

REPORT TO: East Lothian Council

MEETING DATE: 23 April 2024

BY: Executive Director for Council Resources

SUBJECT: Finance Update

1 PURPOSE

- 1.1 To provide an update on the 2024/25 budget, specifically the additional funding allocation announced following the Chancellor's Spring Budget announcement on 6 March.
- 1.2 To provide an update on budget mitigation measures agreed by Council in August 2023.
- 1.3 To provide an update on the work of the external auditor for financial year 2022/23.
- 1.4 To outline the process for setting the financial strategy and budgets for 2025/26 onwards.

2 RECOMMENDATIONS

- 2.1 The Council is recommended to:
 - Note the messages set out within the Deputy First Minister's letter of 7 March 2024 and estimated implications for the council, as set out in paragraph 3.3;
 - Agree that any additional unringfenced funding will be used as set out in paragraph 3.9;
 - Note that the mitigation measure to pause non-committed capital expenditure ceased to be in place from 1 April 2024, following the adoption of the updated capital programme for 2024/25 onwards by Council on 20 February 2024;

- Agree that all other mitigation measures shall remain in place until the provisional outturn for 2023/24 is considered by Council, in June 2024;
- Note that the statutory audit of the 2022/23 accounts for the Council and group has now concluded, with an unqualified audit opinion being issued on 20 March 2024.
- Agree the indicative timetable for setting the budget for 2025/26 onwards, outlined in paragraph 3.19.

3 BACKGROUND

2024/25 Budget Update

- 3.1 The budget for 2024/25 onwards was agreed by Council on 20 February 2024, and reflected the following:
- Council tax freeze in 2024/25, supported by £3.4m funding
 - Revenue savings of £16.5m over the next 5 years, including £9.75m to be delivered in the next financial year
 - Use of £1m reserves, to be repaid in 2025/26
 - Capital investment (general services) of £364m over the next 5 years.
- 3.2 The budget was developed on the basis of the draft local government finance settlement, which was finalised on 28 February 2024. On 21 February, the Deputy First Minister wrote to Council Leaders confirming that, subject to the overall funding position improving following the UK Government's Spring Budget on 6 March, the Scottish Government would pass through to local government £45 million of anticipated consequentials and increase the local government General Revenue Grant by a further £17.7 million, reflecting a total uplift of £62.7m.
- 3.3 Following the subsequent UK Government Spring Budget announcement on 6 March, the Deputy First Minister confirmed that additional unringfenced funding of £62.7m would be allocated to Scottish councils who had elected to freeze council tax in 2024/25. As notified to Council in setting its budget on 20 February 2024, East Lothian Council will therefore receive a share of the additional funding.
- 3.4 The Council has not yet received confirmation of its respective share of this additional funding; however, at this stage it is estimated that this may be in the region of £1.2m.
- 3.5 In addition to the additional £62.7 million, the letters confirmed the Deputy First Minister's commitment to pass on any consequentials received for increased teacher pension contributions, which is consistent with the assumptions within the budget agreed by Council on 20 February.

- 3.6 The budget agreed for 2024/25 reflects a significant degree of risk across a number of areas including delivery of planned savings & income, reserve levels, pay, funding, interest rates, demand management, population growth and legislative changes.
- 3.7 Since the budget meeting, officers have been working to develop detailed plans to support the delivery of agreed savings, and there remain some significant risks to achieving all of this within the next financial year. Commitment remains to delivering these aligned to the decision made by Council, but any delays will be likely to cause overspends during 2024/25. Progress will be reported to Council at regular intervals throughout the year as part of the quarterly budget monitoring process.
- 3.8 In light of the Council's critically low level of reserves within the general fund, it is vital that action is taken to avoid further unplanned use of reserves as a consequence of in-year overspends. If this is not achieved, then the Council will face a genuine risk to its capacity to meet its expenditure obligations over the medium term.
- 3.9 Taking these factors into account, it is strongly recommended that the additional funding is used as follows, which aligns to the principles set out within the February Council report:
- To mitigate the risks of overspends which arise from delays to delivering agreed savings
 - To reduce the planned use of reserves in 2024/25
 - To offset wider and emerging risks throughout the next financial year.
- 3.10 Use of the additional funding in this way will help to protect the general fund and support financial resilience.

2023/24 – Update on mitigation measures

- 3.11 In response to the severity of the financial position facing the Council, and the forecast overspend for the 2023/24 financial year, Council approved the following mitigation measures in August 2023:
- All Council managers must operate within approved budget levels to deliver their service commitments, including preserving existing underspends. Where a service is overspent or at risk of overspending, urgent financial recovery actions will be required in order to bring spending in line with approved budget levels.
 - Further targeted controls will be put in place to review and control recruitment and enhanced review existing vacancies. This temporary targeted action will mean that some facilities may have to be closed and that service delivery will be directly affected. This may also result in further service business continuity plans being

invoked. These additional targeted controls will include the following areas:

- Any post which has been vacant for longer than 6 months will be subject to an enhanced review, and where possible deleted.
- The Council will implement a temporary recruitment freeze, with the following prioritised exceptions:
 - posts aligned to the delivery of essential statutory functions;
 - Posts that will have a direct impact on life and limb;
 - Posts supporting key critical enablers of transformational change;
 - Posts which are fully externally funded.
- All posts being considered for recruitment must be vacant and supported by a clear business plan, and signed off by relevant Head of Service. Deviation from this approach will only be considered in exceptional circumstances and must have Head of Service / Executive Team approval.
- The Council will implement further controls in the use of agency spend and overtime, with any request authorised in advance by Head of Service, and must be aligned to supporting the delivery of essential statutory functions. Managers are expected to make use of framework providers unless there is a clear justification not to do so.
- The Council will implement a delay to the current recruitment process, with posts progressing to recruitment being considered every 2 weeks.
- Council officers will work with partner bodies, including the Integration Joint Board, to ensure that appropriate recovery actions are in place to mitigate the overspending.
- Council officers will continue to progress a review of operational assets, with a view to optimise usage in cost terms including minimising energy and maintenance costs and where possible bring forward capital receipts to offset net borrowing requirements. This will also include mothballing buildings with particular focus on assets where utilisation/demand remains low, costs remain high and/or where staffing levels are not adequate to safely open the building to the public.

3.12 These measures were designed to be temporary and do not represent a sustainable solution to the Council's financial challenges, nor replace the need for longer term decisions to be made to achieve financial

sustainability over the medium term. However, they remain an appropriate and necessary short-term response to the unprecedented challenges which the Council continues to face.

- 3.13 Council agreed the capital programme for 2024/25 onwards on 20 February 2024, and this decision superseded the mitigation measure in relation to pausing non-committed capital expenditure. Capital spending therefore resumed in line with this decision from 1 April 2024.
- 3.14 It is recommended that all other mitigation measures should remain in place until the provisional outturn position is reported to Council in June. At this point the need for the continuation of mitigation measures will be subject to review.
- 3.15 In addition to the mitigation measures detailed within paragraph 3.11, action was taken during the year to address a projected overspend on the Scottish Welfare Fund (SWF) by moving to the 'high and most compelling' criteria for assessing applications for Community Care Grants. This change took effect from 1 September 2023 and remained in place until the end of the financial year. During this time the service has continued to make all efforts to support applicants to the fund while seeking to minimise budget overspends, and has worked closely with the Scottish Public Services Ombudsman to handle the increased level of appeals caused by the high rate of unsuccessful applications.
- 3.16 The SWF budget allocation for the 2024/25 financial year has now been announced, and the high and most compelling criteria ceased to apply from 1 April. However, it remains necessary to maintain a high threshold for applications to ensure that the limited available funds reach those most in need of them. This will remain under close review during 2024/25, and consideration will be given to moving back to the high and most compelling criteria if there is a risk of budget overspends.

2022/23 Audit

- 3.17 Following on from previous updates concerning the statutory audit of the 2022/23 financial statements, and delays to finalising the audit, this work has now concluded with an unqualified audit opinion given on 20 March 2024.
- 3.18 The 2022/23 audit is therefore complete, and the Annual Audit Report features as a separate item on the agenda for this meeting. This is a significant achievement and supports our capacity to demonstrate accountability for public spending incurred by the Council.

Budget development 2025/26 onwards

- 3.19 As noted elsewhere in this report, work to develop financial plans for 2025/26 onwards must now continue. It is crucial that this work commences at an early stage in order to allow sufficient time to develop

sustainable approaches to closing the significant budget gap which the Council is facing. The recommended next steps are outlined within the table below. It should be noted that these plans are indicative and subject to change.

Date	Meeting	Action
June 2024	Council	To consider the financial landscape and context for budget setting for 2025/26 onwards.
August 2024	Council	Q1 financial update report, to include an overview of progress towards delivering agreed savings for 2024/25.
October 2024	Council	Draft financial outlook report to Council, setting out high level budget forecasts and measures to balance the budget for 2025/26 onwards.
December 2024	Council	Q2 financial update report, to include an overview of progress towards delivering agreed savings for 2025/26.
December 2024	Council	Consider the financial and capital strategies for 2025/26 onwards.
January 2024	Cabinet	Consider the initial messages from the draft local government finance settlement and the high-level budget plan.
February 2024	Council	Agree the revenue and capital budgets for general services and the HRA for 2025/26 onwards, and to set council tax and rent levels for the forthcoming financial year. Agree the treasury management strategy.

Table 1: Indicative budget development timetable 2025/26 onwards

3.20 Council is asked to agree the indicative timetable. Alongside this, over the coming weeks, officers will undertake a review of the effectiveness of cross-party working on the budget through a series of debrief sessions with members of the cross-party budget working group, with a view to identifying potential improvements to this. In addition, consideration will be given as to how all councillors can engage informally with this process.

3.21 The budget development framework agreed by Council in June 2022 reflects a commitment to cross-party working and this approach remains aligned to good practice. It is therefore assumed that these arrangements will continue for the development of future budgets, noting that this is not a decision-making forum but aims to complement the formal elements of the budget-setting process. However, it is recognised that the effective operation of these arrangements will continue to evolve and improve over time.

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 in the report.

6.2 Personnel - none

6.3 Other – none

7 BACKGROUND PAPERS Council – 20 February 2024 – Item 2 – Budget Development 2024/25 onwards

AUTHOR'S NAME	Ellie Dunnet
DESIGNATION	Head of Finance
CONTACT INFO	edunnet@eastlothian.gov.uk
DATE	28 March 2024