

REPORT TO: Cabinet

MEETING DATE: 30 January 2024

BY: Executive Director for Council Resources

SUBJECT: Budget Development 2024-25 Onwards

1 PURPOSE

- 1.1 To provide an update on progress with developing the budget for 2024-25 onwards, including an overview of the provisional local government finance settlement and the implications of this for East Lothian Council.

2 RECOMMENDATIONS

- 2.1 Cabinet is recommended to:
- Note the update on the provisional local government finance settlement and the implications of this for East Lothian Council.
 - Note the updated budget model summary and funding gap set out at paragraphs 3.14 to 3.18.
 - Note the key next steps towards setting the budget, council tax and rent levels at the Council meeting on 20 February 2024.

3 BACKGROUND

- 3.1 Scottish Government's budget for the 2024-25 financial year was announced on 19 December 2023, with the provisional funding settlement for Scottish local authorities following on 21 December.
- 3.2 This report provides an overview of the provisional financial settlement for local government for 2024-25, and sets out the anticipated impact of this on development of the Council's budget for the next financial year and beyond. The report also sets out the recommended next steps working towards setting of the budget, council tax and rent levels by Council on 20 February 2024 in light of the updated budget gap.

- 3.3 Previous reports to Council and Cabinet over the last 12 months have set out the unprecedented challenges which the Council is facing in relation to financial sustainability, and this remains the greatest risk currently facing the Council.

Draft Local Government Finance Order – National Position

- 3.4 The Draft Local Government Finance Order sets out the following:
- Revenue funding of £13,245m (excluding council tax freeze funding)
 - Capital funding of £638m
- 3.5 Initial analysis undertaken by CoSLA indicates that overall this represents:
- An overall cash cut to revenue funding of £62.7m
 - An overall cash cut to capital funding £54.9m
- 3.6 Within the overall funding announced, the following amounts were linked to new policy commitments:
- £144m council tax freeze grant (not yet distributed)
 - £4.5m free school meals expansion to P6 & 7
 - £6.8m Discretionary Housing Payments (not yet distributed)
 - £11.5m Free Personal & Nursing Care (passported to IJBs)
 - £230m to support £12per hour for Adult Social Care (passported to IJBs and not yet distributed)
- 3.7 The provisional settlement also reflects previously announced recurring funding totalling £460m linked to the 2023-24 pay award for local government and teaching staff.
- 3.8 Significantly, the funding announced does not reflect the following:
- Additional core funding to offset inflationary pressures
 - Funding to support the 2024-25 pay awards for local government and teaching staff
 - New funding, or a commitment to support the increase in employer contribution rates for teachers pensions (it is hoped that this will materialise following the UKG Spring Budget announcement in March).
 - Specific additional funding to support a growing population and economy.
- 3.9 The following changes which impact on distribution are reflected through the draft circular:

- Indices have been updated to reflect 2022 census data (previously distribution was based on mid-year population estimates);
- The floor has been provisionally set at -0.5% as the maximum level of funding reduction that individual councils will see through this year's settlement (previously this was set within national parameters of 0.25% - 0.75%). The negative value reflects the overall reduction in the settlement.

3.10 The capital funding announced incorporates:

- Additional funding of £40m to support Free School Meals expansion;
- A reduction of £16.7m (27%) in the Regional Capital Grant Fund; and
- A reduction of £157m (22%) in Affordable Housing Supply funding

Draft Local Government Finance Order – East Lothian Council Position

3.11 Analysis of the draft settlement and circular suggests that East Lothian Council's financial gap will remain at £17.7 for 2024-25. While this represents some reduction compared with previous projections, a funding gap of this level remain extremely challenging. These estimates reflect an estimated funding uplift of £19.529m in 2024/25, of which:

- £16.546m is funding for existing policy commitments, namely the baselining of funding to support the 2023-24 pay award and 1140 hours which was previously provided as a ringfenced grant;
- £0.641m is funding for new policy commitments including Free School Meals expansion and funding to be passported to the IJB; and
- £2.710m is additional funding.

3.12 The funding position remains provisional and subject to change given that the settlement information is in draft, and the above figures reflect estimates of funding which has not yet been distributed, but do not include the estimated share of the £144m council tax freeze grant.

3.13 The net increase in funding can be linked to the updating of population indices and changes to the floor.

3.14 Factoring in the estimated local implications arising from the draft settlement announcement, the impact on the 5 year funding gap for the general services revenue account is as follows:

	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Total £000
Planning estimates (Feb 2023)	27,124	12,046	8,749	11,808	11,134	70,861
Updated estimates (Dec 2023)	20,001	16,260	6,927	8,596	6,860	58,644
Revised estimates (Jan 2024)	17,708	16,939	7,577	9,264	7,542	59,030

Table 1: Updated 5 year budget gap 2024-25 to 2028-29

- 3.15 While this represents some improvement in the projected funding shortfall previously shared with Council, the scale of the 5 year budget gap remains hugely significant, particularly when considered in the context in proportion to the Council's overall annual expenditure budget. Financial sustainability continues to be the most significant risk currently facing the Council and this presents an ongoing threat to our capacity to sustain delivery of core services.
- 3.16 The scale of this challenge will require a fundamental review of key priorities in order to ensure that the Council's limited resources are directed to meet the most pressing needs of East Lothian residents and the Council's statutory responsibilities. Inevitably, this will mean that the Council will be unable to continue delivering the level and range of services that it currently offers. Balancing the 2024-25 budget will therefore require difficult decisions to be made in order to deliver the expenditure reductions, or revenue growth required to offset the funding gap.
- 3.17 A significant number of updates have been made to the 5 year budget estimates in order to reflect up to date information regarding inflation and demand pressures. The key reasons for the movement in the estimated funding gap are as follows:
- Reduction in the employer pension contributions for local government staff following the triennial valuation;
 - Incorporation of assumption that the increase in employer pension contributions for teachers will be funded;
 - Updates to debt charges to reflect the revised capital expenditure profile and changes to interest rates, and changes to planned use of post completion section 75 contributions;
 - Updates to contract price increases to reflect inflation;
 - Updating provision for the 2024-25 pay award from 2% to 3%.
 - Uplift in Scottish Government funding as outlined within this report. A summary of the current 5 year budget model is set out below:

2024/25	2025/26	2026/27	2027/28	2028/29	Total
£'000	£'000	£'000	£'000	£'000	£'000

Growth						
Pay	4,608	4,066	4,149	4,869	6,374	24,066
Growth & service pressures	4,502	4,763	3,347	3,040	-986	14,666
Inflation / Indexation	4,140	1,572	1,726	1,609	1,607	10,654
Debt Charges	4,899	7,548	0	-254	547	12,740
TOTAL	18,149	17,949	9,222	9,264	7,542	62,126

Funding / Income Changes

Changes in RSG	-7,893	0	-1,800	0	0	-9,693
Teachers pensions increase (assumed)	-1,589	0	0	0	0	-1,589
SFT & Other	-645	-1,010	155	0	0	-1,500
GF Balance	9,686	0	0	0	0	9,686
TOTAL	-441	-1,010	-1,645	0	0	-3,096

FUNDING GAP	17,708	16,939	7,577	9,264	7,542	59,030
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APPROVED REDUCTIONS	-3,691	-2,081	-2,094	-1,785	0	-9,651
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DELIVERY RISK	1,500			-500	-1,000	0
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CAPITAL FUND	-1,899	-7,548	5,676	3,771	0	0
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COUNCIL TAX	-4,608	-4,561	-4,697	-4,794	-5,001	-23,661
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REMAINING GAP	9,010	2,749	6,462	5,956	1,541	25,718
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Table 2: Draft budget summary movements as at 9 January 2024

3.18 The above projections do not reflect the budget gap within the IJB, which is estimated to be in excess of £3m for 2024/25. The projections assume that this gap will be managed through the IJB budget setting process. However it is anticipated that this will require some challenging decisions and there remains a risk that if the IJB is unable to contain spending within the agreed budget envelope then any overspends may fall upon partners to meet.

Council Tax

3.19 The draft settlement announcement sets out Scottish Government's plans to distribute £144m funding to support a council tax freeze in 2024/25, indicating that this level of funding is equivalent to a 5% council tax increase across Scotland. The above budget gap reflects initial indications that East Lothian's share of this funding will be £3.404m, which represents an estimated shortfall of approximately £0.07m. There is a risk that the distribution of funding may mean that not all local authorities receive a

share which is exactly equivalent to a 5% increase, along with a risk of income loss in future years if the grant is not uplifted in line with housing growth.

- 3.20 The Deputy First Minister has indicated that councils who choose to apply an increase to council tax charges in 2024-25 will not receive a share of the £144m grant. It should be noted that an increase of circa £1.2m in council tax income is anticipated to arise as a consequence of housing growth.

Savings

- 3.21 As part of the current 5 year budget Council has committed to the delivery of savings totalling £9.651m. Officers continue to work towards the delivery of these savings, however, a review of the amounts planned for delivery within 2024/25 has identified a number of areas in which there is a risk to delivery in the next financial year. The budget model has therefore been updated to reflect this risk, and the possibility that delivery of these savings will be delayed. The purpose of this adjustment is to ensure that budget plans for the next year are realistic and viable.

Capital Fund

- 3.22 The budget projections set out within appendix 2 incorporate a change to the current application of section 75 contributions which are received subsequent to obligations aligned to these contributions having been met.
- 3.23 As it currently stands, these contributions are used to fund capital investment and reduce the net borrowing requirement. However, it has been identified through discussion with the Council's treasury management advisors that these funds could be taken to a reserve which is then used to smooth fluctuations in the debt charges to the revenue account. The drawback of this treatment is that it will result in an increase to the Council's borrowing requirement, and it will not be possible to adopt this approach on a long-term basis due to the one-off nature of reserves.
- 3.24 In recognition of the significant budget gap facing the Council over the medium term, the above estimates reflect use of the capital fund to hold debt charges at £16m for financial years 2024-25, 2025-26 and 2026-27 which will help to offset some of the pressure within the revenue account in these years. In 2027-28 current forecasts indicate that debt charges will increase to £19.5m. This approach will remain under regular review.

Conclusion & Next Steps

- 3.25 The financial outlook facing the Council remains extremely challenging, and despite the small increase in the level of funding which has been provided through the draft settlement the Council continues to face a significant funding gap which will require difficult decisions to close.
- 3.26 Furthermore, Scottish Government's medium term financial plans do not indicate that additional funding to close the budget gap will be made available over the coming years. It is therefore crucial that decisions taken

through the budget setting process are focussed on supporting financial sustainability over the medium term.

- 3.27 Councillors have a statutory responsibility to set a balanced budget before the start of each financial year, and sustainable financial planning is key to this. The financial strategy and budget development principles adopted by Council include a commitment to minimising the use of one-off resources to balance the budget, ensuring that use of reserves is limited to investment that will deliver ongoing cost reductions, and working towards increasing the minimum unallocated balance on general reserves over the medium term. This is supported through commentary made by our external auditors which highlights the low level of reserves which the Council holds when considered as a proportion of its revenue budget.
- 3.28 In light of the current financial gap and future financial forecasts it remains critical that sustainable financial plans are developed to support our communities. The Council has delivered significant efficiencies for a number of years, but the reality of the current financial challenge which we are operating now taking alongside future financial planning assumptions means that it is now a critical necessity to review what the Council is able to deliver by using our limited resources to support key priorities. Inevitably this will require some significant changes and challenging decisions, however financial resilience of the organisation now remains critical. There remains a need for immediate and urgent focus to prioritise the decisions and discussions to support developing sustainable financial plans and financial resilience. This message has remained consistent with financial updates provided to Council, and remains a key priority supported by the Chief Executive, Chief Financial Officer, Head of Finance and senior leadership team.
- 3.29 The parliamentary timetable remains in draft we anticipate the budget stages to be as follows:
- **Stage 1** - 8 February 2024
 - **Stage 2** – 20 February 2024
 - **Stage 3** – 27 February 2024
 - **Local Government Finance Order** – 28 February 2024
- 3.30 Working towards setting the Council's budget for 2024-25 onwards, along with the council tax and rent levels for the next financial year, the following provisional timetable has been agreed by Council. Administration budget finalised and circulated to all political groups;
- **5pm Wednesday 7 February 2024;**
 - Any final budget amendments to be submitted to the Head of Finance;
 - **5pm Monday 12 February 2024;**
 - Council papers and amendments published;
 - **Thursday 15 February 2024;**

- Council budget meeting;
 - **Tuesday 20 February 2024**

- 3.31 This means that Council will meet to consider the budget prior to the Local Government Finance Order being finalised. Due to the billing timetable for rent and council tax collection, no changes are proposed to the timetable agreed by Council, however any impact through the final stages of the settlement will be reported as an update to the budget to a subsequent Council meeting.

- 3.32 With this in mind, the key next steps over the coming weeks are set out below:
 - Discussions through the cross-party budget working group will continue in line with the budget development framework agreed by Council;
 - Consider the range of budget reduction options which have been put forward by officers in order to close the remaining budget gap for 2024-25 and the following years;
 - Review the implications of either accepting the council tax freeze grant or applying an increase to the council tax charge;
 - Have regard for the budget consultation results (available in the Members Library) in considering options to close the budget gap;
 - Considering the updated general services capital programme;
 - Considering the appropriate level of rent increase for 2024-25, having regard for the consultation results, key financial tests and implications for the HRA capital programme in light of the reduction to the subsidy for new affordable housing.

4 POLICY IMPLICATIONS

- 4.1 There are no direct policy implications associated with this report, although it should be noted that in order to set a balanced budget it may be necessary for decisions which could impact on the delivery of policy to be taken.

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. However, impact assessments will be undertaken as appropriate for any changes to service delivery or charges which are agreed through the development of the budget in order to ensure that decisions taken are informed by this.

6 RESOURCE IMPLICATIONS

6.1 Financial – as described above.

6.2 Personnel - none

6.3 Other – none

7 BACKGROUND PAPERS

7.1 None

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