

REPORT TO: East Lothian Council

MEETING DATE: 27 October 2020

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Financial Update Report

1 PURPOSE

- 1.1 To provide an update on the in-year financial position, to provide some outline thoughts on the financial outlook for the Council, and to set out the proposed budget development framework for the three-year period 2021-2024.

2 RECOMMENDATIONS

2.1 The Council is recommended to:

- In accordance with Appendix A:
 - Note the in-year financial performance for the Council;
 - Endorse the wider strategy including the range of mitigating actions set out in paragraph 1.17 currently being explored by officers to best manage the 2020-21 financial pressures, and agree that a further update will be provided to Council in December.
- In accordance with Appendix B:
 - Note the content of the report;
 - Agree that as far as is possible, advance work on budget development for 2021/24 commences;
 - Approve the budget development framework and supporting process set out in Section 1.13 of Appendix B.

3 BACKGROUND

- 3.1 The Council received an update on the in-year financial performance and underlying challenges at its meeting in August 2020. This report provides an update on the in-year financial position, and the potential risks and financial challenges going forward.
- 3.2 The Council continues to operate within an extremely challenging financial environment that has significantly worsened as a consequence of various implications arising from COVID-19.
- 3.3 This report brings together an important update on the in-year financial position and also provides some thoughts on the financial prospects for the Council moving forward. The report is structured with 2 separate appendices:
- Appendix A – sets out an update on the in-year financial position based on the most current ledger position at the end of Period 05. The report focuses on the key variables since the August report, provides an update on recent changes to national funding discussions, and sets out the range of options currently being explored to manage the in-year pressures and deliver a balanced year-end position.
 - Appendix B – considers the financial outlook including a range of potential financial implications facing the Council over the next few years. This part of the report also sets out the proposed budget development framework and supporting process for the three-year period 2021-24.

4 POLICY IMPLICATIONS

- 4.1 There are no direct policy implications associated with this report, although, ongoing monitoring and reporting of the Council's financial performance is a key part of the approved Financial Strategy.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report has been considered and given there is no change in policy direction, there is no requirement to undertake any further impact assessment.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – as described above and in the supporting appendices
- 6.2 Personnel - none
- 6.3 Other – none

7 BACKGROUND PAPERS

- 7.1 Council – 17 December 2019 – Item 4 Finance Strategy 2020-25
- 7.2 Council – 25 February 2020 – Item 4 – Budget Development including setting of rent levels 2020-25
- 7.3 Council – 3 March 2020 – Item 2 – General Service Budget Proposal - Administration
- 7.4 Members Library Service 31 May 2020 – 61/20 COVID 19 Financial Management Update
- 7.5 Members Library Service 31 July 2020 – 78/20 COVID 19 Financial Update
- 7.6 Council 25 August 2020 – Item 5 – 2020/21 Financial Review Quarter 1

AUTHOR'S NAME	Jim Lamond Sarah Fortune
DESIGNATION	Head of Council Resources Chief Operating Officer Finance
CONTACT INFO	jlamond@eastlothian.gov.uk sfortune@eastlothian.gov.uk
DATE	16 October 2020

Appendix A – 2020/21 Financial Review/Update

General Services Summary – Period 5

- 1.1 This part of the report sets out the financial position for the Council as at the end of August 2020 against approved budgets. An analysis of the financial position across service groups is set out in **Appendix 1** with further detail summarised below. **The summary financial position reported for the Council as at the end of August 2020 shows a significant overspend of £4.081 million (6.1%).**
- 1.2 A growing number of services are now categorised as High Risk, highlighting the very challenging financial operating environment, and providing clear indication that services are struggling more than ever to deliver existing service levels within available resources. The level of financial risk facing the Council has been significantly increased due to COVID-19 related implications. In line with the previous Council decision, officers led by the Council Management Team are continuing to implement enhanced cost control measures that will help restrict spending commitments.
- 1.3 The summary below sets out the key challenges and risks across each of the Directorates.
- 1.4 The **Resources and People Directorate, (covering Education and Children’s Services Group alongside Council Resources)** is reporting a Period 5 overspend of £0.481 million (0.9%) an increase of £0.147 million from the Q1 reported position. Education & Children’s Services is reporting a collective overspend of £0.592 million (1.2%), and Council Resources an underspend of £0.111 million (2.1%). A summary of the key variables and risks are set out below:
 - Children’s Services, £0.816 million over (12.5%) – the most significant pressure remains in External Residential Care with an increased number of children placed in care, and further pressures evident in high tariff secure placements and external fostering. As highlighted within the Quarter 1 financial review, the service is likely to overspend in excess of approved budgets by around £2 million. This includes additional COVID-19 related expenditure in excess of £0.450 million largely relating to: loss of income, additional cover for staff absence, and additional external fostering placements due to pressures within local fostering capacity. The service continues to face increasing demand for services and there is a risk that this could further increase the financial gap as we progress through the remainder of the financial year.
 - Management remain focussed on a range of options designed to minimise future spending commitments but ensuring that services provided to children are undertaken in a way that best supports and protects children. The vulnerable Children’s Services Project will now be expanded to a transformational programme reviewing all services

to children across the Council to ensure a whole-Council approach to reducing vulnerability and will include enhanced family support measures. Some progress has been made reviewing processes and implementing measures that will mitigate demand and costs. These interventions, whilst welcomed are likely to take some time to realise, and significant effort must be made to prioritise interventions that will deliver and support financial benefits both in the short term, whilst also stemming the long-term demand for this service.

- Education, £0.227 million under (0.5%) – Pressures remain in ASL, primary and secondary school budgets, largely relating to external placement and transport costs, significant additional COVID-19 related costs to support the safe reopening of schools, including PPE, cleaning and transport, and a potentially significant loss of income relating to school trips. These costs remain variable as we continue to support the implications arising from COVID-19. As previously reported, flexibility in excess of £3 million has been applied in respect of Early Learning and Childcare funding in line with national guidance.
- Council Resources, £0.111 million under (2.1%) – There remains significant additional costs to support the IT capability of staff working from home. These pressures are offset by staffing vacancies across wider support services pending the finalisation of a number of significant service reviews.

1.5 The **Health & Social Care Directorate** includes the Adult Wellbeing service. The position recorded at 31 August 2020 is an overspend against budget of £0.218 million (1.1%). Most of this relates to COVID-19 related pressures including; loss of anticipated income, the purchase of spare care home beds, and the payment of ongoing sustainability payments to external providers in line with national guidance. As highlighted in the previous financial update to Council, there are substantial COVID-19 related costs for this service currently amounting to just under £1.5 million, with the potential this could increase further in light of increased and prolonged 'spikes'. Distinct from other council services, it is fully expected that COVID-19 related pressures will be met from the additional government funding pledges to support health and social care albeit that to date, these costs have not been met in full. Members are reminded that the majority of this budget is delegated to the IJB, and therefore any overspends must be managed in accordance with the Scheme of Integration and wider overall IJB resources.

1.6 The **Partnership & Community Services Directorate** has a significant overspend of £3.046 million (21.7%). Consistent with previous reporting, the main areas of pressure are within Development and Infrastructure service areas.

- Development, £2.032 million over – Most of the pressure continues to relate to a significant under-recovery of income by the Property Maintenance Trading Service whose normal operations have been severely affected by COVID-19 restrictions. The service has now

started to re-mobilise; however, there are significant fixed costs that are unlikely to be fully recovered through trading income. Officers have been exploring options to mitigate the extent of this pressure, and remain hopeful that this can be largely offset.

- Infrastructure, £1.122 million over (14.5%) – The main pressure areas are in Roads, Transportation and Waste, albeit most other Infrastructure service areas are also facing significant COVID-19 related pressures. This includes: a significant reduction in planned income levels across a wide range of services as well as significant under-recovery of rechargeable works relating to Roads trading activity. The prevailing COVID-19 uncertainties together with a high level of fixed costs continue to point towards a high risk of further overspending, with latest forecasting suggesting that this could be in excess of £3 million, before taking into account potentially adverse winter weather. Whilst officers continue to explore all available options to mitigate, unless significant additional government funding is secured, this is unlikely to return to financial balance in year, and may have significant recurring implications going forward.
- The Council has received significant additional specific funding amounting to £1.4 million as part of national Spaces for People project designed to provide temporary targeted interventions to support public health measures. This funding is ring-fenced and can only be used to support agreed planned measures, and must be fully applied by May 2021.
- Communities & Partnerships, £0.108m under (2.0%) – most service areas continue to support COVID-19 related activities. Despite this, it is anticipated that this underspend will continue for the remainder of the year, the majority of which relates to staffing underspends.

1.7 In addition to the service position and pressures set out above, the Council has incurred additional corporate costs in order to comply with national COVID-19 related guidance whilst in lockdown and/or imposed restrictions. This includes the additional payment of casual and supply teaching staff until the end of June amounting to £0.646 million alongside the on-going supply of PPE to support wider non-schools services, the cost of which is currently £0.374 million and increasing.

1.8 The Corporate Management budgets include most of the key resource streams and corporate commitments for the Council, the most notable of which include Scottish Government grant funding, Council Tax income streams including the Council Tax Reduction Scheme and debt charges. An update on the key variables including Council Tax and debt charges is set out below with further detail on the increasingly complex position with Scottish Government funding then set out in Section 1.9.

- Council Tax budgets are currently showing an under-recovery of income with projections indicating this could be a shortfall of £0.615m by the end of the year, largely caused by lower than projected numbers

of house completions arising from COVID-19 construction related restrictions. We are, however, also seeing significant and ongoing pressures upon in-year Council Tax collection rates. Enhanced efforts continue to be made in support of individuals who are facing economic hardship and it is hoped that ultimately managing this flexibly will help ensure that all Council Tax due is eventually collected.

- Aligned to this, we are currently seeing additional pressure on the payments being made to support the Council Tax Reduction Scheme, with current commitments in excess of budget by £0.37 million. Additional national funding of £25 million has recently been confirmed and it is hoped that East Lothian's share of that will largely mitigate, but there remain further risks that the pressure will increase as the full economic impact of COVID-19 upon individuals, including the ending of the national job retention scheme becomes clearer.
- The Council will now see a benefit in-year from a reduction in loans fund interest payments. This has arisen due to a combination of unprecedented low interest rates for new borrowing, as well as a reduced borrowing need than had been anticipated. This is now estimated to realise lower interest rate savings of more than £0.900 million in this financial year.

1.9 We continue to provide members with an assessment of progress made with the delivery of planned efficiencies, and this is set out in more detail within **Appendix 2** of the report. In summary, management remain hopeful that the majority of the planned £3.2 million savings for 2020-21 will be deliverable in year. However, the ability to achieve a significant proportion of this (specifically the planned £2 million corporate staffing saving) is dependent upon key variables including COVID-19 implications affecting key staff groups, and this may also have implications for the ability to deliver this recurrently. Currently £0.13 million of income generated efficiencies will not be deliverable in year.

1.10 At the time of approving the budget, the Council faced significant financial challenges that would need to be carefully managed in order to work within approved budget levels, and the implications arising from COVID-19 have significantly increased the risk that this may not be possible. On a cumulative basis, the Council is facing COVID-19 related pressures in excess of £15.7 million, and after taking into consideration Scottish Government funding received to date as well as wider permissible flexibilities such as 1140 hours, the Council is still facing a projected net overspend in excess of £7 million.

Scottish Government Funding

1.11 Previous financial update reports provided to both Council and prior to that through the Emergency Recess arrangements have provided an update on additional funding that we have received from the Scottish Government. This matter continues to be very dynamic in nature and appears to be far from settled with updates being received on an almost weekly basis. In accordance with the format previously reported, specific details on the

funding received to date is set out in further detail in **Appendix 3**, and a summary of the key changes from that reported previously in August are set out below:

- An additional £0.380m to support Council Tax Reduction Scheme;
- The grants payable to newly self-employed and B&B scheme has now been closed, with the unused balance returned to Scottish Government in accordance with the grant conditions;
- An additional £0.570m (split across 20/21 (£0.380m) and 21/22 (£0.190m) financial year) ring-fenced funding to support the provision of additional teachers to support COVID-19 resilience;
- An initial allocation of £0.403m to support the costs associated with supporting school remobilisation plans;
- An additional £0.946m to support generic pressures in local government;
- Additional ring-fenced capital funding of £0.462m to support Town Centre improvements.

1.12 As indicated earlier in this report, we have applied flexibility in the use of funds previously made available to support the implementation of the expansion of Early Learning and Childcare to 1140 hours in line with Scottish Government guidance.

1.13 As highlighted in previous financial reports, it is both acknowledged and welcomed that funding on such a significant scale has been made available through local government albeit we still feel that considerably more is required. A summary setting out how the £30m received to date is set out below:

- Over two-thirds of the available funding has been used to provide support grants to small businesses, the newly self-employed and B&Bs;
- Just under £2.4m has been made available to date to support Education recovery and school remobilisation plans;
- £0.875m of funding has been made available to support the provision of food to those most vulnerable;
- £0.726m has been made available to support additional payments to those who require hardship support including Council Tax Reduction Scheme and Scottish Welfare Fund payments;
- Specific capital investment of £0.462m to support Town Centre Improvements;
- The balance of £4.902m to contribute towards the wide range of additional financial pressures incurred by the Local Authority to date.

- 1.14 Whilst the level of financial intervention provided is at a scale not been seen in recent years, much has been ring-fenced to support specific purposes. At the same time, the Council is facing a multitude of additional pressures from reduced income streams, additional expenditure requirements to support national guidance, and additional demand for services. Overall, it is very clear that the funding received to date falls significantly short of meeting the full financial implications and the Council is still faced with a significant funding gap.
- 1.15 In accordance with the recent Council decision, letters were issued from the Council Leader to both the First Minister and Chancellor seeking assurance that further funding would be made available and also supporting the range of fiscal flexibilities pursued jointly by COSLA and Scottish Government with the Treasury. At the time of writing this report, no response has been received from the Chancellor; however, a response has been provided by the Cabinet Secretary for Finance on behalf of the First Minister. This letter acknowledges the considerable work and support provided by East Lothian Council in response to COVID-19 but does not provide any reassurance that additional funding will be made available. It does provide a reminder on what financial support has been provided to date and also commits to pursuit of additional fiscal flexibilities with the UK Treasury and indicated that the Scottish Government are looking to implement a lost-income scheme similar to that implemented in England. In that respect, we have been advised that guidance is still in development and expected by the end of October, although there are some doubts that the overall quantum of funding being made available to support this scheme is inadequate.
- 1.16 Since receipt of that letter from the Cabinet Secretary for Finance, there has been a national announcement that significant fiscal flexibilities on many of the areas being pursued has been secured whereas others have been declined and one significant area remains under discussion. Although currently working with only preliminary outline details, Finance officials are currently reviewing these flexibilities as part of the wider mitigation options for 2020-21; however, this will be subject to the review of updated relevant statutory guidance that is yet to be received. Although we remain committed to pursuit of full and proper national funding of all expenses incurred in our response to the national public health crisis, these additional flexibilities are likely to provide a potentially vital alternative means of balancing our books should this not be forthcoming.

General Services Conclusion

- 1.17 Consistent with previous reporting, the Council's already complex and challenging financial operating environment has been compounded by the steadily increasing resource implications associated with the prolonged and intensive response effort to deal with the COVID-19 public health crisis. Implications are becoming increasingly evident within the current 2020-21 financial year but it is also now clear that there will be recurring implications affecting future years and spending plans. Unless national governments can provide assurance in respect of clear and adequate

COVID-19 funding provision, the Council will need to take action to reduce future spending commitments that will have a serious impact upon existing levels of service provision. With regard to 2020-21, officers remain focussed on exploring a range of mitigation options which include;

- Anticipated additional Scottish Government funding relating to loss of income scheme;
- Pursuit of further Scottish Government Funding noting most recent UK Government announcements in England and Wales that should provide further consequential that should in turn flow through to Councils;
- Continued application of enhanced cost control measures;
- Exploration of potential Property Maintenance mitigation;
- Maximisation of revenue streams within appropriate guidance;
- Reduced loans fund interest rate and related service charges;
- Consideration of the additional and any other fiscal flexibilities.

1.18 Taking into consideration the potential collective benefits associated with the above, it is now considered possible that the currently projected funding deficit arising during 2020-21 can be managed without recourse to a programme of service-based reductions. Although this is a positive and welcome development, it must be stressed that this will only provide short-term relief and that our underlying financial challenges will require immediate consideration and attention with regard to future financial plans. Given the currently fluidity of this situation, progress on these mitigation measures will be reported to the next Council meeting in December.

General Services Capital Summary – Period 5

1.19 **Appendix 4** sets out the 2020/21 re-profiled budgeted expenditure to the end of August 2020 alongside actual expenditure that is still very low relative to the revised budget, at just £7.124 million. As reported previously, the severe COVID-19 restrictions during the first quarter, effectively brought most construction and maintenance activity to a halt, and with recovery still slow, this has had a major adverse impact on the planned delivery of our capital programmes.

1.20 Latest projections indicate that net spend will still be significantly lower than the approved budget, with expenditure now likely to be at best around half of the updated budget.

1.21 It is important to note that these forecasts are still subject to an assortment of previously reported risks and therefore variation. Given its significance and importance, the capital programme will continue to be closely monitored, with a view to ensuring that planned projects can be delivered and contribute to the provision of economic stimulus and wider economic

recovery. A summary of the key changes since our last report along with some additional risks are set out below:

- The position includes additional funding secured from the Scottish Government relating to Town Centre Improvement Fund that was announced in September. Officers are exploring options for the utilisation of this fund, which must be fully committed by the end of March 2021.
- The Council has successfully secured additional Scottish Government funding of £0.685m to support the ongoing refurbishment of Prestongrange Museum.
- We expect further delays in the Roads capital programme arising from COVID-19, with much of the workforce deployed to support on-going COVID-19 related public safety measures including support for the Spaces for People project.
- There is a high risk of further delays within our Learning Estate expansion plans.
- Current projections assume lower than expected spend on Property Renewals, although this may increase as a consequence of any necessary essential works to support re-commissioning of previously closed buildings.
- IT budgets will be overspent in-year reflecting the additional and necessary investments to support the mass purchase of additional laptops/devices and supporting capital infrastructure upgrades during our COVID-19 response.
- Any further government imposed restrictions arising from COVID-19 may further impact upon the deliverability of latest spending plans and related projections.
- Given enhanced health and safety requirements to comply with national guidance around COVID-19, there are increased risks of potential cost increase in both existing and new contracts.

Housing Revenue Account Summary – Period 5

1.22 At the end of August 2020 the Housing Revenue Account is reporting a significant underspend against current budget of nearly £2.5 million. The most significantly affected area being our planned programme of repairs and maintenance that continues to be restricted due to COVID-19 constraints. Similar to circumstances reported within the General Fund, it is likely that there will be an underspend on budgeted debt charges, largely due to lower interest rates for lower levels of new borrowing incurred this year.

- 1.23 There are additional pressures upon void properties due to the COVID-19 restrictions, and we are reporting lower than anticipated rent income collection levels, with formal debt recovery work now recommenced with measures in place to support tenants experiencing economic hardship therefore difficulty in paying due rent.
- 1.24 Due to the significant suppression of key investment programmes, it appears likely that a level of surplus in excess of planned budget will be delivered during this year.
- 1.25 Details of the Housing Revenue Account capital budgets and expenditure incurred to date is set out in **Appendix 5** of this report. The total capital budget approved for HRA was £33.540 million. As at end of August 2020, the actual spend was only £3.860 million, almost entirely due to delays in planned work arising from COVID-19. It is expected that both the Council House building and Modernisation programmes will progress, but almost certainly that these will be much slower with lower spend than approved budgets.

Appendix 1
 East Lothian Council
 Budget Monitoring 2020/21 General Fund - Period 5

Service	Head of Service	Business Unit	2020/21 Budget	Year to Date			2020/21 Budget Variance to Date	Financial Risk Assessment
				2020/21 Actual to Date	2020/21 Budget to Date	2020/21 Budget Variance to Date		
				£'000	£'000	£'000		
Resources & People	Education	Childrens	15,653	7,344	6,528	816	12.5%	
Resources & People	Education	Additional Support for Learning	9,286	6,178	5,641	537	9.5%	
Resources & People	Education	Pre-school Education & Childcare	16,503	7,191	8,598	-1,407	-16.4%	
Resources & People	Education	Schools - Primary	43,481	12,312	12,005	307	2.6%	
Resources & People	Education	Schools - Secondary	45,434	15,120	14,665	455	3.1%	
Resources & People	Education	Schools - Support Services	3,715	1,562	1,678	-116	-6.9%	
RESOURCES & PEOPLE	EDUCATION TOTAL		134,072	49,707	49,115	592	1.2%	
Resources & People	Council Resources	Financial Services	1,468	942	988	-46	-4.7%	
Resources & People	Council Resources	Revenues & Benefits	2,093	874	950	-76	-8.0%	
Resources & People	Council Resources	IT Services	2,304	905	844	61	7.2%	
Resources & People	Council Resources	Legal	326	171	195	-24	-12.3%	
Resources & People	Council Resources	Procurement	250	118	121	-3	-2.5%	
Resources & People	Council Resources	People & Governance	4,910	2,187	2,210	-23	-1.0%	
RESOURCES & PEOPLE	COUNCIL RESOURCES TOTAL		11,351	5,197	5,308	-111	-2.1%	
RESOURCES & PEOPLE TOTAL			145,423	54,904	54,423	481	0.9%	
Health & Social Care Partnership	Head of Operations	Adult SW	35,146	12,899	12,347	552	4.5%	
Health & Social Care Partnership	Head of Operations	Acute & Ongoing Care	7,500	2,890	2,879	11	0.4%	
Health & Social Care Partnership	Head of Operations	Rehabilitation	1,494	551	614	-63	-10.3%	
Health & Social Care Partnership	Head of Operations	Adult Statutory Services	2,511	1,278	1,217	61	5.0%	
Health & Social Care Partnership	Head of Operations	Statutory Services	1,185	475	534	-59	-11.0%	
Health & Social Care Partnership	Head of Operations	Head of Operations	3,050	1,398	1,551	-153	-9.9%	
Health & Social Care Partnership	Head of Operations	Business & Performance IJB	2,871	698	827	-129	-15.6%	
HEALTH & SOCIAL CARE PARTNERSHIP	IJB TOTAL		53,757	20,189	19,969	220	1.1%	
Health & Social Care Partnership	Head of Operations	Business & Performance Non-IJB	790	303	305	-2	-0.7%	
HEALTH & SOCIAL CARE PARTNERSHIP	Non-IJB TOTAL		790	303	305	-2	-0.7%	
HEALTH & SOCIAL CARE PARTNERSHIP TOTAL			54,547	20,492	20,274	218	1.1%	
Partnerships & Community Services	Development	Planning	1,043	551	550	1	0.2%	
Partnerships & Community Services	Development	Economic Development	868	97	132	-35	-26.5%	
Partnerships & Community Services	Development	Housing & Strategic Regeneration	687	226	285	-59	-20.7%	
Partnerships & Community Services	Development	Property Maintenance Trading Account	-863	2,042	-222	2,264	-1019.8%	
Partnerships & Community Services	Development	Community Housing	2,334	-58	81	-139	-171.6%	
PARTNERSHIPS & COMMUNITIES SERVICES	DEVELOPMENT TOTAL		4,069	2,858	826	2,032	246.0%	
Partnerships & Community Services	Infrastructure	Facility Support Services	3,623	846	836	10	1.2%	
Partnerships & Community Services	Infrastructure	Facility Trading Activity	-276	-1,220	-1,263	43	-3.4%	
Partnerships & Community Services	Infrastructure	Asset Maintenance & Engineering Services	3,242	1,337	1,362	-25	-1.8%	
Partnerships & Community Services	Infrastructure	Asset Management & Capital Planning	-576	154	190	-36	-18.9%	
Partnerships & Community Services	Infrastructure	Landscape & Countryside Management	5,271	2,213	2,259	-46	-2.0%	
Partnerships & Community Services	Infrastructure	Roads Network	4,730	1,481	1,457	24	1.6%	
Partnerships & Community Services	Infrastructure	Roads Trading Activity	-688	451	-277	728	-262.8%	
Partnerships & Community Services	Infrastructure	Transportation	1,089	0	-252	252	-100.0%	
Partnerships & Community Services	Infrastructure	Waste Services	8,100	2,454	2,222	232	10.4%	
Partnerships & Community Services	Infrastructure	Active Business Unit	3,591	1,151	1,211	-60	-5.0%	
PARTNERSHIPS & COMMUNITIES SERVICES	INFRASTRUCTURE TOTAL		28,106	8,867	7,745	1,122	14.5%	
Partnerships & Community Services	Communities & Partnerships	Corporate Policy & Improvement	1,213	405	460	-55	-12.0%	
Partnerships & Community Services	Communities & Partnerships	Connected Communities	6,094	2,625	2,558	67	2.6%	
Partnerships & Community Services	Communities & Partnerships	Protective Services	1,821	496	551	-55	-10.0%	
Partnerships & Community Services	Communities & Partnerships	Customer Services Group	3,670	1,822	1,887	-65	-3.4%	
PARTNERSHIPS & COMMUNITIES SERVICES	COMMUNITIES & PARTNERSHIPS TOTAL		12,798	5,348	5,456	-108	-2.0%	
PARTNERSHIPS & COMMUNITY SERVICES TOTAL			44,973	17,073	14,027	3,046	21.7%	
COVID 19 PPE Costs			0	374	0	374	0.0%	
COVID 19 Job Retention Costs			0	646	0	646	0.0%	
OTHER COSTS TO BE ALLOCATED TO SERVICES			0	1,020	0	1,020	0.0%	
SERVICE TOTAL			244,943	93,489	88,724	4,765	5.4%	
CORPORATE MANAGEMENT TOTAL			-244,943	-156,728	-156,044	-684	-0.4%	
TOTAL			0	-63,239	-67,320	4,081	6.1%	
TOTAL HRA			0	-9,636	-7,146	-2,490	-34.8%	

Appendix 2
East Lothian Council
2020/21 Budget Efficiencies - Period 5

Service	2020/21		
	Achieved	Amber	High
	£'000	£'000	£'000
Education	47	0	0
Council Resources	9	0	10
H&SCP	0	0	0
Communities	774	0	0
Development	53	0	50
Infrastructure	91	110	69
Corporate	0	2,000	0
Total	974	2,110	129
	30.31%	65.67%	4.01%

Savings Currently High - Red

Service	Proposal	Value	Comments
IT	Expected revenue from sale of hardware due to refresh	10	Not anticipated to be achievable at this stage due to COVID 19
Property Maintenance Trading	Efficient workforce management to be met from service redesign, strict management of vacancies, agency costs and increased productivity.	30	Unlikely to be achievable due to loss of Property Maintenance trading income
Property Maintenance Trading	New opportunities for income maximisation	20	Unlikely to be achievable due to loss of Property Maintenance trading income
Facilities Trading	School Meal charges	16	Lower than planned School Meal income due to COVID
Facilities Trading	Grab and Go expansion	8	Lower than planned School Meal income due to COVID
Landscape &	Amenity Service - income generation target	20	Not anticipated to be achievable at this stage due to COVID 19
Roads Network	3% uplift on existing income	5	Not anticipated to be achievable at this stage due to COVID 19
Roads Trading	Explore new opportunities for income management	20	Not anticipated to be achievable at this stage due to COVID 19
Total		129	

Savings Currently Medium - Amber

Service	Proposal	Value	Comments
Transport	Supported Bus Contract	110	New contract in place and invoices being monitored to ensure saving is delivered. This may be difficult due to the implications of COVID restrictions
All	Efficient workforce management to be met from service redesign, strict management of vacancies, agency costs	2,000	May not be able to be fully realisable in year due to additional pressure on staffing budgets.
Total		2,110	

Appendix 3 – Scottish Government Funding

Detail	Total National Funding	Total ELC Funding	Additional Comments
Non Domestic Rates Relief	£1bn	NDR (£9.508m) GRG + £9.508m	<ul style="list-style-type: none"> • Neutral position to the Council
Grants to Support Business	£1.2bn	£20.9m (but only £17.6m spent)	<ul style="list-style-type: none"> • Neutral position to the Council (however, costs have been incurred to administer scheme) • Ring fenced specific funding • Applications open until 10 July 2020 • Final confirmed position for ELC £17.6m
Hardship fund provided to support Councils	£50m	£0.965m	<ul style="list-style-type: none"> • Non ring-fenced funding
UK Government consequentials to support Local Government	£155m	£2.991m	<ul style="list-style-type: none"> • Non ring-fenced funding
Scottish Welfare Fund – additional funding	£22m £23m (pending)	£0.334m TBC	<ul style="list-style-type: none"> • Non ring-fenced funding • Initial allocation of £22m allocated to Local Authorities.

	TOTAL: £45m		<ul style="list-style-type: none"> No specific detail provided as to the remaining £23m allocation – but indication that this will be ‘targeted to where it is most needed’.
Increased eligibility for social security benefits and increased cost to the Council Tax Reduction Scheme (CTRS)	<p>£50m</p> <p>Of which £25m now distributed</p> <p>Balance of £25m unclear</p>	£0.380m	<ul style="list-style-type: none"> £25m now distributed Balance to be used to support wider Scottish security benefits albeit no additional clarity has been received.
Food Fund to support Food inequality (1 st tranche)	<p>£70m</p> <p>(£30m to local authorities – see comments)</p> <p>£30m to support food to shielded individuals *</p> <p>£10m investment to 3rd Sector organisations *</p>	£0.447m	<ul style="list-style-type: none"> Non ring-fenced funding £30m now allocated to Local Authorities (£15m to support households in receipt of free school meals and £15m to support vulnerable families) <p><u>Free school meals</u></p> <ul style="list-style-type: none"> The funding will be used to offset the costs of supporting and distributing free school meals to those currently in receipt of FSMs <p><u>Support to Vulnerable Households</u></p> <ul style="list-style-type: none"> The funding has been allocated to Area Partnerships to target a more localised

			<p>approach to support food distribution to vulnerable households.</p> <p>*funding directed via Third and Voluntary sector – current estimates spend lower than total available resources</p>
Food Fund (2 nd Tranche)	£27.6m	<p>£0.178m</p> <p>£0.250m</p> <p>TOTAL £0.428m</p>	<ul style="list-style-type: none"> • Specific grant funding • Support FSM costs between July to mid-August • Support People at Risk between July to September
Discretionary Housing Payment	£5m	None to date	<ul style="list-style-type: none"> • Details still to be confirmed
Death Registration Service	£0.6m	£0.012m	<ul style="list-style-type: none"> • Non ring-fenced funding
Extension of Business Support Grant	£120m	None to date	<ul style="list-style-type: none"> • No specific additional funding has been provided by the Scottish Government
Support for new self-employed & B&B	<p>£34m</p> <p>- £20.4m initial payment</p>	£0.337m but confirmed position of £0.228m and	<ul style="list-style-type: none"> • Neutral to the Council (however, costs have been incurred to administer scheme)

	<p>- £13.6m held back (in addition a further £66m through Enterprise Agencies)</p>	<p>balance returned to Scottish Government</p>	<ul style="list-style-type: none"> • 60% paid to local authorities' remainder will be allocated based on review / monitoring of claims. • Scheme closed on 10 July • Final confirmed position for ELC £0.228m
<p>Additional Teaching and Support Staff</p>	<p>£50m (split academic year)</p> <p><u>20/21</u></p> <p>£30m (Teachers)</p> <p>£3.3m (support)</p> <p><u>TOTAL</u></p> <p><u>21/22</u></p> <p>£15m (Teachers)</p> <p>£1.7m (support)</p> <p>TOTAL</p> <p>TOTAL (ALL)</p>	<p>£0.572m</p> <p>£0.064m</p> <p><u>£0.636m</u></p> <p>£0.286m</p> <p>£0.032m</p> <p><u>£0.318m</u></p> <p><u>£0.954m</u></p>	<ul style="list-style-type: none"> • Ring-fenced specific funding • Funding designed to support additional teaching and support staff required to support loss of learning suffered by pupils and resilience in Education system

Additional Teachers to support COVID resilience	£20m (20/21) £10m (21/22) TOTAL: £30m	£0.380m (20/21) £0.190m (21/22) TOTAL: £0.570m	<ul style="list-style-type: none"> • Ring-fenced specific funding
Education Recovery Funding	£20m (upfront) £30m (ring-fenced based on actuals)	£0.403m No details yet confirmed	<ul style="list-style-type: none"> • No specific detail confirmed relating to £30m – but likely to be based on evidence of spend • Current Education recovery costs anticipated to be circa £2.2m for 2020/21 financial year with further anticipated costs in 2021/22 in line with the academic year and beyond
Digital Inclusion	£30m	£0.401m (capital) £0.07m (revenue)	<ul style="list-style-type: none"> • Confirmed allocation to support the purchase of additional digital devices for children
Additional UK Consequentials	£49m	£0.946m	<ul style="list-style-type: none"> • Non ring-fenced funding
Town Centre Funding (capital)	£18m	£0.462m	<ul style="list-style-type: none"> • Ring-fenced specific capital funding
TOTAL	£2,984.2bn	£30.491m	

Summarised as follows:

- Scottish Government Grants to Business / NSEHF (specific)	£21.128m (of which £3.3m remains uncommitted)
- Hardship Funding to support wider Local Government COVID response	£4.902m
- Additional funding to support specific policy intent including CTRS, SWF and Registration of deaths	£0.726m
- Food Funding	£0.875m (£0.447m non-ring fenced and £0.428m specific)
- Education Recovery	£2.398m
o Staffing 20/21	£1.016m (specific)
o Staffing 21/22	£0.508m (specific)
o Education recovery	£0.403m
o Digital devices (revenue)	£0.070m (specific)
o Digital devices (capital)	£0.401m (specific)
- Capital Town Centre Funding (specific)	£0.462 million
TOTAL	£30.491 million

Additional 'Community Funding' not routed directly through Local Government

Wellbeing Fund for 3 rd Sector	£50m*	None – 3 rd sector	<ul style="list-style-type: none"> • Scottish Government grants of between £5k - £100k <p>*funding directed via Third and Voluntary sector – current estimates spend lower than total available resources</p>
Communities Fund	£40m*	None – community Groups	<ul style="list-style-type: none"> • Scottish Government funding to be made available to community groups to support small scale resilience • It is anticipated an initial £10m will be made available through Community Anchor Organisations although no detail has yet been provided. • No detail as to how the remaining £30m will be allocated / utilised. <p>*funding directed via Third and Voluntary sector – current estimates spend lower than total available resources</p>
3 rd Sector Resilience Fund	£20m*	None – 3 rd sector	<ul style="list-style-type: none"> • Grants to be delivered through Firstport, Social Investment Scotland and Corra Foundation.

			<ul style="list-style-type: none"> Provides grants up to £0.100m and 0% interest loan facilities <p>* funding directed via Third and Voluntary sector – current estimates spend broadly in line with available resources</p>
Scottish Government Retained Reserve	£25m	None	<ul style="list-style-type: none"> Announced as part of the initial £350m in March to support communities
TOTAL	£135M		

Summarised as follows:

- Scottish Government Grants to Business / NSEHF £21.128m (of which £3.3m remains uncommitted)
- Hardship Funding to support COVID response including SWF, CTRS, Food Fund 1st tranche & Registration of deaths £6.075m
- Specific Grant Funding - Food Fund £0.428m
- Education Recovery £2.398m
 - o Staffing 20/21 £1.016m
 - o Staffing 21/22 £0.508m
 - o Education recovery £0.403m

○ Digital devices (revenue)	£0.070m	
○ Digital devices (capital)	£0.401m	
- Capital Town Centre Funding		£0.462 million
TOTAL		£30.491 million

Appendix 4

East Lothian Council

Budget Monitoring 2020/21 General Services Capital - Period 5

	Annual (In-Year)		
	Approved Budget 2020/21	Updated Budget 2020/21	Actual 2020/21
	£'000	£'000	£'000
Expenditure			
Community Projects			
Assets in the Community - Investment	250	250	-
Community Intervention	600	600	47
Dunbar Conservation Area Regeneration Scheme (CARS)	430	430	-
Support for Business - Gateside West	2,021	2,021	14
CCTV	62	62	-
Town Centre Regeneration	-	1,146	27
Total Community Projects	3,363	4,509	88
ICT			
IT Programme	2,100	2,100	1,401
Replacement - CRM Project (Customer Services)	-	70	-
Total ICT	2,100	2,170	1,401
Fleet			
Amenties - Machinery & Equipment - replacement	237	237	236
Vehicles	1,990	2,621	612
Total Fleet	2,227	2,857	848
Open Space			
Cemeteries (Burial Grounds)	300	300	49
Coastal / Flood Protection schemes - East Beach, Dunbar	-	81	79
Coastal / Flood Protection schemes - Haddington	280	280	0
Coastal / Flood Protection schemes - Musselburgh	800	800	92
Coastal Car Park Toilets	443	443	0
Core Path Plan	50	50	-
Mains Farm Sports Pitch & Pavilion	540	572	27
Polson Park	138	138	-
Sports and Recreation LDP	279	279	-
Waste - New Bins	160	160	77
Waste - Machinery & Equipment - replacement	40	40	12
Total Open Space	3,030	3,143	336
Roads, Lighting and related assets			

Cycling Walking Safer Streets	174	466	-
Parking Improvements	250	250	30
Roads	7,500	7,500	886
Roads - externally funded projects	2,410	2,410	182
Total Roads, Lighting and related assets	10,334	10,626	1,099

Property - Education			
Aberlady Primary - extension	946	946	23
Blindwells Primary - new school	135	135	-
Cockenzie Primary - hosting Blindwells Primary	30	30	-
Craighall Primary - New School (Phase 1)	107	107	-
Dunbar Grammar - extension	-	-	164
Dunbar Primary - John Muir Campus - Early Learning and 1140	-	-	2
East Linton Primary - extension including Early Learning and 1140	10	10	-
Gullane Primary - extension including Early Learning and 1140	5,506	5,276	119
Law Primary - extension including Early Learning and 1140	2,048	2,041	10
Letham Primary - New School	4,796	4,353	1,183
Musselburgh Grammar - upgrades	808	812	3
North Berwick High School - Extension	6,020	6,020	2
Ormiston Primary - extension	1,097	1,097	21
Pinkie St Peter's Primary - extension including Early Learning and 1140	2,218	2,218	96
School Estate - Curriculum Upgrades	330	330	-
Ross High School - extension	9,819	9,819	16
St Gabriel's Primary - extension including Early Learning and 1140	960	960	40
Wallyford Primary - New School	-	-	77
Wallyford Secondary - New School	14,116	14,116	435
West Barns Primary - extension including Early Learning and 1140	1,505	1,505	82
Whitecraig Primary - extension including Early Learning and 1140	2,231	2,231	-
Windygoul Primary - Early learning and 1140 extension	2,095	2,095	-
Total Property - Education	54,777	54,101	2,275

Property - Other			
Accelerating Growth	7,768	7,768	182
Brunton Hall - Improved Community Access	278	278	-
Court Accommodation - incl. SPOC	2,008	2,008	0
Haddington Corn Exchange - upgrades	476	511	385
Haddington Town House - Refurbishment and Rewire	147	147	0
Lighting Retrofit at Longniddry Community Centre/Library	12	12	-
Lighting Retrofit at Port Seton Community Centre	26	26	-
Meadowmill - New Depot	1,148	1,290	4
Meadowmill Sports Centre Car Park Resurfacing	260	260	-
New ways of working Programme	750	750	-
Port Seton - Community Centre Extension	607	607	143
Prestongrange Museum	1,268	1,368	1
Property Renewals	2,000	2,000	356
Replacement Of Movable Pool Floors To Sports Centres	580	580	-
Replacement Pathways Centre	1,504	1,504	-

Sports Centres	200	200	8
Water meter size reduction	14	14	-
Whitecraig Community Centre	-	99	1
Total Property - Other	19,046	19,423	1,079
Total Property - Education and Other	73,824	73,524	3,354
Capital Plan Fees	1,322	1,322	-
Total Gross Expenditure	96,199	98,152	7,124
Total Income	(46,894)	(48,433)	-
Borrowing Requirement	49,305	49,719	7,124

Appendix 5

East Lothian Council

Budget Monitoring 2020/21 Housing Capital - Period 5

Capital Expenditure	2020/21 Budget	2020/21 Actual to Date	2020/21 Budget Variance to Date
	£'000	£'000	£'000
Modernisation Spend	15,652	828	(14,824)
New Council Housing	16,094	3,032	(13,062)
Mortgage to Rent	280	0	(280)
Fees	1,514	0	(1,514)
Gross Total Housing Capital Spend	33,540	3,860	(29,680)

Appendix B – Financial Prospects 2021 and Beyond

- 1.1 The previous section of the report set out the significant and unprecedented challenges that the Council is facing from COVID-19 alongside other on-going demand pressures. Given the increasingly uncertain operating environment, it is arguably even more important to give due consideration to the future financial prospects for the Council looking forward into 2021-22 and beyond.
- 1.2 In recent years, officers have typically set out the future financial prospects for the Council across a 5-year planning horizon based on a range of scenarios. This year, given the exceptional and unpredictable operating environment, scenario-based planning is considered to have too many limitations and has not been used. Instead, this report will provide an overview of the key variables that will have a significant impact upon future budget plans, hoping to help better inform the financial planning framework for the Council over the medium term which in turn will be used to develop an updated Financial Strategy that it is hoped will be brought to Council for approval in December.
- 1.3 The continuing political and economic uncertainty surrounding future public sector funding best evidenced by the postponement of the UK Chancellor's Autumn budget and Comprehensive Spending Review (CSR), the ongoing and often recurring implications from COVID-19, the UK's impending exit from the European Union, all against a backdrop of increasing demand for services, means that it is inevitable the Council will need to find ways of ensuring that it can balance sustainable delivery of necessary services to the public within a potential of ongoing challenging levels of government grant support.

Approved Financial Plans and Implications

- 1.4 For 2020-21, the Council's Financial Strategy and associated financial plans have all been approved on and prior to the 3 March 2020. These plans were supported by a range of significant revenue streams including Council Tax and housing rent income. The General Fund revenue budget was approved across a 3-year financial planning period (2020-21 to 2022-23) with the HRA (revenue and capital) and General Fund capital programme covering a 5-year period until 2024-25.
- 1.5 The approved General Services revenue budget included a number of key assumptions relating to income and expenditure commitments in future years, and included efficiency plans totalling £5.5m across the 3-year period.
- 1.6 The approved financial plans include a range of forward assumptions which must be revisited each year, taking account of updated information and circumstances. This year, as highlighted in the previous section of this report, the implications arising from COVID-19 and wider demand pressures is substantial, and is likely to have recurring implications for the Council to consider in future years. The key variables which will have the most significant potential implications for future budgets are set out below.

- **Revenue Support Grant (RSG)**

- The Revenue Support Grant (RSG) is funding provided from the Scottish Government that currently makes up about 2/3rds of the Council's overall funding. A 1% reduction in RSG is approximately £1.8m, and given its significance in scale, any change to the RSG awarded by the Scottish Government can therefore have a disproportionately significant impact upon future financial plans and ultimately services that the Council can provide.
- Despite previous assurance that a multi-year settlement would be provided, the current finance settlement covers 2020-21 only. The existing approved budget assumed a 'flat cash' position, (i.e. that there would be no increase or decrease across the 3 year planning period).
- Much of the funding available to the Scottish Government is dependent on the UK Government funding, and with the confirmed postponement to the autumn budget and supporting CSR due to COVID-19, it seems inevitable that a single-year settlement for 2021-22 will follow and there is a high risk that the draft local government settlement announcement will be delayed.
- The financial strain imposed upon the public purse by COVID-19 has been considerable and it is still unclear what the future implications will be on public spending. This could mean further restraints being imposed on public funding allocations to statutory agencies as the Treasury considers available options for repayment of the significant package of financial intervention provided by the UK Government to support the ongoing implications arising from COVID-19.
- Current funding provided to local government to support COVID-19 implications has mostly been funded on a one-off, non-recurring basis, despite many of the financial pressures faced by the Council having longer term effects. As highlighted in the previous section of this report, current COVID-19 pressures within 2020-21 are currently estimated to be in excess of £15m, many of which will have a recurring impact. Should equivalent additional funding not be forthcoming in future years, the impact of this will be very significant for the Council.

- **Other Scottish Government Funding including Specific Grants**

- The Council also receives Scottish Government funding for a growing number of specific and new policy objectives including: Social Care Fund, Pupil Equity Fund (PEF), Criminal Justice Funding (CJSW) as well as significant additional funding provided to support the delivery of Early Learning and Childcare – 1140 hours expansion.

- The current planned delivery of 1140 hours has now been temporarily delayed from the previous planned timetable of August 2020; however, recently updated national guidance has re-affirmed the commitment to continue to roll out full delivery of 1140 plans when it is safe and practical to do so and it is expected that a new target implementation date will be announced before the end of this calendar year. Funding has only been confirmed until 2020-21 with future funding subject to future Scottish Government funding. Funding for both 2021-22 and 2022-23 has been assumed to be recurring at 2020-21 level.
- Recent years funding for PEF has currently been removed from 2021-22 budgets in accordance with the existing policy commitment that was aligned to the current parliamentary term.
- In recent years, there has been an increasing level of new national policy commitments funded directly by grant allocations which can only be used for these specific purposes. This has come at the same time as we are facing reductions in the core support grant for the provision of existing services to an increasing population. The earmarking of these new resources for national priorities effectively reduces the scope for flexibility in how the Council delivers services in a way which best overall meets local priority outcomes.

- **Council Tax Income / Yield**

- The Council Tax income within the 3-year approved budget includes: increased yield from additional properties anticipated to be built over the next 3 years at 1,100 per annum, plus an assumed annual Council Tax increase of 4.84% in 2020-21, in line with the maximum cap approved by the Scottish Government and an assumed 5% increase in the following 2 years. The Council determines annually the level of Council Tax which is levied as part of the budget process.
- Council Tax currently equates to around a quarter of the overall funding provided to the Council. Current projected increases in Council Tax yield is driven by forecasts relating to planned and completed housebuilding within the Council area and anticipated collection rates, much of which can be variable and dependent upon economic conditions that are now much more unpredictable than they have been for some time.
- The ongoing COVID-19 implications have impacted on the overall number of house completions being lower than anticipated, and this may have ongoing implications on future projections. Alongside this, we are seeing an ongoing impact on Council Tax arrears which if trends continue, will place ongoing pressure on the Council's revenue streams.

- The latest Council Tax income estimates already place an additional pressure on 2021-22 financial plans in excess of £0.6m due to delay in house completion, with a high possibility that this could increase further due to either further changes to the estimated Council Tax increase or planned growth in new properties.
- Members are reminded that the additional income received from new household Council Tax alone, does not support the marginal cost to the Council in providing our full range of Council services to an increased population.

- **Use of Reserves**

- The current 3-year budget, requires to draw down general reserves of up to £1.466 million in 2020-21 with a further £0.250m planned for 2021-22. Current budget plans assumes a modest return to reserves of £0.750m by 2022-23, but given the scale of current financial pressures, there is a risk that this will not be achievable. During the 3-year budget period, there is a planned draw down from a number of the specific earmarked reserves such as DSM balances and the Cost Reduction Fund, reducing the overall usable reserves balance available.
- The 2019-20 audited accounts show a total General Fund Reserves balance (including the Council's Insurance Fund) balance of £19.121 million, most of which is committed to support a range of future specified requirements as determined within the approved Reserves Strategy. The approved overall Financial Strategy includes a requirement to maintain a minimum level of uncommitted reserves to mitigate the financial impact of any unforeseen circumstances. This should equate to 2% of the Council's annual running costs, and whilst the target is currently being met, there is currently no headroom. The Strategy also states that should uncommitted reserves fall below this level, a strategy must be put in place over the 3-year period to bring the reserves back within the target.
- Overall the Council's reserve balance remains low, with little or no flexibility. It remains vital that the Council reduces ongoing reliance on reserves and develops a wider financial strategy that will help deliver stability within its cost base, yet still retains a degree of flexibility to address both future planned and unforeseen commitments.

- **Pay / Pensions**

- The current 3-year pay settlement provides through until 2020-21. The approved 3-year budget has included the following in relation to pay:
 - The actual pay award for all staff groups for 2020-21.

- For 2021-22 and 2022-23, an indicative increase of 2% for all staff groups has been reflected within the budget plans. In more recent years, the financial implications of any pay settlement has had to be absorbed within the overall resources made available to the Council, with any 1% change generating a cost liability in excess of £1.2m.
 - Relating to Pensions, the Council continues to have in place a stability mechanism agreed with Lothian Pension Fund which provides a degree of certainty around any changes to employer's pension contribution rates. The currently stability mechanism is in place until 2020-21. The current budget assumes the following:
 - Approved increase for 2020-21.
 - An indicative 0.5% increase per annum in Local Government Pension contribution rates has been reflected for 2021-22 and 2022-23.
 - The next valuation of the Local Government Pension Scheme is scheduled to take place from April 2020, the outcome of which may impact on contribution rates from 2021-22 and therefore the current assumptions being made.
 - The employer contribution rate relating to Teachers' Pension Scheme increased from 17.2% to 22.4% from September 2019. This change in rate will apply until March 2023 and thereafter the rate will be dependent on future actuarial valuations.
- **Non-pay Inflation**
 - Currently no general inflationary adjustments have been made to individual service budgets. Where inflationary uplifts are linked to contractual requirements such as PPP, alongside some property related inflationary pressures such as energy, these have been reflected within approved budget plans.
 - UK interest rates remain very low, with CPI at the end of August 0.5%, a reduction from 1.1% in July 2020. The Bank of England inflationary target remains at a target of 2% to reflect current Government policy. Despite this, we are still experiencing significant increased costs in a number of areas including: waste, and especially so in recent capital construction-related projects, with many projects now being priced at considerably higher than budgeted levels, largely driven by additional COVID-19 related Health and Safety requirements, as well as some challenges relating to supply of materials.

- **Capital commitments**

- The Council already has a substantial General Services Capital Programme which has been developed to both meet our needs and support growth such as the infrastructure requirements across the county as required by the Local Development Plan alongside the delivery of new policy requirements such as enhanced Early Learning and Childcare.
- The current LDP and South East of Scotland City Deal investments will create significant economic long-term benefits for the East Lothian economy, but also place a significant and more immediate financial burden upon Council finances. The current LDP related commitments have been built into current budgets, but progress towards fully delivering infrastructure projects identified within the City Deal and other growth related commitments such as Blindwells and Cockenzie will require significant future capital investment.
- The Council has also committed to a wider Learning Estate Review which will impact significantly upon future capital investment plans and will need to take cognisance of any funding support schemes made available by Scottish Government. A significant proportion of the existing approved capital plans relates to increased investment in our wider school infrastructure, and this likely to require further and ongoing support in future years.
- There remains significant economic uncertainty arising from COVID-19 as well as the UK's exit from the European Union. The previous section of the report has highlighted the impact this has had on the current capital plan, and this collectively continues to place greater risk on the cost and deliverability of both current and future capital plans. There is evidence of growing cost pressures associated with delivering future capital commitments within existing budget levels. Although a significant proportion of this additional investment will be supported through income contributions derived through the Developer Contributions Framework, volatility and economic uncertainty in the housing market can impact on both the timing and realisation of anticipated funding levels.

- **Demand Growth**

- The Council's population profile continues to expand with increasing growth projected going forward in both sides of the demographic spectrum relating to school-age children and pensioners.
- Current budget plans have reflected some changes to population and service demand for areas such as pupil school

roll, but do not include a more general population related adjustment.

- **Transformational Change / Efficiency Programme**

- A key requirement of the current budget is the delivery of the planned programme of efficiencies, with £5.529m of recurring efficiencies already identified within the current 3-year budget.
- The current 3-year budget assumes the delivery of the following efficiencies.
 - £2.374 million service efficiencies;
 - £3.155 million corporate efficiencies which include enhanced management of staffing budgets; review of council assets and reduction in core service provision.
- As highlighted previously, the delivery of planned budget savings remains challenging, and has significantly impacted both in terms of changes to service priority commitments to support the Council's on-going COVID-19 response, as well as the inability to fully realise income related efficiencies. It is still anticipated that the majority of planned savings for 2020-21 will be delivered; however, there remains a risk that these may not be delivered recurrently and this will in turn create challenges for future plans. Current plans to deliver efficiencies in 2021-22 and 2022-23 are currently being reviewed, but it is considered unlikely that all planned efficiencies will be fully delivered on a recurrent basis. This is likely to result in further challenges and a need to consider alternative options to balance future budgets.

- **2020-21 Budgetary Pressures**

- Aside from COVID-19, at the time of approving the budget, the Council already faced significant specific financial challenges which would need to be managed within available resources.
- A growing number of service areas are now classified as High Risk, with significant pressure emerging from both increased demand and changing requirements across a wide range of service areas but most notably within Children's Services, the wider Education group including schools and ASL and also within certain Infrastructure service areas including Waste. Pressures to date have been partly mitigated by a number of significant non-recurring benefits largely derived from implemented loans fund review, however the recurring benefit of this has already been reflected within approved budget plans. The 2019-20 year-end financial review indicated that without these mitigating factors the Council would have overspent in excess of £6 million, signalling a significant underlying pressure facing the Council.

- Officers continue to explore all available options to mitigate the ongoing pressures, but this remains challenging within the resources which are available, coupled with the ongoing priorities to support the continuing national pandemic health crisis.
- The current approved 3-year budget is set on the assumption that the Council will deliver a break-even position in the current year. Should this not be achievable this will have a recurring impact on future budget plans and the ongoing financial sustainability of the Council.

- **COVID-19 Implications**

- As previously highlighted, to date the Council is forecasting COVID-19 related costs in excess of £15 million. It seems increasingly likely that many of these costs are likely to remain in place going forward, such as enhanced cleaning and expanded school transport. Also recurring will be the assorted challenges restricting our ability to fully realise all of our planned income streams. The funding received to date to offset some of these pressures has been largely non-recurring with the exception of school staffing which has supported across the academic year 2020-21.
- The way in which the Council delivers many of its services remains subject to change, with an increased number of staff continuing to work from home, and the way in which we provide services to our communities under constant review. This may in turn create some opportunities such as reviewing and rationalising the office estate, but this may take time to consider and indeed realise potential benefits.
- The potential implications arising from COVID-19 are significant and still not fully known, and the ongoing strategy to support government and the National Health Service in their response will have a significant impact on our future financial plans.

Financial Outlook – East Lothian Council

- 1.7 Alongside the many variables outlined above, the overall economic position across the UK remains significantly uncertain, arguably more so than ever before. Notwithstanding the continuing economic impact of supporting the on-going health pandemic, the UK will also formally depart from the European Union in the forthcoming months. Significant planning has been undertaken across Council services, and is outlined in more detail within a separate report to be considered by Council. Despite significant internal planning, there clearly remains a much wider external factor relating to the potential impact on both the UK and Scottish economies, which can impact not only on future public spending levels including local government funding settlements, but may also significantly impact on the future demand for Council services.

- 1.8 In terms of democratic process and related political uncertainties, there are currently scheduled elections due to take place for Scottish Government in May 2021 and Scottish Local Government in May 2022.
- 1.9 Whilst recognising the many varied and wide range of uncertainties facing Scottish local authorities, the need for medium to longer-term financial planning is becoming increasingly important. Councils must ensure that they have robust financial plans in place that can respond to and absorb the potential impact arising from an increasingly wide range of variables highlighted earlier in this report. Only by doing so, can they ensure long term sustainability of service provision.
- 1.10 In recognising the very challenging circumstances which we are now faced with, officers have already been progressing budget planning, both internally to develop updated budget plans and also to inform and support the national discussions being led by COSLA on long-term sustainable funding for local government. This work is progressing and will be concluded in the forthcoming months, and an update on the progress will be reported to Council in December.
- 1.11 The future landscape has many variables, and the full extent of the future challenges will undoubtedly change as work progresses on developing the revenue budget. It remains clear, however, that the potential scale of the challenge facing the Council ahead is extensive, and may create multi-million pound pressures for the Council to manage. Challenges on this scale may have a significant adverse impact upon service delivery and it is imperative that early consideration is given to how best this might be managed.
- 1.12 The Council's Financial Strategy provides a practical framework within which policy choices can be identified, debated and approved. The Strategy importantly focuses across a medium-term planning framework, and the challenge remains about driving forward plans which will allow the Council to operate within a sustainable financial footing going forward. The Council has a good track record of delivering savings, and has identified and delivered over £32 million of recurring savings since 2012, with a further £5.5 million reflected within existing plans. The ability to realise more, will require the Council to continue to focus on its journey to transform service delivery, but will ultimately require some difficult choices to be made around how resources are prioritised to best deliver local services.

Budget Development Process

- 1.13 Officers have been reviewing the existing budget development process and it is recommended that the following arrangements should apply to the 2021-2024 budget. This will provide the framework for budget discussions and establish a platform for the development of an updated set of financial plans that can then be brought forward to Council for approval.

- A 3-year General Services revenue budget will be prepared covering 2021/22 to 2023/24, initially based upon a roll forward of existing budget plans.
- A longer term General Services capital budget will be prepared covering the 5-year period 2021/22 to 2025/26.
- The base budget will be developed and issued to all political groups by early December. This will subsequently be updated with information following presentation of the Scottish Government's Draft Budget to Parliament which is currently scheduled mid-December, but may now be subject to change.
- A budget briefing on the development of the baseline budget and key assumptions for Members will be held early in December.
- The Council's Financial Strategy setting out a clear direction on how the Council will manage its financial resources in the medium to long term will be brought to Council in December. This will be considered alongside an updated Capital Strategy
- DRAFT budget proposals (covering both General Services and HRA) will be developed by the Administration and initially considered by Cabinet in January 2021 covering both revenue and capital budgets.
- Other Political Groups will have the option to develop any amendments to the Administration budget, with formal proposals to be considered by Council in February, when the Council budget for both General Services, HRA and Council Tax setting will be approved.

- 1.14 Given the high likelihood that further savings will be required to be delivered across the next few years, it is recommended that work on budget development for 2021/22 and beyond is progressed with pace taking into consideration the potential variables outlined within this report.
- 1.15 In terms of public consultation, the Council will continue to support a wider public awareness campaign relating to our current financial position including information on the wider financial challenges faced.
- 1.16 Preparations for the formal statutory rent consultation are already well underway. Details of the feedback received from both processes will be shared with members to help inform final budget proposals.