

REPORT TO: East Lothian Council

MEETING DATE: 25 April 2023

BY: Executive Director for Council Resources

SUBJECT: Finance Update

1 PURPOSE

- 1.1 To provide an update on the financial outlook for the Council and to seek agreement to the continuation of measures to mitigate budget pressures.

2 RECOMMENDATIONS

- 2.1 The Council is recommended to:
- Note the update on the wider financial environment and current risks;
 - Agree that the existing mitigation measures detailed at paragraph 3.11 remain appropriate;
 - Approve the further mitigation measures set out in paragraph 3.13 of this report;
 - Agree that an update on mitigation measures will be considered by Council in June 2023.

3 BACKGROUND

- 3.1 The Council continues to operate in one of the most challenging financial landscapes that it has ever experienced. External factors including the cost of living crisis, increases in energy costs, high inflation, rising interest rates and pay inflation continue to place significant pressure on the Council's budgets, and its capacity to maintain a sustainable financial position.

- 3.2 At a local level, the impact of population growth continues to increase the Council's cost base, and the increasing costs have not been matched by a corresponding increase in block grant from government. Consequently, as one of the fastest growing local authorities in Scotland, the gap between the increasing costs and available funding to support this growth is widening.
- 3.3 During 2022/23 Council has received a number of reports setting out the enhanced challenges of managing an increasingly complex, acute and growing range of financial pressures and associated risks. Given the collective scale of these challenges, in November 2022, a special Council meeting was called to discuss the resulting impact, projected in-year overspend and plans to respond to this. At this meeting, Council agreed to a range of cost control measures aimed at mitigating the full impact of these wider financial pressures.
- 3.4 A number of subsequent reports have been presented to Council and Cabinet since then, and these have continued to highlight the significance and increasingly challenging financial landscape. This has also been reflected in the corporate risk register where '*Managing the Financial Environment*' remains the highest ever scoring risk being managed by the Council and continues to represent the key corporate priority risk. This scoring currently remains unchanged.

Current Financial Outlook

- 3.5 In February 2023, Council approved the 2023/24 budget, which was set in the context of extreme funding pressures amounting to in excess of £71 million by 2027/28, a scale which is unprecedented for this Council.
- 3.6 The approved budget for 2023/24 includes the delivery of £6.7 million of planned savings, and Council officers are now making progress with implementing these savings alongside managing the increasingly complex external financial risk environment. An update on the progress to deliver these savings and wider budget development will be provided to Council in June. This will be considered alongside a consolidated year-end financial review for 2022/23.
- 3.7 Notwithstanding this wider review, the collective scale of external pressures continues to place significant risk to the delivery of Council services. Inflation remains in excess of 10% and borrowing costs remain significantly above the levels seen in recent years. The ongoing cost of living crisis continues to place additional strain on many Council services including crisis grants and homeless/housing demands. Alongside these factors there is continued uncertainty arising from ongoing national pay negotiations across all elements of the workforce. Combined with these external pressures, the Council continues to face significant challenges in meeting wider obligations aligned to population growth, where despite the growth pressure, East Lothian Council receives the third lowest per capita of funding through the national funding settlement.

- 3.8 The 2023/24 budget incorporates a number of risks, including one-off use of reserves of £7.378m, which represents a recurring savings gap still to be closed, and also reduces the level of reserves available to support targeted investment and offset unforeseen pressures in the future. The agreed budget for 2023/24 provides for the cost of a 3% pay award, and assumes that any settlement in excess of this level will be funded in full by Scottish Government. If the Council is required to meet further costs related to the 2023/24 pay award, this is likely to have a significant adverse impact on the budget gap, with a 1% pay increase giving rise to additional costs of approximately £1.7m.
- 3.9 It is too soon to ascertain whether the new national political leadership will effect any material change to the national funding arrangements, or the New Deal for Local Government. In addition, at a UK level there remains continued pressure on public sector funding settlements and wider economic forecasts, all of which continue to impact on the national funding which flows to Scotland and the economic landscape and associated impact on our communities we serve.
- 3.10 At a UK Government level, the Chancellor presented the Spring Budget on Wednesday 15 March, setting out the OBR forecasts which indicate that inflation is falling, and no longer indicate that there will be a technical recession this year. As a result of the announcements on the expansion of childcare policy in England, Scottish Government will receive £320m through the Barnett formula over 2023/24 and 2024/25, although it is currently unclear what this will mean for Scottish local authorities and the future provision of early learning and childcare. Other features of the UK Government budget announcement include:
- The cap on household energy bills will remain at £2,500 for three months from April;
 - Charges for prepayment meter customers will be reduced from 1 July 2023 until April 2024 with a view to implementing further changes to bring costs for these customers down on a permanent basis;
 - An increase to the tax free allowance for pension contributions, and removal of the lifetime allowance;
 - Fuel duty will be frozen for a further 12 months;
 - Reforms to Universal Credit impacting on childcare and disability related payments;
 - At least one proposed investment zone will be in Scotland, with further detail on this still to be announced.

Mitigation Measures

- 3.11 Collectively, the Council is continuing to operate in an increasingly uncertain and challenging financial landscape with no immediate prospect that the financial position and wider challenges will improve in the forthcoming months. The previously agreed mitigation measures were considered in the context of managing an extremely complex 2022/23

financial position. Given there is no immediate improvement in the external environment and associated risks, it is strongly recommended that these mitigation measures remain in place and all alternative areas to control and mitigate costs continue to be explored. As a reminder these mitigation measures include the following areas:

- All Council managers must do all that they can to ensure that they deliver their service commitments within their approved budget levels, including preserving existing underspends, and support cost recovery actions;
- In addition to existing and targeted controls in place to review and control vacancies, introduce further vacancy controls to prioritise recruitment targeted at business critical risk areas linked to Business Continuity status, statutory functions, supporting trading activities delivering a surplus return or supporting the delivery of wider transformation projects;
- Enhanced review of all Council's reserves and carry forward commitments, (including earmarked reserves), and considering any opportunities to apply flexibility to mitigate existing pressures, or redirect to support future commitments;
- Explore all opportunities to apply 'flexibilities' within existing national funding streams where funding has been made available through the national settlement to support new/existing policy initiatives in line with the letter from Deputy First Minister on 1 November 2022, in discussion with political group leaders;
- Enhanced controls relating to carry forward funding requests, where these will only be permissible in very limited circumstances (e.g. aligned to national grant conditions);
- Enhanced review of all capital projects including options for further value engineering possibilities, exploring opportunities to pause non-committed spend projects with a view to reprofiling projects in the future aligned to market conditions and wider affordability;
- Enhanced review of Council operational assets, to optimise usage in cost terms including minimising minimise energy and maintenance costs and where possible bring forward capital receipts to offset net borrowing requirements. This will also include options to temporarily mothball buildings;
- Maintain the temperature in all public buildings at 18 degrees max where possible;
- Introduce energy champions in all public buildings and explore the option of community champions;

- Suspension of policies automatically allowing flexibility on carry forward funding requests, with any approval considered in limited circumstances aligned to clear and essential business need.
- 3.12 Alongside the very challenging revenue environment, the Council continues to face significant and ongoing challenges relating to the affordability of capital projects, including the ability to realise capital receipts, alongside the delivery of approved capital infrastructure investment plans within available resources. In addition, since the approval of the budget, a number of additional infrastructure investment pressures impacting on both the Council and Musselburgh Common Good have emerged. The pressures, which are not currently reflected in approved capital investment plans, relate to structural issues on a number of assets including the Brunton Hall and Loch Centre. Detailed options appraisal surveys are in progress, but the issues identified may require significant investment and as a result present further challenges on affordability and delivery of current investment plans. Collectively capital investment plans remain under significant pressure and there remains ongoing affordability challenges. As such, these plans will remain under review to ensure they continue to operate within affordable and sustainable affordability limits.
- 3.13 To support this, officers are also recommending the following additional mitigation measures to be introduced:
- Given the ongoing challenges associated with the Brunton Hall, it is recommended that new applications for grant funding from the Musselburgh Common Good will be temporarily suspended from the date of this meeting until a clear understanding as to the implications associated with the current closure of Brunton Theatre and Venues 1 & 2 are assessed. Council will consider an update on Common Good budgets for 2023/24 in June.
 - In light of the emerging pressures associated with the Brunton Hall, which is a Common Good asset, it is further recommended that new grant applications for the other Common Good areas be placed on hold from the date of this meeting, pending an updated assessment of property maintenance requirements for all Common Good assets. This will ensure that funding is available for potential liabilities to be met from within the Common Good budgets.
 - An enhanced review of the Community Intervention Fund will be undertaken, to encourage applications that align prioritisation of spend with community empowerment and asset transfer, the Council's wider asset review and minimising revenue costs for the Council.

National Discussions

- 3.14 Collectively the issue of financial sustainability for local government remains at the forefront of ongoing national discussions. Council officers

are continuing to lobby and engage proactively through national professional associations and organisations, including SOLACE, Directors of Finance and COSLA to facilitate national lobbying in support of financial sustainability of local government and essential local services. In addition, senior officers are continuing to engage proactively through these channels and wider including civil servants, City Region discussions and through a wide range of national bodies to promote and discuss the financial challenges specifically facing East Lothian, particularly relating to the enhanced financial challenges aligned to a growing authority. Council will continue to be updated on the status of these discussions to support on-going financial sustainability.

Next Steps

3.15 Officers are now progressing a number of work streams, and an update will be reported to Council in June. This will include:

- An update on the outturn and consolidated position for 2022/23;
- A update on the financial position for 2023/24 including:
 - Progress on the delivery of approved 2023/24 savings;
 - Update on agreed mitigation measures
 - Update on financial outlook and associated risks
- A progress update on budget development plans for 2024/25 and beyond.

3.16 All Council officers, led by the Council Management Team, will continue to operate stringent and enhanced financial control in all expenditure commitments.

3.17 The Council Management Team will continue to explore enhanced options to support the development of balanced budgets from 2024/25 and beyond and ongoing financial sustainability.

3.18 Alongside this discussions continue through the cross-party working group to support the development of proposals from 2024/25 and beyond.

Conclusion

3.19 The Council continues to operate in one of the most financially challenging environments ever experienced. These proposed measures remain essential to actively mitigate cost pressures where possible within the context of current wider pressures.

3.20 Given the scale of these pressures, it is essential that urgent decisions are taken to align the financial strategy and priorities within available resources. This will require some very difficult decisions as to what and how services can be delivered going forward. Alongside this, there does need to be a national conversation as to how local government is funded to ensure we can continue to operate and deliver essential local services on a sustainable financial platform.

4 POLICY IMPLICATIONS

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

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

- 6.1 Financial – as described above
- 6.2 Personnel - none
- 6.3 Other – none

7 BACKGROUND PAPERS

- 7.1 Council – 22 November 2022 – Item 1- Finance Update
- 7.2 Council – 13 December 2022 – Item 4 – Financial and Capital Strategies
- 7.3 Council – 28 February 2023 – Item 3 – Budget Development

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