

10am, Thursday, 21 February 2019

Local Government Finance Settlement 2019/20 – further update

Item number	4.2(a)(ii)
Report number	
Executive/routine	Routine
Wards	n/a

Executive Summary

An update on the revenue and capital budget frameworks was considered by the Finance and Resources Committee on 1 February 2019, with these reports referred to Council to inform the budget-setting meeting. The reports reflected provisional grant funding allocations contained within the Local Government Finance Settlement (LGFS) for 2019/20 announced on 17 December 2018.

On 31 January 2019, as part of the Stage One Parliamentary Debate on the 2019/20 Scottish Draft Budget, the Cabinet Secretary for Finance, Economy and Fair Work announced a number of changes to the provisional LGFS and other relevant expenditure assumptions, resulting in a reduction in the Council's overall incremental savings requirement for 2019/20 from £41.0m to £33.1m. The full amount of this additional revenue funding of £7.9m is available for allocation within Groups' or Independent members' respective budget motions.

Local Government Finance Settlement 2019/20 – further update

1. Recommendations

- 1.1 Following the announcement of a revised Local Government Finance Settlement on 31 January 2019, members are asked to note the update to the Council's financial planning assumptions as part of setting the revenue and capital budget frameworks.

2. Background

- 2.1 An initial update on the revenue and capital budget frameworks was considered by the Finance and Resources Committee on 1 February 2019, with these reports referred to Council to inform the budget-setting meeting. The reports reflected provisional grant funding allocations contained within the LGFS announced on 17 December 2018. Given the timing of the Cabinet Secretary's announcement, these reports were necessarily supplemented by a further members' briefing on the day of the Committee's meeting.

3. Main report

Stage One Parliamentary Debate

- 3.1 Since the Cabinet Secretary's initial announcement, discussions have been continuing with Opposition Groups represented within the Scottish Parliament, given the likely need to secure the support of at least one other party to allow the Scottish Draft Budget to be passed. As part of the Stage One Parliamentary Debate on 31 January, the Cabinet Secretary confirmed a number of changes to the provisional Settlement as follows:
- (i) **increasing the core local government revenue settlement by £90 million** (of which the Council's share is £7.038m);
 - (ii) **allowing local authorities additional flexibility with regard to setting Council Tax levels**, raising the maximum permitted increase to 3% in *real terms* i.e. 4.79% in cash terms (were this option exercised in Edinburgh, based on current collection rates, some £4.9m of additional income would be raised); and
 - (iii) while continuing to provide an earmarked additional £160 million of health and social care investment, **allowing local authorities the flexibility to apply savings targets of up to 2.2% against their baseline IJB**

allocations (i.e. by up to £50 million across all local authorities) to help them manage their own budgets. This change would allow the Council to apply, without any risk of sanction, the £3m upfront savings target contained within the draft proposals for 2019/20.

- 3.2 In addition to these changes directly affecting the 2019/20 budget, a number of longer-term policy changes were announced as follows:
- (i) consulting, in 2019, on the **principles of a locally-determined tourist tax**, prior to introducing legislation to permit local authorities to introduce a transient visitor levy, if appropriate for local circumstances;
 - (ii) supporting an agreed amendment from the Scottish Green Party to the Transport (Scotland) Bill that would enable those local authorities who wish to use such a power, to introduce a **workplace parking levy**. Scottish Government support will be contingent upon the exclusion of hospitals and NHS properties;
 - (iii) **devolving Non-Domestic Rates Empty Property Relief to local authorities** in time for the next revaluation;
 - (iv) **convening cross-party talks on a replacement for the current system of Council Tax** with a view to publishing legislation, should cross-party agreement on a replacement be reached, by the end of the current Parliamentary term, with that legislation then taken forward during the following Parliament;
 - (v) bringing forward a **three-year funding settlement for local government** from the 2020/21 budget onwards;
 - (vi) developing a **rules-based framework for local government funding** in partnership with COSLA to be introduced for the next Parliament; and
 - (vii) enacting changes to relevant legislation **allowing variations to be made to pre-2016 loans fund advance repayment periods**, subject to demonstrating the prudence and affordability of such rescheduling.
- 3.3 The Cabinet Secretary's announcement also confirmed the Scottish Government's funding of the teachers' pay award at a level consistent with budget framework assumptions. Modelling work undertaken by the Scottish Government suggests, however, that the unfunded element of the teachers' superannuation contribution increase is lower than previously estimated and, alongside a commitment to pass on all resulting Barnett Consequentials received from the UK Government, that the residual pressure across Scottish councils as a whole will reduce by some £15m (a reduction of £0.9m for Edinburgh).

Impact on the incremental savings requirement, 2019/20

- 3.4 A number of the above changes either do not affect the savings requirement directly, or are subject to the specific decisions taken by the respective Political Groups or Independent members. Those that do, however, affect the baseline are included in the table below:

	£m
Incremental savings requirement per report to Finance and Resources Committee on 1 February 2019	41.0
Provisional impact of Scottish Government Draft Budget – Stage 1 amendment additional revenue grant funding	(7.0)
Reduction in estimated pressure in employers' superannuation contributions for teaching staff	(0.9)
Revised savings requirement	33.1

- 3.5 The budget framework currently assumes an increase in Council Tax across all bands of 3%. Should any Group or Independent member wish to revise this assumption, each 1% change would result in a change in income of £2.75m; the full permitted additional increase would therefore raise some £4.9m, resulting in a revised net savings requirement, without any offsetting related investment, of £28.2m.
- 3.6 The implications of the actual 2019/20 level of Settlement for future years' savings requirements will be reviewed as part of a wider update of budget framework assumptions later in the year. Funding settlements in line with the actual level received for 2019/20 would, however, reduce the four-year gap from £147m to £117m.
- 3.7 Members are asked to note the contents of this report in considering the list of proposed savings in Appendix 2 of the referred-on Change Strategy report elsewhere on today's agenda.

4. Measures of success

- 4.1 Relevant measures in setting the revenue budget include:
- 4.1.1 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 2019/20 to be set as part of a sustainable longer-term framework;
 - 4.1.2 Development of savings and investment options aligned to the Council's priority outcomes, with due opportunity provided for public consultation and engagement; and

4.1.3 Subsequent delivery of the approved savings, particularly where these are linked to additional service investment, along with key service performance indicators.

5. Financial impact

- 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 In 2016/17, following the introduction of enhanced senior officer and elected member scrutiny at the inception, development and implementation stages, some 88% of savings by value were subsequently delivered during the year. In 2017/18, however, this level of delivery reduced to 80%, with a further decrease to around 70% anticipated in the current year. In view of these reductions and the increasingly-challenging nature of savings delivery, particularly those approved measures concerned with more effective demand management, at the meeting of Council on 25 October 2018, members approved the use of up to £1m of previously-uncommitted monies to facilitate the engagement of dedicated fixed-term project managers to develop individual proposals comprising the broader Change Strategy.
- 5.3 The Council is required by legislation to set Council Tax rates for the following financial year by 11 March. Implicit within this requirement is agreement of specific expenditure and savings plans, such that combined grant funding, Council Tax and fees and charges income meet expected expenditure obligations. After successive years' expenditure reductions, this is likely to require approval of most of the savings set out within the Change Strategy, with increasingly-difficult decisions on service prioritisation and greater efficiencies required in subsequent years.

6. Risk, policy, compliance and governance impact

- 6.1 An annual report on the risks inherent in the budget process is considered by the Finance and Resources Committee and referred to Council as part of setting the revenue and capital budgets. This report is included elsewhere on today's agenda and sets out a number of risks including future funding and pay award levels and, in particular, effectiveness in the delivery of approved savings and management of service pressures.
- 6.2 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. As noted above, however, due to a decrease since 2016/17 in the proportion of approved savings subsequently delivered, these controls will be strengthened through the provision of dedicated project management support of key change initiatives and robust implementation plans,

with opportunities to enhance further senior officer and elected member scrutiny also examined.

- 6.3 Ongoing communications by the Council's statutory section 95 Chief Financial Officer, the Head of Finance, have reinforced the respective accountabilities and responsibilities of Executive Directors, the Chief Officer of the Edinburgh Integration Joint Board (EIJB) and Heads of Service to maintain expenditure within approved budgets, in accordance with the Financial Regulations. Executive Directors and the Chief Officer of the EIJB also have a requirement to ensure that savings identified are both achievable and delivered to maintain a sustainable budget across the Council.

7. Equalities impact

- 7.1 All budget proposals are subject to an initial relevance and proportionality assessment and, where appropriate, a formal Integrated Impact Assessment is then undertaken. The equalities and rights impacts of any substitute measures identified to address savings shortfalls are similarly assessed. Feedback received as part of the budget engagement also allows for any equalities-related impacts highlighted by service users to be taken on board in the implementation of the measures concerned.
- 7.2 A summary of the potential implications and identified mitigating actions for the proposals comprising the Change Strategy is included elsewhere on today's agenda to ensure members pay due regard to relevant considerations.

8. Sustainability impact

- 8.1 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.
- 8.2 The report considered by the Finance and Resources Committee on 1 February 2019 and referred to this meeting additionally sets out proposals for the introduction of a carbon budgeting pilot across key areas of Council activity.

9. Consultation and engagement

- 9.1 An overview of feedback received over the three-month engagement period for *Planning for Change and Delivering Services* is provided in a separate item elsewhere on today's agenda.

- 9.2 Feedback on the specific proposals set out in Appendix 2 of the report has also been sought through the Council's consultation hub. A summary of this feedback is similarly included in a report elsewhere on today's agenda.

10. Background reading/external references

- 10.1 [Revenue Budget Framework 2018/23 Update](#), Finance and Resources Committee, 12 June 2018
- 10.2 [Proposed 2018/19 Citizen Engagement](#), Finance and Resources Committee, 16 August 2018
- 10.3 [Council Change Strategy: Planning for Change and Delivering Services 2019-2023](#), Finance and Resources Committee, 27 September 2018
- 10.4 [Scottish Government Funding Offer for Rapid Access Accommodation](#), City of Edinburgh Council, 13 December 2018
- 10.5 [Council Change Strategy: Planning for Change and Delivering Services 2019-23](#), Finance and Resources Committee, 1 February 2019

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11. Appendices

None