

REPORT TO: Cabinet

MEETING DATE: 17 January 2023

BY: Executive Director for Council Resources

SUBJECT: Financial Update & Budget Development 2023 Onwards

1 PURPOSE

- 1.1 To provide Cabinet with an update on the national Local Government Finance settlement, the financial implications for East Lothian Council and associated budget gap.

2 RECOMMENDATIONS

- 2.1 Cabinet is recommended to:
- Note the current position relating to the national Local Government Finance Settlement and the implications for East Lothian Council;
 - Note the associated revenue funding gap for East Lothian Council as set out in paragraph 3.9;
 - To note the updated budget development framework process for submitting amendments and to request that any formal amendments be submitted in accordance with the timeline set out in paragraph 3.19 of this report.

3 BACKGROUND

- 3.1 The Council has during this year received a number of financial update reports relating to review of budget development strategy, including the approval of the Financial and Capital Strategies as part of the most recent Council meeting on 13 December 2022.
- 3.2 Since then, the Scottish Government has published its draft budget on 16 December, with individual Council allocations published as part of the Local Government Finance settlement on 20 December 2022. Details

setting out the main components of the national settlement, including the implications for East Lothian Council are set out below.

Local Government Finance Settlement

- 3.3 Despite expectations that there may have been a multi-year national settlement, the draft grant allocations published are for 2023-24 only. The complicated nature of the national settlement is now proving to be a significant challenge. It is becoming increasingly difficult to interpret the terms of the national settlement and reconcile national messaging around funding provided in the settlement, including understanding any 'new' funding relative to funding aligned to support the delivery of new or existing national policy commitments. This increasing level of complexity makes it very difficult to understand what this means for the Council in terms of national funding, and to aid transparency of public messaging relating to the level of funding being made available to deliver Council services.
- 3.4 National revenue funding currently makes up in excess of 76% of the Council's overall general services revenue funding, therefore given the scale, any variation to grant funding levels can significantly affect the level of resources available for the Council to deliver essential local services. In addition, the Scottish Government provides national grant funding to support the delivery of capital investment programmes, with the large majority of the infrastructure programmes funded through wider borrowing.
- 3.5 The national settlement currently remains in draft pending clearance through the Parliamentary process with the current expectation that the staged debates will be complete in advance of the Council's budget consideration on 28 February 2023. Members will be kept updated should there be any changes to the draft settlement conditions during this Parliamentary process.
- 3.6 Whilst noting the draft status of the settlement and that it remains subject to change, the current key components of the Finance settlement for Local Government and the implications for the Council are set out below:

National Settlement

- The draft Scottish Government Budget and related Local Government Finance Settlement has been provided covering 2023-24 financial year only;
- Total distributed national revenue funding of £12,396.5 million made up from the following:
 - £8,579.5 million (General Revenue Funding) – Note 1
 - £3,047.0 million (Non Domestic Rates) – Note 1
 - £776.1 million (Specific Grants) – Note 2
 - (£6.0 million) (National Redress Scheme) – Note 3

- Note 1 – General Revenue Funding + Share of Non Domestic Rates Pool provide funding to deliver local services;
 - Note 2 – Specific Grants funding can only be used to support policy intent, with the majority of funding used to support the delivery of Early Learning & Childcare expansion, Pupil Equity Fund and Criminal Justice Social Work, and a small sum of money to support the provision of Gaelic;
 - Note 3 – Top Slice from Local Government Finance settlement to support the cost of Historical Child Abuse Scheme as per agreement of COSLA Leaders.
- Total capital funding of £826.6 million made by from the following:
 - General Capital Grant £687.5 million
 - Specific Capital Grant £123.8 million – Note 1
 - Distributed to SPT £15.3 million – Note 2
 - Note 1 – Includes national funding of £23.9 million to support Cycling, Walking & Safer Streets, with the remainder used to fund initiatives which East Lothian Council does not receive funding to support including: £7.6m to support Vacant and Derelict Land and £92.2m to support Transfer of Management of Development Funding.
 - Note 2 – Top sliced from Local Government Settlement and paid directly to Strathclyde Partnership for Transport.

General Services Revenue

- Around £500 million of additional revenue funding has been provided in the national settlement to Local Government. This funding is made up from the following with more details set out in the sections below:
 - £427 million funding to support new / existing revenue policy commitments;
 - £71 million new funding (0.57% uplift)
- Additional revenue funding to support new national policy commitments has been provided within the settlement details of which are set out below:
 - £105 million has been provided within the national settlement to support Empty Property Relief, alongside the transfer of responsibility for providing any relief to unoccupied properties to Local Authorities from 1 April 2023;
 - Providing a further £115.0 million to support Health and Social Care Services, with a requirement to transfer a minimum of £95 million in addition to recurring funding provided to the Integrated Joint Board (IJB) in 2022-23,

offset by £20 million non-recurring interim care money. This funding is to be used to support the following areas:

- £100.0 million to support adult social care pay
- £15 million uplift to free personal and nursing care
- £17.5 million to make progress towards implementing Free School meals for P6/P7;
- Additional £1.2 million to support school clothing grants;
- Additional £5.7 million to support Discretionary Housing Payment;
- Confirmation of previously confirmed funding to support existing policy / funding commitments including:
 - £140 million as a contribution to support cost of 2022-23 pay award;
 - £32 million continued funding as part of Whole Family Wellbeing Fund;
 - £2.4 million to support Local Heat and Energy Efficiency Strategy.
- Additional funding 'top sliced' from the national settlement:
 - £6 million contribution to support the cost of Historical Child Abuse Scheme;
 - £2.2 million to support the payment of SSSC registration fees in line with the 2022-23 national pay agreement.
- New additional non ring-fenced funding of £71 million has been made available in the financial settlement to support the remainder of the additional pressures within the financial settlement including; pay, inflationary pressures and wider external demand pressures.
- A number of funding streams have seen a reduction in the national settlement including, those set out below and these areas remain subject to on-going discussions between COSLA and the Scottish Government:
 - £9.1 million reduction in core funding to support delivery of early learning and childcare;
 - £32.8 million removal of funding relating to the recurring contribution provided by Scottish Government of 2021-22 Teachers Pay Claim;
 - £1.2 million to support the delivery of 1+ 2 Languages.

Revenue – Specific Grants

- A £10 million increase in Specific Grant funding to support Pupil Equity Fund.

Capital

- Additional £80 million to support the expansion of Free School Meals to P6/P7;
- £120.6 million capital funding as a contribution to support the cost of 2022-23 pay award.
- No general uplift in national core capital grant.

Other Components

- In addition, the national settlement letter sets out the following additional elements as part of the settlement, with the impact of some of these components still subject to on-going national discussion:
 - Removal of Council Tax cap with Councils given freedom to determine Council Tax levels and expected to take full account of local needs and impacts on household budgets of the decisions they make;
 - Commitment to review 'Ring-fenced and directed funding streams' as part of partnership agreement between Local and Scottish Government;
 - Provide an enhanced focus on Community Planning Partnerships;
 - No public pay policy provided, with more detail to be set out in early 2023.

East Lothian Position

General Services Revenue Budget

- A total cash increase in national grant funding of £4.920 million which is made up from the following:
 - Core Revenue Support Grant (GRG + NDR) has increased by £1.861 million (0.9%);
 - An additional £1.110 million has been provided to support the delivery of new policy commitments including Empty Property Relief and progress towards implementing Free School Meals for P6/P7;
 - An additional £2.186 million has been provided to support the delivery of new policy commitments in Health and Social Care referenced above, adjusted for non-recurring interim care funding provided in 2022-23;

- A reduction of £0.237 million funding made up from:
 - Early learning & childcare of £0.216 million aligned to the £9.1 million national reduction;
 - A reduction of £0.021 million in school clothing grant, despite an increase of £1.2 million due to changes in national indicators;
- Note within the national settlement there are a wide range of changes from updating indicators including, a reduction of £0.482 million in Homeless funding, due to merging of funding lines in the national settlement.
- Contribution to the national 'self-financing Floor' of £3.425 million.

General Services Capital Budget

- Increase in core General Capital Grant of £0.098 million to receive General Capital Grant funding of £8.410 million;
- Specific grant funding of £0.478 million to support Cycling, Walking and Safer Streets;
- Current commitment to fund 80% of national Flood Prevention Scheme funding, recognising that a national review remains ongoing due to the significance and scale of funding pressures.
- Free School Meals expansion funding allocated within General Capital Grant of £1.544 million and £2.320 million contribution to 2022-23 pay settlement.

Budget Implications for East Lothian

- 3.7 Reflecting the national settlement details within update budget models, details of the draft officer budgets covering General Services Revenue, Capital and HRA are in development. This will be shared with political group leaders and members for the cross party budget working group and a budget briefing for all members will be held during January 2023.
- 3.8 These budgets remain subject to change, but key assumptions currently reflected within these budgets are set out below:
- The budgets have been prepared aligned to the approved budget development principles to reflect the 5 year strategy period covering 2023 – 2028.
 - The revenue support grant is projected as 'flat cash' across the strategy period. In addition, the budget reflects an anticipated share in additional funding in 2026-27 relative the anticipated increase of £100 million. These forecasts remain consistent with

the Scottish Government forecast projections set out in the Resource Spending Review published in May 2022.

- In the absence of a national pay policy, an amount equivalent to a 2% annual increase is reflected for all pay bargaining groups in each year aligned to previous budget assumptions.
- An estimated Council Tax increase of 5% in each year, aligned to indicative levels set out in approved budget at March 2022. The assumptions also include anticipated increased growth in Council Tax properties aligned with projected housebuilding targets.
- All of the previous flexibility arising from the previous Loans Fund review has now been applied by 2023-24. This position has significantly changed from previous forecasts largely as a result of; increased interest rates, increased costs within the capital programme and changes to timing of developers contributions. This will mean debt charges are projected to rise significantly during the strategy period and beyond aligned to the planned infrastructure investment set out in General Services Capital programme, and current interest rate projections, and is an area which is now proving to be unsustainable and will require review.
- The draft General Service budget includes previous planned efficiencies amounting to £1.755 million. Additional planned core service efficiencies of £13.423 million has currently been removed and will remain under consideration, pending clarity on what can be delivered.
- The Capital grant is flat lined in each of the years. Some projects remain dependent on confirmation of Scottish Government specific grant funding, most significantly relating to Flood Prevention Schemes. These are significant in value, and should this anticipated level of funding not be forthcoming consideration will need to be given to making further adjustments consistent with the approved capital limits set within the Financial Strategy.
- An estimated Rent increase of 5% in each year, aligned to indicative levels set out in approved budget at March 2022. These levels remain appropriate to ensure the parameters set out in the financial strategy relating to debt to income and minimum reserve levels are delivered. Should rent levels be set below this level, this will require changes to the draft models either through reductions in planned level of capital investment or revenue expenditure deliverables to enable the financial strategy parameters to be met.

3.9 The significant scale of the financial pressures now facing the Council remains at a highly critical level, with an **estimated funding gap in excess of £14.4 million to be met by 2023-24 (circa 5% of Council running costs) and projections this will rise to over £45.5 million deficit in the next 5 years.** Removing any indicative Council Tax increase in each of the 5 years would see this increase to £18.1 million

in 2023-24 and to £67.1 million by 2027-28. The scale of this remains exceptionally challenging and critical, and remains consistent with the significantly high Financial Sustainability risk rating set out in the corporate risk register.

National Lobbying

- 3.10 COSLA has embarked on a strong lobbying campaign to save local services. In addition, COSLA Leaders unanimously have written a strong letter of representation to the First Minister and reiterating their deep concern about the level of resources allocated to Local Government, and the impact of the draft settlement will have on local communities.
- 3.11 The letter also calls for the Deputy First Minister to attend a Special COSLA Leaders meeting to hear first-hand the concerns of Council Leaders.
- 3.12 In addition, officers continue strong lobbying through all available avenues including Professional Associations, setting out significant concerns relating to the level of funding provided to Local Government relative to the provision of services and on-going requirements.

Budget Consultation

- 3.13 As previously reported, the Council has undertaken a budget consultation on both General Service future spending priorities and a separate consultation on the proposed rent increase for 2023-24 in line with statutory guidance.
- 3.14 Both consultations have now closed, and results are currently being analysed and details will be made available through Members Library Service and also through cross party political group, and an update provided at the Council meeting in February 2023.

Next Steps

- 3.15 The formal budgets including setting of Council Tax and Rent Levels for 2023-24 will be considered by Council at its meeting on **28 February 2023**. Every effort will be taken to meet these dates to ensure compliance with statutory requirements relating to rent and council tax notification and billing.
- 3.16 Given the national settlement remains in draft through the Parliamentary process, any changes to the national settlement arising during this process will be communicated to all Political Group Leaders and members of the cross party political working group.
- 3.17 The process for developing budget proposals and any formal amendments for 2023-24 is set out below, and remains aligned to the budget development framework principles already agreed by Council. A rolling programme of future budget development work is being developed and an update will be provided to Council in February 2023.

- 3.18 The Administration will develop budget proposals for General Services and Housing Revenue Account, including proposed Council Tax and Rent Levels for 2023-24. The papers will be issued to all members on 21 February 2023. Discussions will continue through the cross party budget working group up to and during this process with a view to identifying areas of potential common ground in relation to the budget proposals where possible.
- 3.19 Political Group Leaders can submit a budget amendment to the Administration draft budget proposal. The details for submitting amendments are set out below:
- An amendment submitted by any political group must be deemed competent, both in its ability to be delivered as well as ensuring that it can still deliver a balanced budget.
 - Political Group Leaders should during this period work with Finance officials around any suggested budget changes which may be reflected within any final proposed amendments, and how this would be balanced.
 - In line with standing orders, any final amendments to be considered by Council must be submitted through Group Leaders to the Head of Finance by noon on **Monday 27 February 2023**. Any budget amendments must be deemed competent and checked and signed off by Head of Finance in sufficient time to enable full competence checks to be undertaken.

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.
- 4.2 There are no direct policy implications associated with approval of these draft budget proposals but clearly should they be supported by Council on 28 February 2023, individual elements within the proposals may lead to policy changes.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 Equalities – 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 – as described above and in the supporting appendices.
- 6.2 Personnel - none
- 6.3 Other – none

7 BACKGROUND PAPERS

- 7.1 Council - 13 December - Item 4 – Financial and Capital Strategies
- 7.2 Council – 22 November 2022 – Item 1 - Finance Update
- 7.3 Council – 1 March 2022 – Item 1 – Budget Development including setting of Council Tax and Council Rent for 2022/23
- 7.4 Council – 1 March 2022 – Item 2 – Budget Proposals on General Service – Amendment Submitted by the Labour Administration

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