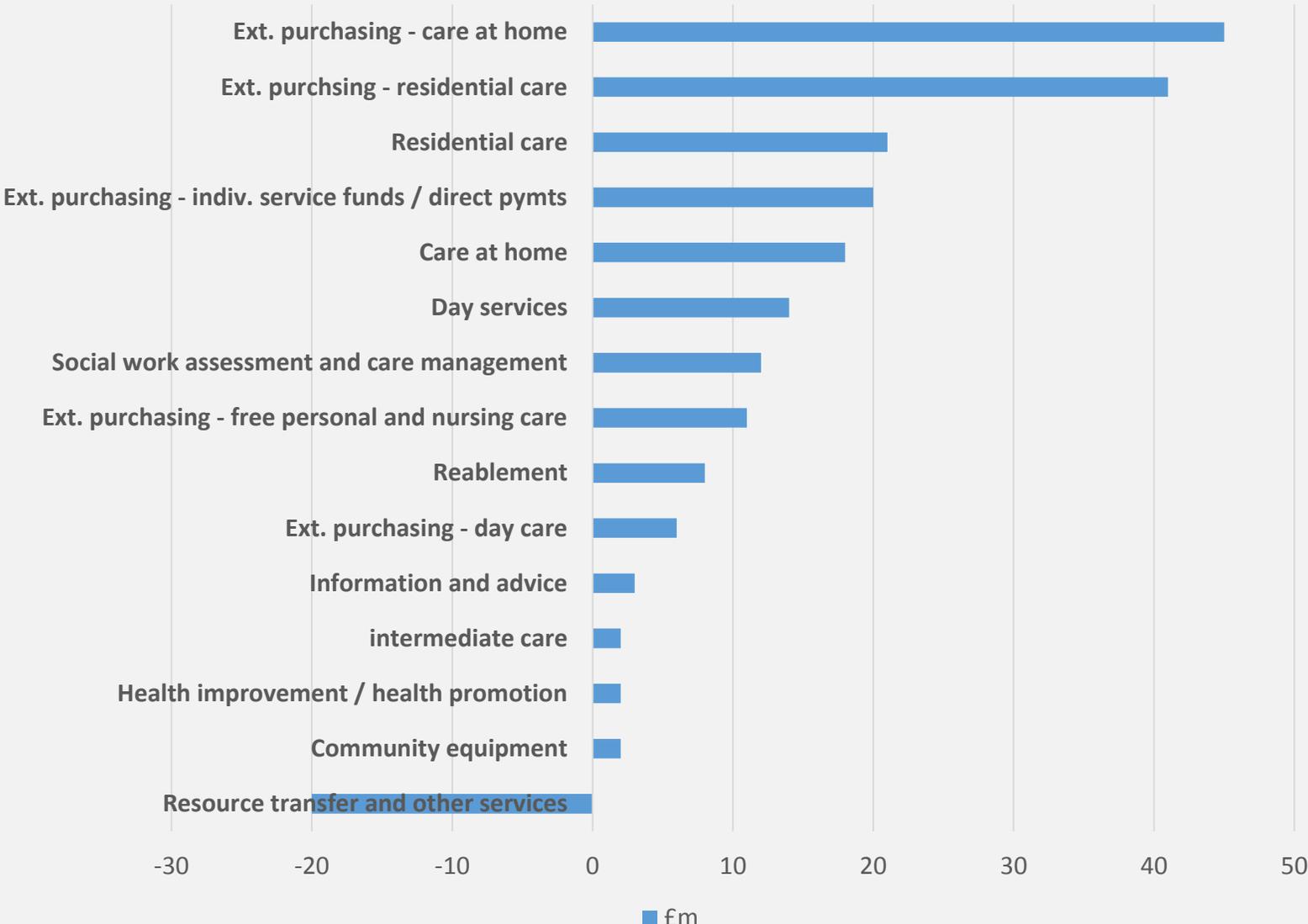


Resources - £166m



# Financial context – Council Budget

## Health and Social Care - £185m



Budgets are net of funding through the Social Care Fund.