

REPORT TO: East Lothian Council

MEETING DATE: 16 November 2021

BY: Executive Director for Council Resources

SUBJECT: Financial Update Report

1 PURPOSE

- 1.1 To provide an update on the in-year financial position also providing some outline thoughts on the financial outlook for the Council, and sets out the proposed budget development framework for the three-year period 2022-2025.

2 RECOMMENDATIONS

- 2.1 The Council is recommended to:
- In accordance with Appendix A:
 - Note the in-year financial performance of the Council.
 - Note the additional funding received from the Scottish Government since the Quarter 1 report.
 - Note the significance of the COVID-19 pressure and the impact of non-recurring funding provided for 2021-22.
 - In accordance with Appendix B:
 - Note the content of the report;
 - Agree that as far as is possible, advance work on budget development for 2022-25 commences;
 - Approve the budget development framework and supporting process set out in Section 1.19 of Appendix B, noting the intention to undertake a review to consider future budget development from 2023-24.

3 BACKGROUND

- 3.1 The Council received an update on the in-year financial performance and underlying challenges at its meeting in August 2021. This report provides an update on the financial position relative to approved budgets, and the potential risks and financial challenges going forward.
- 3.2 The impact of COVID-19 and the Council's response continues to have a significant impact on the Council's financial plans, to support the ongoing response and aid recovery. At the end of Period 5, the Council continues to operate in a very challenging and complex landscape with a wide range of financial uncertainties with additional cost and demand pressures, which are likely to last beyond 2021-22.
- 3.3 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 5. The report focuses on the key variables since the previous Council report, and provides an update on recent changes to national funding discussions.
 - 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 2022-25.

4 POLICY IMPLICATIONS

- 4.1 There are no direct policy implications associated with this report, although, ongoing monitoring and reporting of the Councils 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 – 15 December 2020 – Item 4 Financial Update, including Financial and Capital Strategy 2021-26
- 7.2 Council – 23 February 2021 – Item 3 – Budget Development including setting of Rent Levels 2021-26
- 7.3 Council – 2 March 2021 – Item 2a – Budget Proposals on General Service – Amendment Submitted by the Administration
- 7.4 Council – 24 August 2021 – Item 4 – 2021/22 Financial Review Quarter 1

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Appendix A – 2021/22 Financial Review/Update

General Services Revenue Summary – Period 5

- 1.1 This section of the report sets out the financial performance of the Council at the end of August 2022 against the approved budgets.
- 1.2 At the end of August 2021, the Council is reporting a £252,000 overspend (0.5%) in the General Service revenue financial position.
- 1.3 An analysis of the financial position across service groups is set out in **Appendix 1** with further details of the key challenges, emerging risks along with a financial risk rating for each service is set out in the narrative below. Projected COVID-19 costs by service are set out in **Appendix 2**.
- 1.4 The **Education and Children’s Directorate** is reporting an overspend at the end of August 2021 of £401,000 (0.8%) an increase of £185,000 on the Quarter 1 reported position. Education is reporting an underspend of £39,000 (0.1%) and Children’s Services an overspend of £440,000 (6.2%).
- 1.5 Management continue to progress a wider strategic review of services provided to children is ongoing in order to ensure that wider services provided to children across the Council adequately support and protect children whilst minimising future spend commitments.

Children’s Services, £440,000 over (6.2%)

- The service is currently projected to overspend by around £1 million in 2021-22. This is mainly due to continuing demand for Residential, Secure and External Fostering placements. This position includes an estimated full-year impact of COVID-19 related costs of £643,000 for the service. There remains an increasing demand for services and there is a risk that this could further increase the financial gap during the remainder of the financial year. The service remains classified as High Risk.

Education Services, £39,000 under (0.1%)

- Across the wider Education services, significant additional national funding has been made available to recruit additional teachers and pupil support workers. As previously reported, the Scottish Government has also announced a number of new policy commitments relating to; Expansion of Free School Meals; Increase in school clothing grant; removal of Instrumental Music Tuition charges, and removal of Core Curriculum charges. Despite additional funding, currently not all of these commitments are fully funded, and officers are working with COSLA to highlight challenges and support national discussions relating to recurring funding of these policies.
- The policy commitment, to implement the expansion of early learning and childcare to 1140 hours remains subject to post implementation review and confirmation of funding for 2022-23 onwards. As noted in

the Quarter 1 report, in line with 2020-21, there remains significant pressures on available capital funding to deliver the infrastructure required to support this policy and, as such, this may require a flexible approach to the application of funding between revenue and capital.

- Projections at this stage estimate that the full year impact of additional COVID-19 related costs will be £2.854 million.
- 1.6 The **Council Resources Directorate** is reporting an underspend at the end of August 2021 of £222,000 (3.8%) an increase of £95,000 on the Quarter 1 reported position.
- The underspends across both **Finance, £152,000 under (7%)** and **Corporate Services, £70,000 under (1.9%)** are mainly due to vacant posts, largely arising due to staffing posts held vacant pending the finalisation of a number of service reviews. Projections at this stage estimate that the full year impact of additional COVID-19 related costs will be £200,000 across the directorate.
- 1.7 The Period 5 overspend in the **Health & Social Care Directorate** is £334,000 (1.6%) a decrease of £83,000 on the Quarter 1 reported position.
- Despite an improved position at Period 5 largely reflecting confirmed additional IJB funding to meet COVID-19 related costs, there remains significant pressures across all service areas within the Health & Social Care Directorate in supporting the on-going management and implications from COVID-19. These pressures include; increased demand for commissioned services particularly residential and care at home; sustainability payments to providers the costs of which are supported by national funding; increased staffing costs to support current staffing challenges across the sector; and loss of income from Day Care Centres.
 - Projections at this stage estimate that the full year impact of additional COVID-19 related costs will be £1.410 million; however, there remains a high risk that this will increase. The current position assumes that this will be met through national funding aligned to Local Mobilisation Plans.
 - There is no indication at this stage that these pressures will reduce in the near future and unless additional recurring funding is forthcoming then this will likely be a significant financial pressure going forward. New additional recurring funding amounting to £300 million, has recently been announced to support health and social care services over the winter period and wider improvement across the health and social care systems. The funding allocation remains subject to national discussions and the impact of this for 2021-22 and future years will remain under close monitoring and review.
 - Members are reminded that the majority of this budget is delegated to the IJB, along with a small number of other budgets within Community Housing, the Housing Revenue Account and Housing Capital. IJB

budget management is in accordance with the scheme of integration and wider overall IJB resources.

- Given the wide range of significant pressures, some elements of this service is classified as High Risk, with current projections indicating that the service collectively will not be able to operate within approved budget levels. Work is ongoing with colleagues in the IJB and NHS to manage the totality of the pressures within available resource streams.

1.8 The Period 5 overspend in the **Place Directorate** is £1.230 million (7.4%), a decrease of £28,000 on the Quarter 1 position.

- **Development, £1.258 million over (124%)** – There is no significant change from the reported Quarter 1, which largely reflects £1.35 million of grants paid to local businesses through the nationally directed business support schemes, the funding of which was received in 2020-21 and earmarked within the COVID fund. There remains a risk that planning fee income will be under anticipated levels, and work is ongoing to monitor this. Projections at this stage estimate that the full year impact of additional COVID-19 related costs will be £60,000.
- **Housing, £110,000 over (26%)** – No significant changes from Quarter 1 and it remains unlikely that the full income surplus in the Property Maintenance Trading Account will be delivered during the year due to the COVID-19 construction industry restrictions. Projections at this stage estimate that the full year impact of additional COVID-19 related costs will be £2.925 million.
- **Infrastructure, £95,000 under (0.8%)** – The main changes from previously reported Quarter 1, relate to Roads Trading, and while there is still likely to be an under recovery of chargeable works due to COVID-19, this position has improved from Quarter 1, and as such the service has now moved from High to Medium Risk. There will be a delay to the rollout of the new kerbside collection service, which will increase costs by around £80,000. There continues to remain significant staffing challenges across the Facility Management service, and this has resulted in further prioritisation of service delivery. Overall, there continues to remain a wide range of pressures to manage across wider Infrastructure services, which are being managed in part by high level of staff vacancies, and improved income projections from coastal car parking. Projections at this stage estimate that the full year impact of additional COVID-19 related costs will be £1.834 million.
- **Communities & Partnerships, £37,000 under (1.0%)** – As noted at Quarter 1, this underspend is largely due to staffing vacancies. Projections at this stage estimate that the full year impact of additional COVID-19 costs will be £2.026 million. That includes the Community Asymptomatic Testing Service, which will cost £1.427 million with national funding provided to offset the costs.

1.9 The Period 5 underspend in the **Corporate Management Budgets** is £1.491 million (1%) a decrease of £58,000 on the Quarter 1 position and

remains broadly in line with the position reported at Quarter 1 with overall Council Tax budgets remaining in line with the approved budget and use of fiscal flexibilities relating to the loans fund principal repayment holidays.

- 1.10 The Council approved budget includes the requirement to deliver £930,000 of recurring planned efficiencies. Current projections indicate an improved position, with current estimates suggesting £10,000 of savings will not be achieved (red), while a further £412,000 of savings remain classified as amber. More detail is set out in **Appendix 3**. In accordance with normal practice, management is currently considering alternative ways to deliver any planned savings with a risk of non-delivery. The Quarter 3 report will provide an update on progress.
- 1.11 Members are reminded that the current budget assumes the recurring delivery of £2 million of corporate efficiencies relating to management of staffing budgets. Current projections indicate that this saving is likely to be achieved in-year but there remains risks as to the ability to deliver this level of saving on a recurring basis.

Scottish Government Funding

- 1.12 Since the Quarter 1 update, additional funding from the Scottish Government has increased by £1.444 million from £10.426 million to £11.870 million largely due to the additional Teachers and Pupil Support Worker new Scottish Government Policy announcement. As reported at Quarter 1, £7.470 million relates to one-off funding targeted to support the COVID-19 pandemic recovery, with a further £4.400 million to support Non-COVID cost commitments including instrumental music, expansion of free school meals and additional Teachers and Pupil Support Workers. More details setting out the updated funding provided by Scottish Government in 2021-22 is set out in **Appendix 4**.
- 1.13 In addition, the 2020-21 draft out-turn position noted that £8.9 million was being carried forward to 2021-22 to deliver specific commitments directed by the Scottish Government and to support wider response and recovery interventions in relation to the COVID-19 pandemic. As previously reported, a wide range of earmarked commitments has already been set out against this fund, aligned to national funding directions, but the balance of this fund will be used flexibly to support targeted interventions and aid recovery. Many of the interventions may fall beyond this financial year, and therefore a cautious approach to managing fund commitments will be required. Specific application and Fund draw down will remain subject to the finalisation of the Council's overall financial position during the year, and remain aligned to the Council's reserve strategy.
- 1.14 Previous Council Reports have highlighted a wider package of permissible fiscal flexibilities for Scottish Councils to support the mitigation of COVID-19 pressures. Whilst some of the permissible flexibilities relating to loans fund principal repayment holiday is reflected within the current approved budget, some of these specific elements originally announced relating to service concessions are still subject to clarity through national discussions led by COSLA and Directors of Finance, and it remains unclear whether

these will be available to Councils to deploy. Given the very significant risks and uncertainties facing the Council with many of these pressures still unquantified, these wider ‘flexibilities’ may provide a potentially vital alternative means of absorbing the unfunded burden of COVID-19 response and supporting future recovery activity.

- 1.15 Members should also be aware that alongside these national discussions, the Scottish Government have asked Local Authorities to undertake a review of ‘capital accounting’, and to bring forward proposals to reduce reliance on statutory mitigation. These are complex accounting requirements, but removal of which will place a very significant impact on how we account for capital and wider affordability for future capital investment plans. This review is being progressed nationally by Directors of Finance, the outcome of which will be reported through COSLA Leaders.
- 1.16 The overall expected cost pressure from COVID-19 in 2021-22 is expected to be around £12 million and at this stage it is not certain that significant levels of these costs will not be recurring and this will need to be considered as part of the 2022-23 budget development work.

2020-21 Accounts

- 1.17 The draft 2020-21 accounts remains subject to audit, with the expectation that the final accounts will be reported to Audit & Governance Committee at the end of November. Given this, members are reminded that the previously reported figures remain in draft until the audit is finalised.
- 1.18 Recent discussions have indicated that there will be changes to the draft accounts, and these are currently being progressed by the Finance team. More detail setting out these changes will be provided to Group Leaders and elected members in advance of November Audit & Governance committee.

General Services Revenue Conclusion

- 1.19 As noted in the Quarter 1 report, the council continues to operate in an extremely challenging and complex financial environment.
- 1.20 The Council continues to face significant additional costs arising from COVID interventions and support, with current projections estimating this to be around £12 million for this year. To date, these costs have largely been mitigated by additional, one-off, national funding, but the recurring implications balanced against non-recurring funding streams remain a significant risk in future financial planning. Further work is ongoing with COSLA to identify the recurring impact and this will inform further national discussions.
- 1.21 Whilst current projections indicate that the Council can manage the 2021-22 General Services revenue commitments within wider available resources, the financial environment remains complex with a wide range of uncertainties and variables and as such will require very careful monitoring and management of spend commitments.

- 1.22 Within this context, the Finance Service will continue to work closely with service colleagues to best manage expenditure commitments in 2021-22 and consider the future implications going forward.

General Services Capital Summary – Period 5

- 1.23 **Appendix 5** sets out the 2021-22 re-profiled budgeted expenditure to the end of August 2021, with reported spend of £16.840 million relative to the revised gross expenditure budget of £97.735 million. As previously reported, the approved budget has been updated with carry-forward figures from 2020-21, and currently remains within the approved capital financial limits over the 5-year period. The ability to maintain this limit remains subject to on-going review given market uncertainties relating to project cost increase, or any changes to income projections.

- 1.24 Latest projections indicate expenditure of around £88 million by the end of the financial year. As stated in the Quarter 1 report, this forecast reflects a range of assumptions that are subject to change and may therefore have an impact on the actual position achieved at the end of the financial year. Given the significance and importance of the capital programme, this will continue to be closely monitored to ensure that projects are delivered effectively and as planned. A summary of the key changes since our last report along with some additional risks are set out below:

- There remains risks around the ability to deliver the full expenditure projections on Roads budget, largely due to; the on-going implications from COVID; wider risks relating to staffing which may impact on project delivery, and of course the severity of winter weather.
- Wider supply chain problems continue to be a challenge collectively across much of the capital programme, with particular challenges in programme areas such as IT, Fleet and some wider construction materials, leading to a global shortage, long lead in times and increased prices.
- There have been delays in cemetery land acquisitions due to SEPA assessments and this may mean that the purchase will not be finalised during 2021-22.
- A new nature restoration project has been added to the plan, fully funded by the Scottish Government. This funding is for encouraging and instigating grassland restoration.
- Additional funding has also been received from the Scottish Government for play equipment. As this grant has to be used in the current year, the Council funded budget has been re-profiled into future years, as there is no capacity to deliver more than the Scottish Government funded element during 2021-22.
- A number of primary school extension projects have indicated a requirement to reprofile budget to future financial years to reflect

the latest estimated design, procurement and construction timescales.

- As highlighted earlier in the report, there continues to remain challenges to ensure that the capital cost of delivering the expansion of early learning and childcare to 1140 hours is delivered within available capital funding, with some planned projects likely to be over available budgets. As such, this may require a flexible approach to the application of funding between revenue and capital aligned to national funding commitments.

- 1.25 Despite low levels of current spend, many of the projects commitments are progressing, with current projections indicating a significant proportion of planned budget will be achieved during 2021-22.
- 1.26 Despite this, external market conditions remain very challenging, with wider supply and cost pressures, as well as implications from on-going management of COVID and wider external risks. This wider external focus is placing significant additional financial challenges on the current approved capital programme and borrowing levels. Whilst current indications suggest the wider market conditions will stabilise in due course, the financial impact and risk on future capital projects will remain a key area of focus.
- 1.27 There continues to remain ongoing risks around the timing and realisation of planned developer contributions that could put additional strain on borrowing requirements, and this position remains closely monitored.

Housing Revenue Account Summary – Period 5

- 1.28 At the end of August 2021 the Housing Revenue Account is reporting an underspend against current budget of £118,000. The position includes the recharge of fixed costs for HRA and HRA Capital from the Property Maintenance Trading Account in line with Scottish Government guidance. Further information is set out in **Appendix 6**.
- 1.29 There remains some pressures upon void properties due to the on-going implications from COVID, and as previously reported rent income remains slightly under budget and enhanced debt recovery work is ongoing to support tenants who are experiencing difficulty in paying rent.
- 1.30 In line with the existing financial strategy, the council will maximise any flexibility arising from revenue balances during 2021-22 to minimise the future impact of debt charges.
- 1.31 Details of the Housing Revenue Account capital budgets and expenditure incurred to date is set out in **Appendix 7** of this report. The total capital budget approved for HRA was £29.676 million. As at end of August 2021, actual spend was £7.497 million. Current forecasts indicate spend may start to recover on both the Council House building and Modernisation programmes, however it will be challenging to achieve the full budget spend.

Appendix 1
 East Lothian Council
 Budget Monitoring 2021/22 - Period 5

Service	Head of Service	Business Unit	2021/22 Budget	Year to Date			2021/22 Variance to Date	Financial Risk Assessment
				2021/22 Actual to Date	2021/22 Budget to Date	2021/22 Budget Variance to Date		
				£'000	£'000	£'000		
Education & Children's	Children's	Performance & Service Delivery	1,106	385	411	-26	-6.2%	
Education & Children's	Children's	Management	4,620	2,186	1,627	559	34.4%	
Education & Children's	Children's	Assessment HUB and Early Interventions	1,957	916	925	-9	-1.0%	
Education & Children's	Children's	Long Term Social Work Supervisory Groups	3,326	1,369	1,394	-25	-1.8%	
Education & Children's	Children's	TAC, Disability & Resources	5,691	2,403	2,463	-60	-2.4%	
Education & Children's	Children's	Disability Short Breaks	689	330	330	0	0.0%	
EDUCATION & CHILDREN'S	CHILDREN'S TOTAL		17,389	7,589	7,149	440	6.2%	
Education & Children's	Education	Additional Support for Learning	10,635	6,736	6,730	6	0.1%	
Education & Children's	Education	Pre-school Education & Childcare	17,833	8,051	8,518	-467	-5.5%	
Education & Children's	Education	Schools - Primary	46,020	12,642	12,741	-99	-0.8%	
Education & Children's	Education	Schools - Secondary	46,279	14,640	14,334	306	2.1%	
Education & Children's	Education	Schools - Support Services	6,106	2,198	1,903	295	15.5%	
Education & Children's	Education	East Lothian Works	1,327	-233	-153	-80	52.3%	
EDUCATION & CHILDREN'S	EDUCATION TOTAL		128,200	44,034	44,073	-39	-0.1%	
EDUCATION & CHILDREN'S TOTAL			145,589	51,623	51,222	401	0.8%	
Council Resources	Finance	Financial Services	1,607	970	1,006	-36	-3.6%	
Council Resources	Finance	Revenues & Benefits	3,312	918	1,033	-115	-11.1%	
Council Resources	Finance	Procurement	259	124	125	-1	-0.8%	
COUNCIL RESOURCES	FINANCE TOTAL		5,178	2,012	2,164	-152	-7.0%	
Council Resources	Corporate	IT Services	2,544	972	963	9	0.9%	
Council Resources	Corporate	Legal	338	188	204	-16	-7.8%	
Council Resources	Corporate	People & Governance	5,054	2,222	2,271	-49	-2.2%	
Council Resources	Corporate	Communications	436	178	192	-14	-7.3%	
COUNCIL RESOURCES	CORPORATE TOTAL		8,372	3,560	3,630	-70	-1.9%	
COUNCIL RESOURCES TOTAL			13,550	5,572	5,794	-222	-3.8%	
Health & Social Care Partnership	Head of Operations	Adult SW	35,371	13,340	12,164	1,176	9.7%	
Health & Social Care Partnership	Head of Operations	Acute & Ongoing Care	7,931	3,016	3,077	-61	-2.0%	
Health & Social Care Partnership	Head of Operations	Rehabilitation	1,528	724	776	-52	-6.7%	
Health & Social Care Partnership	Head of Operations	Adult Statutory Services	2,521	1,327	1,396	-69	-4.9%	
Health & Social Care Partnership	Head of Operations	Statutory Services	1,529	602	603	-1	-0.2%	
Health & Social Care Partnership	Head of Operations	Head of Operations	3,873	1,293	1,741	-448	-25.7%	
Health & Social Care Partnership	Head of Operations	Business & Performance IJB	2,984	729	989	-260	-26.3%	
HEALTH & SOCIAL CARE PARTNERSHIP	IJB TOTAL		55,737	21,031	20,746	285	1.4%	
Health & Social Care Partnership	Head of Operations	Business & Performance Non-IJB	540	319	270	49	18.1%	
HEALTH & SOCIAL CARE PARTNERSHIP	Non-IJB TOTAL		540	319	270	49	18.1%	
HEALTH & SOCIAL CARE PARTNERSHIP TOTAL			56,277	21,350	21,016	334	1.6%	
Place	Development	Planning	1,164	451	503	-52	-10.3%	
Place	Development	Economic Development	1,531	1,821	511	1,310	256.4%	
PLACE	DEVELOPMENT TOTAL		2,695	2,272	1,014	1,258	124.1%	
Place	Housing	Housing & Strategic Regeneration	247	105	245	-140	-57.1%	
Place	Housing	Property Maintenance Trading Account	-863	-259	-366	107	-29.2%	
Place	Housing	Community Housing	2,359	687	544	143	26.3%	
PLACE	HOUSING TOTAL		1,743	533	423	110	26.0%	
Place	Infrastructure	Facility Support Services	3,759	872	943	-71	-7.5%	
Place	Infrastructure	Facility Trading Activity	-276	-1,831	-1,787	-44	2.5%	
Place	Infrastructure	Asset Planning & Engineering - Paul ianetta	3,308	1,491	1,514	-23	-1.5%	
Place	Infrastructure	Asset Planning & Engineering - Eddie Reid	-516	250	254	-4	-1.6%	
Place	Infrastructure	Landscape & Countryside Management	5,462	2,728	2,903	-175	-6.0%	
Place	Infrastructure	Roads Network	4,797	1,504	1,524	-20	-1.3%	
Place	Infrastructure	Roads Trading Activity	-562	-441	-652	211	-32.4%	
Place	Infrastructure	Transportation	1,227	811	751	60	8.0%	
Place	Infrastructure	Waste Services	9,356	3,079	3,049	30	1.0%	
Place	Infrastructure	Active Business Unit	3,630	1,156	1,215	-59	-4.9%	
PLACE	INFRASTRUCTURE TOTAL		30,185	9,619	9,714	-95	-1.0%	
Place	Communities & Partnerships	Corporate Policy & Improvement	822	284	312	-28	-9.0%	
Place	Communities & Partnerships	Connected Communities	6,292	2,811	2,721	90	3.3%	
Place	Communities & Partnerships	Protective Services	1,876	533	544	-11	-2.0%	
Place	Communities & Partnerships	Customer Services Group	3,726	1,796	1,890	-94	-5.0%	
PLACE	COMMUNITIES & PARTNERSHIPS TOTAL		12,716	5,424	5,467	-43	-0.8%	
PLACE TOTAL			47,339	17,848	16,618	1,230	7.4%	
SERVICE TOTAL			262,755	96,393	94,650	1,743	1.8%	
CORPORATE MANAGEMENT TOTAL			-262,755	-148,128	-146,637	-1,491	-1.0%	
TOTAL			0	-51,735	-51,987	252	0.5%	

Appendix 2
 East Lothian Council
 Budget Monitoring 2021/22 - COVID-19 Cost Breakdown

Directorate	Head of Service	COVID Forecast Costs P5 £'000
EDUCATION & CHILDREN'S	CHILDREN'S TOTAL	643
EDUCATION & CHILDREN'S	EDUCATION TOTAL	2,854
EDUCATION & CHILDREN'S TOTAL		3,497
COUNCIL RESOURCES	FINANCE TOTAL	100
COUNCIL RESOURCES	CORPORATE TOTAL	100
COUNCIL RESOURCES TOTAL		200
HEALTH & SOCIAL CARE PARTNERSHIP	IJB TOTAL	1,410
HEALTH & SOCIAL CARE PARTNERSHIP	Non-IJB TOTAL	0
HEALTH & SOCIAL CARE PARTNERSHIP TOTAL		1,410
PLACE	DEVELOPMENT TOTAL	60
PLACE	HOUSING TOTAL	2,925
PLACE	INFRASTRUCTURE TOTAL	1,834
PLACE	COMMUNITIES & PARTNERSHIPS TOTAL	2,026
PLACE TOTAL		6,845
SERVICE TOTAL		11,952
CORPORATE MANAGEMENT TOTAL		150
TOTAL		12,102

Appendix 3

East Lothian Council

2021/22 Budget Efficiencies - Period 5

Service	2020/21			
	Achieved	Amber	High	
	£'000	£'000	£'000	
Education	28	0	0	
Finance	28	0	0	
Corporate Services	0	0	10	
H&SCP	0	250	0	
Housing	8	0	0	
Communities	40	3	0	
Infrastructure	407	159	0	
Total	511	412	10	933
	54.77%	44.16%	1.07%	

Savings Currently High - Red

Service	Proposal	Value	Comments
People & Governance	Uplift on existing income	10	Not anticipated to be achievable at this stage due to COVID 19
Total		10	

Appendix 4**East Lothian Council****Budget Monitoring 2021/22 - Additional Funding from the Scottish Government****£million**

2020/21 GRG (per Budget Amendment)	181.210
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Additional Funding - GRG**COVID**

Non Recurring COVID Funding	5.018
Recovery of Overpayment of GRG in 2020/21 for FSM Dec/Jan £6.950m recovery	-0.098
Education Recovery Funding - £60m Distribution	1.169
Family Pandemic Payments	0.314
Family Pandemic Payments - Fixed Admin Contribution	0.011
Low Income Pandemic Payments	0.923
Low Income Pandemic Payments - Fixed Admin Contribution	0.055
Extension to Outbound Calling / Local Self isolation Services (£2.275m)	0.039
Extension of Local Self-Isolation Assistance Service (£2.275m)	0.039

TOTAL COVID	7.470
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OTHER

Expansion of Universal Free School Meals and Free School meal Holiday Support - Phase 1	0.294
Free School Meal Holiday Support - £21.75m distribution	
Expansion of Universal Free School Meals and Free School meal Holiday Support - Phase 2 and 3 Primary 4 & 5 - £28m distribution	0.654
Summer of Play: Activities for Children and Young People	0.277
Increase in School Clothing Grants (£5.8m)	0.218
Instrumental Music Funding (£6m 21/22, £3m 22/23)	0.071
Additional GRG £40m distribution	0.775
Real Living Wage Uplift £30.5m distribution	0.582
Removal of core curriculum charges (£7m 21/22, £3m 22/23)	0.085
Additional 1000 Teachers and 500 Pupil Support Workers (100 Day Commitment £50m)	1.042

Scottish Child Payment Bridging Payments - Grant	0.346
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Scottish Child Payment Bridging Payments - Admin	0.005
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Business Support Administration Grant	0.051
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TOTAL OTHER	4.400
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Total Additional Funding	11.870
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Revised GRG	193.080
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COVID GRANTS

Taxi and Private Hire Vehicle Driver and Operator Support Fund 2021/22	0.373
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Total COVID Grants	0.373
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Appendix 5

East Lothian Council

General Services Capital Budget Monitoring Summary 2020-21

as at 31 August 2021

	RAG	Annual (In-Year)				
		Approved Budget 2021/22	Updated Budget 2021/22	Actual 2021/22	Projected Outturn 2021/22	Projected Outturn 2021/22 - Funding
Expenditure		£'000	£'000	£'000	£'000	£'000
Community Projects						
Community Intervention	A	500	500	31	318	-
Bleachingfield Centre Remodelling Works	G	90	90	-	-	-
Dunbar Conservation Area Regeneration Scheme (CARS)	G	90	90	-	90	-
Support for Business	A	1,481	1,508	9	795	-
CCTV	G	230	230	-	230	-
Town Centre Regeneration	G	1,297	1,458	131	1,478	(1,458)
Total Community Projects		3,687	3,876	171	2,911	(1,458)
Town Centre Regeneration Grant		(1,297)	(1,458)	-	(1,458)	
Other Funding Sources		(90)	(90)	-	-	
Total Income: Community Projects		(1,387)	(1,548)	-	(1,458)	
ICT						
IT Programme (including Education)	G	2,800	2,800	1,195	3,145	(345)
Replacement - CRM Project (Customer Services)	G	-	47	2	47	-
Total ICT		2,800	2,847	1,197	3,192	(345)
Other Funding Sources		-	-	-	(345)	
Total Income: ICT		-	-	-	(345)	
Fleet						
Amenties - Machinery & Equipment - replacement	G	213	213	283	211	-
Vehicles	A	2,325	3,028	1,229	2,658	-
Waste Collection Vehicles	A	3,000	3,000	-	3,000	(3,000)

East Lothian Council

General Services Capital Budget Monitoring Summary 2020-21

as at 31 August 2021

	RAG	Annual (In-Year)				
		Approved Budget 2021/22	Updated Budget 2021/22	Actual 2021/22	Projected Outturn 2021/22	Projected Outturn 2021/22 - Funding
Expenditure		£'000	£'000	£'000	£'000	£'000
Total Fleet		5,538	6,241	1,512	5,869	(3,000)
Other Funding Sources	A	(3,000)	(3,000)		(3,000)	
Total Income: Fleet		(3,000)	(3,000)	-	(3,000)	
Open Space						
Cemeteries (Burial Grounds)	A	912	939	3	534	-
Coastal / Flood Protection schemes - Haddington	A	250	325	-	200	-
Coastal / Flood Protection schemes - Musselburgh	G	844	1,031	93	1,031	-
Coastal Car Park Toilets	G	246	394	109	394	(148)
Core Path Plan	G	50	80	-	80	-
Mains Farm Town Park & Pavilion	G	100	70	87	100	(100)
Nature Restoration	G			-	109	(109)
Replacement Play Equipment	G	100	100	-	108	(108)
Ormiston Pump Track	G	-	-	90	90	(90)
Sports and Recreation LDP	G	1,227	1,235	-	201	(151)
Waste - New Bins	G	250	250	142	205	-
Waste - Machinery & Equipment - replacement	G	40	40	2	85	-
Total Open Space		4,020	4,464	526	3,138	(706)
Developer Contribution		(1,277)	(1,254)		(251)	
Other Funding Sources		(148)	(148)		(455)	
Total Income: Open Space		(1,425)	(1,402)	-	(706)	
Roads, Lighting and related assets						
Cycling Walking Safer Streets	A	469	544	176	544	(544)
East Linton Rail Stop / Infrastructure	G	1,520	1,520	-	1,520	-

East Lothian Council

General Services Capital Budget Monitoring Summary 2020-21

as at 31 August 2021

	RAG	Annual (In-Year)				
		Approved Budget 2021/22	Updated Budget 2021/22	Actual 2021/22	Projected Outturn 2021/22	Projected Outturn 2021/22 - Funding
Expenditure		£'000	£'000	£'000	£'000	£'000
Parking Improvements	G	230	230	8	230	-
Roads	G	6,854	6,929	1,579	6,929	-
Roads - externally funded projects	G	4,077	4,077	109	2,528	(2,528)
Total Roads, Lighting and related assets		13,150	13,300	1,872	11,751	(3,072)
Developer Contribution		(377)	(377)		(404)	
Other Funding Sources		(4,169)	(4,244)		(2,668)	
Total Income: Roads, Lighting and related assets		(4,546)	(4,621)	-	(3,072)	
Property - Education						
Aberlady Primary - extension	A	932	953	11	750	(750)
Blindwells Primary - new school	A	-	-	-	200	(200)
Cockenzie Primary - Internal Remodelling	G	31	31	-	31	(31)
Craighall Primary - New School (Phase 1)	A	-	-	-	200	(200)
Dunbar Primary - John Muir Campus - Early Learning and 1140	G	99	101	1	101	(101)
East Linton Primary - extension including Early Learning and 1140	G	200	200	-	-	-
Gullane Primary - extension including Early Learning and 1140	G	2,022	2,274	1,573	2,274	(174)
Haddington School (Infants & St. Mary)	G	25	25	(0)	25	(25)
Kingsmeadow Primary	G	25	25	-	25	(25)
Law Primary - extension including Early Learning and 1140	A	3,232	3,202	66	1,800	(1,800)
Letham Primary - New School	G	161	374	57	200	(42)
Musselburgh Grammar - upgrades	G	888	903	14	903	-
North Berwick High School - Extension	G	5,306	5,788	522	6,168	(5,978)
Ormiston Primary - extension	G	1,434	1,732	307	1,732	(1,103)
Pinkie St Peter's Primary - extension including Early Learning and 1140	A	3,312	3,469	9	250	(250)
Ross High School - extension	G	9,139	9,629	3,010	9,629	(1,356)
School Estate - Curriculum Upgrades	G	330	345	22	345	-

East Lothian Council

General Services Capital Budget Monitoring Summary 2020-21

as at 31 August 2021

	RAG	Annual (In-Year)				
		Approved Budget 2021/22	Updated Budget 2021/22	Actual 2021/22	Projected Outturn 2021/22	Projected Outturn 2021/22 - Funding
Expenditure		£'000	£'000	£'000	£'000	£'000
School Kitchens - 1140 Upgrades	G	319	317	327	375	(317)
St Gabriel's Primary - extension including Early Learning and 1140	A	940	1,178	286	500	(500)
Wallyford Primary - New School	G	-	-	1	65	-
Wallyford Learning Campus	G	11,310	11,700	3,543	16,500	(805)
West Barns Primary - extension including Early Learning and 1140	A	1,997	2,149	44	200	(200)
Whitecraig Primary - new school including Early Learning and 1140	G	297	307	-	307	(262)
Windygoul Primary - Early learning and 1140 extension	A	900	929	14	529	(529)
Unallocated 1140 Hours	A	1,000	1,000	-	1,000	-
Total Property - Education		43,899	46,631	9,806	44,109	(14,649)
Developer Contribution		(10,447)	(11,605)		(10,912)	
1140 Grant Income		(8,233)	(8,907)		(3,892)	
Other Funding Sources					(5)	
Total Income: Property - Education		(18,680)	(20,513)	-	(14,809)	
Property - Other						
Accelerating Growth		8,275	8,542	204	8,458	
- Cockenzie	A	-	-	160	734	(734)
- Blindwells New Town	G	354	364	24	295	(125)
- Innovation Park incl. Innovation Hub	A	921	1,178	20	430	(358)
- A1/QMU Junction	G	7,000	7,000	-	7,000	(1,642)
Brunton Hall - Improved Community Access	G	100	100	-	100	-
Court Accommodation - incl. SPOC	A	1,686	1,776	2	300	-
Haddington Town House - Refurbishment and Rewire	G	574	597	47	597	-
Meadowmill - New Depot	G	-	476	303	476	-
New ways of working Programme	A	773	1,523	-	8	-
Port Seton - Community Centre Extension	G	-	15	-	15	-

East Lothian Council

General Services Capital Budget Monitoring Summary 2020-21

as at 31 August 2021

	RAG	Annual (In-Year)				
		Approved Budget 2021/22	Updated Budget 2021/22	Actual 2021/22	Projected Outturn 2021/22	Projected Outturn 2021/22 - Funding
Expenditure		£'000	£'000	£'000	£'000	£'000
Prestonrange Museum	G	934	971	29	655	(642)
Property Renewals	G	3,000	3,000	1,286	3,083	(83)
Replacement Of Movable Pool Floors To Sports Centres	G	-	36	(116)	36	-
Replacement Childrens House	A	1,549	1,549	-	1,549	-
Sports Centres	G	200	360	-	360	-
Water meter size reduction	A	-	14	-	-	-
Whitecraig Community Centre	G	-	96	0	50	-
Total Property - Other		17,090	19,054	1,756	15,686	(3,584)
Developer Contribution		-	-	-	-	-
Other Funding Sources		(3,565)	(3,685)	-	(3,584)	-
Total Income: Property - Other		(3,565)	(3,685)	-	(3,584)	-
Total Property Spend - Education and Other		60,989	65,685	11,562	59,795	(18,233)
Total Income: Property - Education and Other		(22,245)	(24,198)	-	(18,393)	-
Capital Plan Fees		1,322	1,322	-	1,800	-
Total Gross Expenditure		91,506	97,735	16,840	88,455	(26,814)
Income						
Developer Contribution		(12,102)	(13,237)	-	(11,567)	-
1140 Grant Income		(8,233)	(8,907)	-	(3,892)	-
1140 CFCR from Revenue		-	-	-	-	-
Town Centre Regeneration Grant		(1,297)	(1,458)	-	(1,458)	-
Other Funding Sources		(10,972)	(11,166)	-	(10,056)	-
Scottish Government General Capital Grant		(7,983)	(7,983)	-	(7,983)	-
Total Income		(40,586)	(42,752)	-	(34,957)	-

East Lothian Council

General Services Capital Budget Monitoring Summary 2020-21

as at 31 August 2021

	RAG	Annual (In-Year)				
		Approved Budget 2021/22	Updated Budget 2021/22	Actual 2021/22	Projected Outturn 2021/22	Projected Outturn 2021/22 - Funding
		£'000	£'000	£'000	£'000	£'000
Expenditure						
<hr/>						
Borrowing Requirement		50,920	54,983		53,498	

RAG

RED (trouble) - Project is at risk to miss a scheduled completion date, may be over budget or out of scope. Immediate action required

AMBER (danger) - Project may be at risk if issues are not addressed. Attention required

GREEN (all good) - Project is on track to meet scheduled parameters

Funding

The Projected Outturn - Funding column shows the total external funding per budget line excluding General Capital Grant.
 The difference between the Total Income projection (excluding General Capital Grant) of £26,974 and the Funding column total of £26,814 is Developer Contributions receivable for projects completed in a prior financial year.

Appendix 6
 East Lothian Council
 Budget Monitoring HRA 202/22 - Period 5

	2021/22 Budget £'000	2021/22 Actual to Date £'000	2021/22 Budget to Date £'000	2021/22 Budget Variance to Date £'000
Total Income	-34,641	-14,202	-14,260	58
Total Expenditure	32,402	6,195	6,371	-176
(Surplus) / Deficit for Year	-2,239	-8,007	-7,889	-118

	2021/22 Budget £'000
Management of Balances	
Opening (Surplus) / Deficit	-1,705
CFCR	2,500
(Surplus) / Deficit for Year	-2,239
Closing (Surplus) / Deficit	-1,444

Appendix 7
East Lothian Council
Budget Monitoring HRA Capital 2021/22 - Period 5

	2021/22 Budget	2021/22 Actual to Date	2021/22 Budget to Date	2021/22 Budget Variance to Date
	£'000	£'000	£'000	£'000
Modernisation	15,888	3,291	6,620	-3,329
New Council Housing	12,031	4,206	5,644	-1,438
Fees	1,477	0	0	0
Mortgage to Rent	280	0	0	0
TOTAL	29,676	7,497	12,264	-4,767

Funded By:

	2021/22 Budget	2021/22 Actual to Date	2021/22 Budget to Date	2021/22 Budget Variance to Date
	£'000	£'000	£'000	£'000
Grants	-4,500	-2,675	-1,875	-800
Grants MTR	-196	0	0	0
CFCR	-2,500	-2,500	-2,500	0
Borrowing	-22,480	0	0	0
TOTAL	-29,676	-5,175	-4,375	-800

- 1.6 The approved financial plans include a range of forward assumptions which are subject to review each year, taking account of updated information and circumstances. As highlighted in the previous section of this report, the current implications arising from COVID-19 and wider demand pressures are likely to have recurring implications for the Council to consider in future years, and therefore may impact on the deliverability of current plans and assumptions.
- 1.7 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. Given the significance, any change to the RSG can have a significant impact upon the funding available for future financial plans and ultimately services that the Council can provide.
- The current funding settlement has been provided for 2021-22 only, and as such the future year's budget assumptions remain subject to change. 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). Wider national planning suggests that this may be at best optimistic, and therefore remains a significant risk to future financial plans. For illustration, a 1% change in RSG is approximately £1.8 million.
- Much of the funding available to the Scottish Government is dependent on the UK Government funding. The UK Government will announce the Spending Review for 2021 and an Autumn Budget on 27 October 2021. The Spending Review is expected to cover spending plans until 2024-25. The Scottish Government will make its own Budget Statement on 9 December 2021 and it is expected that this will be a one-year budget. The date of publishing the Local Government Settlement is expected to be around 20 December.
- 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. The UK Chancellor has indicated his focus will be placed on 'keeping the public finances on a sustainable path', with indications departmental budgets have been asked to consider savings and efficiency plans by at least 5% of day to day budgets. This could mean further restraints being imposed on public funding allocations both in 2022-23 and the years ahead.
- 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 2021-22 are currently estimated to be in around £12m, 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 expansion.
- The current planned delivery of 1140 hours is now progressing after a period of abatement in 2020-21 due to the pandemic. Funding has only been confirmed until 2021-22 with future funding subject to review by the Scottish Government. The current budget has assumed future funding to be recurring at 2021-22 levels pending further announcements. Given the scale of funding levels at just under £12.6 million for the Council, any change to funding levels may impact on how the service is delivered going forward.
- 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. The earmarking of these new resources to support national priorities, can reduce 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 annual Council Tax freeze in 2021/22 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.
- Members are reminded that the additional income received from new household Council Tax alone, does not support the additional cost to the Council in providing our full range of council services to support an increasing population.

- **Use of Reserves**

- The current 3-year budget, requires to draw down general reserves of up to £250,000 in 2021-22 with a further £2.845 million planned for 2022-23. During the 3-year budget period, there is a planned draw down from a number of the specific earmarked reserves such as DSM balances, the COVID-19 Fund and the Cost Reduction Fund, reducing the overall usable reserves balance available.
- As highlighted in the 2020-21 year-end financial review, the draft 2020-21 accounts show a total General Fund Reserves balance (including the Council's Insurance Fund) at £33.080 million. Included within this balance is the establishment of an £8.9 million COVID-19 Fund to support wider interventions aligned with on-going response and recovery. A large proportion of the reserves are committed to support a range of future specified requirements as determined within the approved Reserves Strategy and current approved budgets.
- 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 (currently reflected as 2% of the Council's annual running costs). Whilst the target is currently being met, the level of uncommitted reserves remains low relative to the risks and underlying financial challenges facing the Council.
- 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 particularly to support recurring pressures and commitments 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.

- The application of HRA reserve balances is used flexibly aligned to the Council's financial strategy, to minimise the impact of future borrowing. Any change to reserve balances, will impact on the flexibility applied against planned borrowing.
- **National 'Fiscal Flexibilities'**
 - The current approved budget includes the application of a loans fund principal repayment holiday, amounting to around £7.2 million, which was permissible as part of the package of national flexibilities for implementation in 2020-21 or 2021-22.
 - As referenced within the previous section of the report, whilst national discussions remain ongoing, these flexibilities were to provide a potentially vital alternative means of absorbing the unfunded burden of COVID-19 response and supporting future recovery activity support and as such are not savings which can be relied upon to balance future budgets.
- **Internal Loans Fund Review**
 - The current budget assumes the continued application of 'internal loans fund flexibility' to maintain the level of loans fund advances and charges to the General Fund.
 - This remains aligned to the wider strategy to enable a smoothing of future loans fund advances, but this is not a recurring solution. The ability to manage the impact of future debt charges liabilities will remain dependent on the ability to ensure future capital investment plans remain affordable and sustainable.
- **Pay / Pensions**
 - The current budget assumes a 2% per annum pay uplift across the three-year period. National negotiations on the current year pay settlement remains ongoing but is likely to be in excess of current budget levels. Each additional 1% increase in pay costs the Council around £1.6 million. Should this level materialise, no provision has been made within current budget levels to accommodate this increase.
 - In recent years, no provision to accommodate a pay uplift across the local government workforce has been made within the allocated Local Government Finance Settlement, with pay uplifts to be identified within existing funding levels.
 - In addition, the UK Government has indicated the implementation of a 1.25% Care Tax from 2022-23. It is currently not expected that this will be introduced in Scotland, but there may be further national implications arising from the UK funding settlement. More details is likely to be known at the autumn budget statement.

- 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 March 2024, with contributions frozen to this point.
- 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. The current budget assumes no further increase from this date.

- **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 have risen sharply over the past year, with CPI at the end of August 2021 at 3.0% (0.5% August 2020). There remains significant challenges in the supply and costs of goods and services, with significant increases in a large number of sectors, including energy 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 as well as some challenges relating to supply of materials.
- Given the current scale of market variation, any increased costs relating to supply of goods and services will currently require to be met within existing budget limits. The future implications will be considered as part of the updated budget.

- **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.
- The Council has 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 wider economic implications being experienced from 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. 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.
 - There will be a need to review current Capital Infrastructure Plans to take cognisance of wider delivery requirements and economic conditions, as well as ensuring that current plans support the Council's priority and alignment from COVID-19 and wider concurrent risks. The need to ensure appropriate investment in digital connectivity and solutions remain critical, and capital investment support the climate change requirements and net zero carbon commitments.
- **Demand Growth**
 - The Council's population remains one of the fastest growing areas in Scotland, 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.
 - In recent years, the national settlement has seen a reduction or at best a very minimal increase in core funding available to support the local delivery of services. Whilst the distribution of many of the funding streams within the national settlement are population linked, the impact of this has not been reflected by means of an increase within local funding settlements for the Council, largely given the minimal increase in core funding alongside the national agreement to protect the stability of funding changes across the wider national funding settlement.
 - As previously highlighted, the additional income received from new household Council Tax alone does not support the additional cost to the Council in providing our full range of Council services to support an increasing population. Therefore supporting demand growth within the current resources available remains challenging.

- **Transformational Change / Efficiency Programme**

- A key requirement of the current budget is the delivery of the planned programme of efficiencies, with £9.2m of recurring efficiencies already identified within the current 3-year budget.
- The current 3-year budget assumes the delivery of the following efficiencies.
 - £2.048 million service efficiencies;
 - £7.182 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 2021-22 will be delivered, however there remains a risk that these may not be delivered on a recurring basis and this will in turn create challenges for future plans.
- Current plans to deliver efficiencies in 2022-23 and 2023-24 are currently being reviewed, but it is considered unlikely that all planned efficiencies will be fully delivered on a recurring basis. This is likely to result in further challenges and a need to consider alternative options to balance future budgets.

- **2021-22 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. Whilst it is anticipated that much of these pressures will be managed in year largely due to additional non-recurring interventions, the ability to manage any recurring pressures in future years should no additional funding be made available will be very challenging. As a reminder the 2020-21 financial year-end review indicated that without these mitigating factors the Council would have overspent in excess of £11 million signalling a significant underlying pressure facing the Council.
- There remains a risk that pressures will increase and change given the wide range of uncertainties across the economic and political landscape; the wider management of COVID-19 interventions and recovery, as well as the ongoing risks associated with national pay negotiations.

- These pressures exist within all of the Council's approved financial plans including: General Services Revenue, Capital and Housing Revenue Account.
- Relating to General Services Revenue budget, both Children's and Health and Social care services are classified as High Risk, with significant pressure emerging from both increased demand and implications from the on-going management of COVID-19 interventions. Most of the current pressures being faced across the General Services revenue budget are in part mitigated by additional non-recurring funding.
- Many of the pressures within the capital infrastructure plans for both General Services and HRA have already been set out in this report, with increased costs of construction, challenging supply chains, and on-going significant pressures arising from management of COVID-19 from in house and externally procured capital project delivery, all placing significant challenges on ambitious capital investment programmes.
- The current approved 3-year General Services revenue 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.
- The HRA account is self-financing where revenue income streams support the wider operational and support for Council tenants as well as supporting continued investment in modernising the stock and supporting the ambitious delivery of new Council houses. Any pressures which are unable to be met within existing approved budget levels, may ultimately change the projected outturn and in turn the wider reserve balance. This may impact on the flexibility applied against planned borrowing and wider affordability of future capital investment plans.

- **COVID-19 Implications**

- As previously highlighted, to date the Council is forecasting COVID-19 related costs of around £12 million. It seems increasingly likely that many of these costs are likely to remain in place going forward, such as enhanced cleaning, expanded school transport, and implications within our Health and Social Care budgets. There remains a wide range of 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 2021-22.
- 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 on-going 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

- 1.8 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 also formally departed from the European Union, and these collectively are placing further pressures on markets and supply.
- 1.9 There remains significant uncertainty relating to future public spending levels including Local Government funding settlements, as UK and Scottish Government try to balance the costs of managing the pandemic and supporting wider recovery. Furthermore, in Scotland, it is likely that the recently formed SNP/Green partnership collaboration will see a further shift in national policy and spending commitments.
- 1.10 The recently announced Programme for Government in Scotland indicated significant policy commitments, including an increased investment in social care by 25% over the lifetime of the Parliament, providing over £800 million additional funding by 2026-27. It currently remains unclear as to how this commitment will be funded, which may place further pressure for funding the remainder of the Scottish public sector, including local government.
- 1.11 Furthermore, the outcome of the National Care Service consultation on the recommendations set out within the Feeley Report may have a significant impact on the Council, and the services it delivers.
- 1.12 More locally, it is recognised that the impact of the Local Government Elections in May 2022, may place a further change to the political governance and Council priorities.
- 1.13 Given the wide range of uncertainties and variables facing the Council, it is likely that many of these will continue into 2022-23 and beyond. The continuing impact and recovery from COVID-19 will place further challenges and demands on the Council's finances, but may also present opportunities to change the way in which we interact across services and with our communities.
- 1.14 The need for medium to longer term financial planning is becoming even greater than before, to ensure the Council can respond to and absorb the potential impact arising from an increasingly wide range of variables

highlighted earlier in this report. Only by doing, can we ensure long term financial sustainability.

- 1.15 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.
- 1.16 The future landscape has many variables, and the full extent of the future challenges will undoubtedly change as work progresses on developing the budgets. It remains clear 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.
- 1.17 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 £34 million of recurring savings since 2012, with a further £9.2 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

- 1.18 It is recognised that the current budget framework has been in place for a number of years. Whilst recognising there is a need for future review to align new policy requirements within available resource streams, given the Council is still operating under very challenging circumstances with business continuity and priority service plans still in operation, it is recommended to continue within the existing budget development framework, with a new budget framework planned to support the 2023-24 budget development, aligned to the new political structure of the Council. Further details setting out this revised framework will be considered at future Council meetings.
- 1.19 The proposed approach 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. This will include the following:

- A 3-year General Services revenue budget will be prepared covering 2022-23 to 2024-25, initially based upon a roll forward of existing budget plans.
- A medium term General Services capital budget will be prepared covering the 5-year period 2022-23 to 2026-27, but this will be underpinned by a longer term capital infrastructure plan and strategy.
- The base budget will be developed and issued to all political groups as early as possible, and in advance of early December. This will subsequently be updated with information following presentation of the Scottish Government's Draft Budget to Parliament which is currently scheduled for 9 December 2021.
- A budget briefing for members will be held early in December on the development of the baseline budget and key assumptions.
- 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 2022 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 (date still to be confirmed), when the Council budget for both General Services, HRA and Council Tax setting will be approved.

1.20 Given the high likelihood that further savings will be required to be delivered across the next few years, it is recommended that immediate discussions on budget development for 2022-23 and beyond is progressed with pace taking into consideration the potential variables outlined within this report.

1.21 In terms of public consultation, whilst recognising the current business continuity arrangements, and need to review the wider budget framework, 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. This will be supported by some wider questions relating to service prioritisation within the planned 2021-22 Residents Survey which is due to commence in the next few weeks.

1.22 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.