

**REPORT TO:** East Lothian Council

**MEETING DATE:** 29 March 2022

**BY:** Executive Director for Council Resources

**SUBJECT:** Review of Budget Development Framework

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## **1 PURPOSE**

- 1.1 To provide an update on the financial risks facing the Council for the period from 2023/24 onwards, and seek approval for the proposed budget development framework and timetable to support financial planning.

## **2 RECOMMENDATIONS**

- 2.1 To note the financial environment detailed within paragraphs 3.3–3.11 of the report.
- 2.2 To agree to the proposed principles for taking forward the review of the budget development framework, including the establishment of a cross party budget working group, set out at paragraph 3.15.
- 2.3 To note the proposed next steps for development of the budget and medium term financial strategy for 2023/24 onwards at paragraph 3.16.

## **3 BACKGROUND**

- 3.1 Council has previously set out its commitment to reviewing the budget development framework which governs the development of budget proposals and financial strategy with a view to ensuring that plans are sustainable and provide a realistic reflection of the council's priorities.
- 3.2 Following agreement of the 2022/23 budget, this report summarises some of the existing risks and challenges which the council will need to address through its financial plans over the coming years, and suggests some high level principles to guide this process.

## **Final Local Government Finance Order 2022/23**

- 3.3 As previously reported, the Local Government Finance Order for the 2022/23 financial year was finalised on 2 March 2022 and has the following implications for East Lothian Council:
- Additional Revenue funding of £5.737m, of which:
    - £3.841m is the council's share of £200m funding for health and social care and must be transferred to the IJB in line with national settlement conditions;
    - £1.250m is ringfenced funding for free school meals
    - £0.646m is ringfenced funding for child bridging payments
    - £1.56m has been provided on a non-recurring basis
  - Confirmation that £1.517m of COVID Economic Recovery will be received, which will be paid during 2021/22 and utilised during 2022/23 to support business recovery and low income households, aligned to national parameters. In line with the principles agreed by Council, the funding will be split equally between these two objectives. Allocation of funding to businesses is the subject of a separate report on this agenda, and officers are in the process of developing plans for the distribution of funding to low income households.
  - The Council will also receive funding for the £150 cost of living payment which will be payable to band A-D households and those in receipt of Council support. This will be administered as a credit to council tax accounts during April.
- 3.4 Further capital funding of £0.268m has been announced for play park renewal (£0.108m) and coastal change management (£0.160m).

### **Financial Environment**

- 3.5 The Council continues to operate in a complex and challenging financial environment. The 2022/23 budget and financial plans are based on a one-year finance settlement from Scottish Government, which saw a year-on-year reduction in permanent funding over the next financial year. The settlement also relies on a significant amount of funding which has been provided on a non-recurring basis which creates significant uncertainty for the years beyond 2022-23 in the context of rising demand for Council services. This uncertainty is further compounded by interventions required to support recovery from COVID-19 and a multitude of significant external pressures including current inflation levels and rising costs of living.
- 3.6 Scottish Government has also announced its intention to publish details of the spending review in May. Although this is unlikely to provide detail on the Council's share of any future settlements, it is anticipated that this will be a multi-year review and this will be used to form the basis of future planning assumptions. It is also unclear at this stage whether the review will come with new priorities for local government, or simply a renewed commitment to jointly delivering existing policy outcomes:

1. To support progress towards meeting our child poverty targets
2. To address climate change
3. To secure a stronger, fairer, greener economy

3.7 As a reminder, the approved budget for 2022/23 incorporates the following:

- Use of reserves totalling £8.690m comprising of £1.5m to be carried forward from 2021/22 to support national COVID economic recovery fund referenced above, and a balance of £7.19m which is made up from the following: planned drawdown of earmarked reserves set out in 2021/22 budget, application of uncommitted reserves, and the remaining unallocated balance from the COVID recovery fund.
- Total deliverable efficiency savings of £0.939m made up from £0.243m service savings, and a further £0.150m from review of assets.
- Flexibility in the costs to be charged to the loans fund, with a planned reduction of £1m in 2022/23 and £3m in 2023/24, aligned to the internal loans fund review, and subject to the outcome of national discussions around fiscal flexibilities.

3.8 The budget for 2023/24 onwards includes a number of assumptions including:

- The level of core national funding remains aligned to the funding received in 2022-23, adjusted only to reflect non-recurring funding streams, and with the assumption that anticipated growth in Adult Social Care will be met by additional national funding;
- Requirement to deliver further recurring savings of £15.178m made up from;
  - £0.730m service efficiencies;
  - £13.4m through a review of core service provision;
  - £0.850m savings from review of assets
  - A further £0.175m from staffing savings
- No further planned draw down of reserves beyond 2022/23;
- These savings incorporate planning assumptions based on a 5% annual increase in Council Tax increase for both 2023/24 and 2024/25. These assumptions are considered and refreshed on an annual basis and will be revisited as part of the budget development process for 2023/24.

3.9 It remains clear that the risks outlined above, alongside the scale of recurring savings required will represent a significant challenge over the coming years, requiring a refreshed approach to budget development which is the subject of this report.

3.10 Whilst the approved budget reflects some contractual and demand pressures, given the wide range of pressures facing the Council, it is likely that collectively these will be significantly in excess of approved budget levels and effectively widening of the gap between available resources and expenditure requirements.

Furthermore, any changes incorporated to assumptions will impact on the current projections.

- 3.11 The scale of this challenge cannot be underestimated, and it is likely that difficult decisions will be required over the coming years to ensure that the Council is able to continue to deliver its statutory responsibilities and strategic priorities.

### **Budget Development Framework**

- 3.12 Sustainable financial planning is central to ensuring effective financial control and forms a central part of decision making and ensuring that the Council delivers value for money in its use of resources. Preparation of the annual budget is therefore a key activity for the Council.

- 3.13 Council has committed to undertaking a review of the budget development framework and arrangements which govern the production of budget proposals. The purpose of this report is to set the context for the review, and to introduce some high level principles which can be used as a basis to support financial planning from 2023/24 onwards.

- 3.14 In response to a review of the budget setting process for 2022/23, incorporating feedback from political group leaders on the budget development process, the following themes have emerged as potential areas of focus for future financial planning:

- Facilitating **cross-party working** on the development of budget proposals;
- Supporting discussions on budget setting **throughout the year**;
- Simplifying the process through which **Elected Members can actively contribute** to the development of the budget, including the process to submit alternative proposals and budget amendments;
- Enhanced **management information** to support budget decisions, ensuring that Members are well sighted on the financial landscape and our options and opportunities over the medium term;
- Enhancing the role of **consultation** with the public and Elected Members in identifying spending priorities.

- 3.15 A detailed plan which sets out the governance arrangements for developing budgets from 2023/24 will be presented to Council in June. At this stage, Council is asked to consider the below principles as a foundation to the revised budget development framework:

1. Establishment of a cross-party budget working group to oversee the development of detailed budget proposals and the different work streams supporting this.
2. Commitment to developing an approach aligned to the financial strategy which combines a range of options to close the gap between available funding and anticipated expenditure including an enhanced programme of

transformation, asset review, income generation, cost reduction and efficiency.

3. A holistic approach to budget development, which recognises the relationship between capital and revenue planning and the role of investment in cost reduction strategies.
4. Commitment to minimising the use of one off resources to balance the budget and ensuring that use of reserves is limited to one-off spend or investment in initiatives which support the transformation agenda.
5. Ensuring alignment of financial planning and resources with wider strategic priorities, the Council Plan and consultation results.
6. Consideration of a 5-year budget plan aligned to the financial and capital strategies.

### **Budget Development – Next Steps**

- 3.16 The table below sets out the next steps for developing the medium term financial strategy and budget proposals for 2023/24 onwards. Prior to the summer recess, we will be looking to achieve the following actions:

<b>Date</b>	<b>Meeting</b>	<b>Action</b>
June 2022	Council	Agree the budget development framework, taking cognisance of principles which are subject to agreement in this paper.
June 2022	Council	Agree Common Good and Trust budgets for 2022/23.
June 2022	Cabinet / Council	Agree updated charging policy for 2022/23.
August – September 2022		Public consultation

## **4 POLICY IMPLICATIONS**

- 4.1 The Council's budget and financial strategies should be a representation of the Council Plan and strategic priorities in financial terms. The proposals within this report are intended to enhance the Council's budget development framework to ensure that this process supports the effective delivery of policy objectives.

## **5 INTEGRATED IMPACT ASSESSMENT**

- 5.1 Impact assessments may be required for budget proposals which involve a significant change to delivery of services by East Lothian Council. Political groups

will be provided with all relevant information relating to the potential impact of budget saving proposals as part of the budget development process.

## **6 RESOURCE IMPLICATIONS**

6.1 Financial – although there are no direct financial implications arising from the principles detailed within this report, the proposals are intended to support sustainable financial planning and the delivery of the Council’s financial strategies.

6.2 Personnel - none at this stage

6.3 Other – none at this stage

## **7 BACKGROUND PAPERS**

7.1 Budget Development including setting of Council Tax and Council Housing Rent for 2022-23 – Item 1 - Report to Council 1 March 2022

7.2 Council Financial Strategy 2022-27 – Report to Council 14 December 2021

<b>AUTHOR’S NAME</b>	Ellie Dunnet
<b>DESIGNATION</b>	Head of Finance
<b>CONTACT INFO</b>	<a href="mailto:edunnet@eastlothian.gov.uk">edunnet@eastlothian.gov.uk</a>
<b>DATE</b>	14 March 2022