

**REPORT TO:** East Lothian Council

**MEETING DATE:** 29 October 2024

**BY:** Executive Director for Council Resources

**SUBJECT:** Finance Update

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## **1 PURPOSE**

- 1.1 To provide an update on key developments relating to the in-year financial position, future budget setting and transformation.

## **2 RECOMMENDATIONS**

2.1 The Council is recommended to:

- Note the movement in-year financial projections since the quarter one report.
- Note the recurring pressures and ongoing risks facing the Council in relation to its capacity to manage the financial environment.
- Agree the approach to supporting the IJB funding as set out in paragraph 3.6.
- Note that the ongoing intervention measures approved by Council remain under review.
- Note the update on budget development.
- Note the proposed approach to budget consultation for both General Services and HRA.
- Agree to provide the Brunton Theatre Trust with a further letter of comfort to support the going concern assumption for the 2023/24 financial statements audit.

- Note the update on transformation.

### **3 BACKGROUND**

#### In-year position

3.1 On 27 August 2024, the quarter one in-year financial position was reported to Council, highlighting the following:

- forecast overspend of £8.8m against general services revenue budgets;
- unplanned reserve drawdowns of £4m, after taking account of planned use of reserves and one off mitigations;
- significant recurring pressure within budgets for demand led services including Children's Services, Health and Social Care and Homelessness;
- short-term overspends linked to delays in delivering planned savings.

3.2 These projections will be updated through a report to the December meeting of Council, capturing the quarter two position and updated financial outlook at that point. The purpose of this report is to give an overview of the key developments impacting on the in-year financial outlook, focussing on key risk areas and any wider developments since the last Council meeting. These have been summarised in the bullet points below:

- The 2024/25 pay settlement for teachers has now been agreed, and Council Leaders have also agreed that the pay offer for local government, craft workers and chief officers will also be implemented. Implementation of the pay award means that Scottish Joint Council negotiations remain open, with the objective of reaching a collective agreement if possible. At this stage it is expected that all pay awards will be made to our workforce in the October payrolls. The overall value of the pay award is 4.27%, of which 3.2% will be met by local government. It is anticipated that this will create a further anticipated recurring pressure of £0.4 million, albeit the exact funding allocation to support the national top-up is still to be received. As a reminder, the budget provision made by the Council for the 2024/25 pay award was 3% rather than 3.2%.
- Increase in the forecast overspend for Children's Services of £0.42 million since quarter one, arising from additional costs within external residential and external fostering.
- Decrease in the forecast overspend for Health and Social Care commissioned services of £0.29 million since quarter one.
- Growing risks relating to grant funding for maintaining teacher numbers, which could result in a pressure of up to £1.5 million if penalties are enforced for reductions in teacher numbers. This remains the subject of live discussion with

Scottish Government and COSLA and a verbal update will be provided if there are any further developments prior to the Council meeting. However, at this stage we are not anticipating that the final position will be known until January.

- 3.3 Taking into account mitigation measures and underspends, the projected in-year overspend of £8.8 million reported for quarter one could increase by in excess of £2 million. This will continue to be closely monitored with a detailed report and updated projections to be presented to Council in December.
- 3.4 Aligned to the financial management framework, given the significant risk of financial overspend, Adults and Children's Services have been asked to prepare financial recovery plans and identify options to bring spend back within approved budgets. Further scrutiny and monitoring of this position will also be supported through the Executive Management Team which includes representation from the Chief Financial Officer and Head of Finance. Discussions are also ongoing through the Integration Joint Board (IJB).
- 3.5 Given the scale of the financial pressures facing IJB services, the IJB Chief Financial Officer has written to the Council's Chief Financial Officer. The letter is attached at Appendix 1 to the report and sets out that recovery action is being pursued through the IJB, but despite this, expresses concerns around the financial position and the ability to deliver these financial plans in year. The letter also raises concerns relating to the wider impact that delivery of these plans will have on social care services. The letter asks the Council to consider whether any additional funding can be provided to the IJB during this year to support the financial position. Officers continue to work through the Health and Social Care Partnership and IJB to progress recovery plan actions.
- 3.6 These partnership discussions have also recognised the challenging financial position facing the IJB funding partners including the Council. Taking account of the Scheme of Integration, the current financial forecasts and emerging risks set out in this report recognise that should the recovery actions prove unsuccessful, the very limited reserves of the IJB mean it is likely that any residual overspend on adult social care services would fall to the Council to meet from its own reserves. Given the current financial position facing all partners, it is recognised that any additional funding which is less than the overall value of the overspend may not have a material impact on the 2024/25 IJB outturn. As such it is recommended that the Council pursues the following strategy:
  - Continue to explore and support through the HSCP and IJB the delivery of financial recovery plans within the IJB and adult social care services;
  - Continue to work in partnership with the IJB and NHS Lothian to explore wider options for financial recovery actions, and options for addressing the overspend;

- Recognise that there remains a risk that IJB social care services may not be able to deliver a break-even position, and work pragmatically with the IJB to explore options for meeting this overspend;
  - Aligned to the Scheme of Integration, recognise that should no alternative options be identified the overspend will require to be met through partner reserves;
  - Continue to work in partnership with the IJB and NHS Lothian to understand the financial pressures facing the IJB to inform 2025/26 budget offers, and future financial planning.
- 3.7 There remains significant and growing pressure on the General Services capital plan, both in terms of current and future affordability and being able to meet the scale of the obligations aligned to our infrastructure assets. Officers are undertaking a further review of the existing and planned capital programme and any recommendations arising from this will be presented at a future Council meeting.
- 3.8 There also remains pressure within HRA capital and revenue to meet ongoing obligations, in particular the ability to deliver new affordable housing given the reduction in subsidy to support this. Officers continue to explore all options, but this continues to present challenges in the context of affordability and wider resource constraints.
- 3.9 Taking account of the collective scale of pressures facing the Council, if the projected level of overspend materialises, this presents a very significant risk to the Council's financial resilience, and will result in a material reduction in the Council's overall reserve balance. Council is reminded that the minimum level of uncommitted reserve remains at £7.6 million, as reflected in the unaudited accounts and Financial Strategy. It is therefore essential that the Council continues to make every effort to minimise spend and mitigate against the risk of an overspend of this level materialising. This will include ensuring that services operate within approved budgets and apply stringent financial controls including budget mitigation measures which have been previously approved by Council.
- 3.10 At the meeting on 25 June 2024, Council approved the following control measures which the Corporate Management Team is responsible for applying:
- Recruitment – posts will only be filled if there would be an obvious detrimental impact on the three agreed short-term Council Plan priorities from not doing so and sign-off has been given by CMT and EMT. This may result in ongoing disruptions to service delivery and closure of Council facilities; bi-weekly recruitment will continue.
  - All Council managers must operate within approved budget levels, preserving underspends where possible.

- Where a service is overspent or at risk of overspending, urgent financial recovery actions will be required to bring spending in line with approved budget levels.
  - Use of agency staff should be kept to a minimum and should be kept under close review.
  - Council officers will continue to work with partner bodies including the IJB to explore all options to try and mitigate overspends and ensure spending remains aligned to approved budgets.
  - In-year financial review papers will continue to be reported to Council rather than cabinet.
- 3.11 Given the emerging position and heightened risk environment, officers are in the process of considering the application of additional controls which may include further delays to recruitment and minimising the use of agency worker. An update and any further recommendations will be provided to Council in December.

#### Budget Development

- 3.12 The high-level budget projections and scenario planning were reported at the last Council meeting, highlighting an anticipated funding gap of £21.7 million for the next financial year (2025/26) and £64.9 million over the next 5 years.
- 3.13 Proposals for closing this gap are being developed by officers aligned to the themes set out within the financial strategy:
- Asset rationalisation and energy efficiency
  - Income generation
  - Transformation, service redesign and digitalisation
  - Service reductions
- 3.14 The draft proposals are being shared with members through the cross-party budget working group in a series of presentations from the Council Management Team. This approach is intended to enable early consideration to be given to the measures that will need to be taken in order to close the budget gap and set balanced budgets for 2025/26 onwards in line with the council's statutory duty.
- 3.15 The timetable of fiscal events likely to impact on the budget has now been confirmed as follows:
- 30 October: UK Government Autumn Budget
  - 4 December: Scottish Government Budget 2025/26 & Tax Strategy
  - 12 December: Draft Local Government Finance Settlement 2025/26

- It is anticipated the final Local Government Finance Settlement for 2025/26 will not be confirmed until mid-February 2025
- 3.16 The Local Government Finance Settlement will be a one-year settlement, and it is anticipated that Scottish Government will publish a comprehensive spending review next year, following a UK announcement anticipated in spring 2025.
- 3.17 Consultation on the budget including proposed Council Tax increases was undertaken as part of the Residents Survey this year, enabling a broader and more representative sample of responses to be considered as part of the budget development process.
- 3.18 A full report on the Residents Survey will be considered by Council at this meeting, providing a detailed breakdown of results. Of particular relevance to budget development and high-level assumptions is the feedback received around council tax increases. Members will be aware that the planning assumption is for a 10% increase to the council tax charge in 2025/26, with 5% annual increases in the subsequent 4 years.
- 3.19 The majority of respondents to the residents survey indicated a preference to see moderate council tax increases rather than cuts to services, with 61% indicating that they would support a council tax increase of not more than £3 per week, which would equate to a 10% increase for the majority of households in East Lothian. However, it should be noted that at this stage that Scottish Government is yet to set out its intentions in relation to freezing or limiting council tax rises and this remains a key risk to the existing strategy and assumptions.
- 3.20 It is anticipated that a full and rolling public budget consultation will be developed and undertaken to inform budget decisions from 2026/27 aligned with an anticipated multi-year spending review.
- 3.21 It is proposed that a consultation on proposed rent levels for 2025/26 will be issued in the next month, the results of which will be shared and inform the rent setting process for 2025/26.
- 3.22 Integrated impact assessments will be undertaken for all budget savings proposals in advance of Council budget decisions.

#### Brunton Theatre Trust

- 3.23 Members will be aware that the Brunton Theatre Trust forms part of the Council's group reporting structure and consolidated accounts. In previous years Council has agreed to provide a 'letter of comfort' to support the closure of the statutory accounts, and particularly the 'going concern' assumption which is an important consideration for any statutory audit.
- 3.24 An update on the Brunton Hall relating to ongoing RAAC concerns is subject to a separate item on the Council agenda, but it is recognised that the operating

environment facing the Trust in recent years has and will continue to be challenging and there remains a number of significant risks and key assumptions that may have an impact on the future direction. Council officers continue to work pragmatically with the Trust on these issues.

- 3.25 The audit of the Trust's 2023/24 financial statements will conclude shortly. The financial statements have been prepared on a going concern basis and in order to finalise the audit, trustees and the external auditor need to be satisfied that this is an appropriate assumption for the foreseeable future.
- 3.26 To evidence going concern, trustees are required to demonstrate that the Trust's operations will continue for a period of at least 18 months from the date of the audit opinion. The current status of the Brunton Hall, along with uncertainty around the Trust's future funding position and falling reserves raise some questions around going concern; however, Council officers are of the opinion that, on balance, this assumption remains appropriate and feasible at this point in time.
- 3.27 In relation to this, the Executive Director for Council Resources has already written to the Chair of the Brunton Theatre Trust Board confirming the following commitment from the Council to the trust:

*We will continue to work in partnership to support the Brunton Theatre Trust, including any necessary cash flow management to meet your everyday cash liabilities, over the next 12 months.*

- 3.28 To further assist with these considerations, it is proposed that a further letter of comfort could be provided. For the avoidance of doubt, the purpose of a letter of comfort would not be to provide any guarantee of additional financial support being made available by the Council to the Trust, but would reflect an ongoing commitment to working proactively with trustees to develop a financially viable operating model.
- 3.29 Council is asked to consider the recommendation to provide the additional letter of support to the trust and external auditor setting out this commitment.

### Transformation

- 3.30 Following Council's approval of the Transformation Strategy in August, regular updates on progress, status and benefits delivered will be incorporated into future reporting to Council.
- 3.31 Transformation is one of the critical enablers identified within the Financial Strategy to support and enable change required to deliver some of the savings which Council has committed to within the budget.

- 3.32 Savings targets of over £7 million from delivering the asset review and maximising income generation exist within the current 5-year budget agreed by Council and ensuring that these opportunities are realised will be crucial to financial sustainability over the medium term.
- 3.33 Resources have been allocated from reserves to support and enable delivery of transformation over the next 5 years. Acceleration of this work is key to delivering the Financial Strategy and existing commitments to improving and modernising the way we work and interact with customers. Delays to the delivery of savings targets will impact on the budget position resulting in alternative measures needing to be taken in order to balance the budget.
- 3.34 Current projects within the transformation portfolio align to the key objectives set out within the strategy and are summarised below:

**Energy transformation:** a range of projects led by the energy transformation board to support the delivery of the Council's climate change and local heat and energy efficiency strategies.

**Income generation/commercial:** review of income generation opportunities including sponsorship and advertising.

**Asset review:** review of corporate assets and placemaking, lets and bookings.

**Systems:** replacement Housing Management and Financial Management Systems, Microsoft 365 rollout, website replacement.

**Processes:** review of manual effort to streamline processes and maximise opportunities to use technology to deliver efficiencies.

**Data and governance:** Data maturity assessment and development of business intelligence capability

- 3.35 Projects are delivered through a mix of resources from services across the Council, the transformation team and partners and will realise a combination of financial and non-financial benefits for the council and its residents.
- 3.36 Reporting mechanisms for measuring and communicating benefits realisation are being developed in line with the Transformation Strategy and will feature as part of future reporting in this area.

## 4 POLICY IMPLICATIONS

- 4.1 There are no direct policy implications associated with this report, although, ongoing monitoring and reporting of the Councils financial outlook 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 within the report.
- 6.2 Personnel - none
- 6.3 Other – none

## **7 BACKGROUND PAPERS**

- 7.1 Council – 27 August 2024 – Quarter 1 Financial Review 2024/25
- 7.2 Council – 27 August 2024 – Budget Development 2025/26 Onwards
- 7.3 Council – 20 February 2024 – Item 2 – Budget Development including the setting of Council Tax and Council Housing Rent for 2024/25
- 7.4 Council – 12 December 2023 – Item 3 – Financial & Capital Strategies 2024-29

<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>	10 October 2024



East Lothian Integration Joint Board  
John Muir House, Brewery Park  
Haddington EH41 3HA

Chief officer – Fiona Wilson

Sarah Fortune  
Executive Director for Council Resources  
East Lothian Council  
John Muir House  
Haddington

4<sup>th</sup> October 2024.

**By email only**

Dear Sarah,

**East Lothian Integration Board – Social Care Forecast out-turn position 2024/25.**

As you know the IJB set a balanced budget at the start of 2024/25 based on a series of recovery plans which were likely to prove challenging to deliver in year. The month five social care position is now available and although the out-turn forecast is slightly better than that shown in the quarter 1 forecast, this shows a projected overspend of c. £3.0m in the IJB's social care budget.

Obviously the IJB has a responsibility to deliver a balanced position in year and, per the provisions in the Integration Scheme, I have asked the HSCP to provide the IJB with a further series of recovery action to bring the position back into balance. A range of schemes have been provided which could allow the IJB financial position to be brought back into balance. These were presented in out-line to the IJB at its last workshop and further work to develop these schemes is underway.

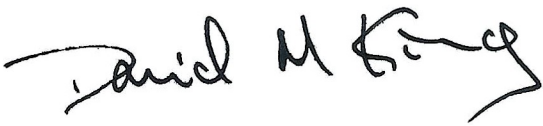
However, I remain very concerned that delivering these plans in year will not only prove very challenging but also may have a very significant impact on the delivery of social care in East Lothian. The IJB has asked me, as part of the overall financial recovery in year, to ask East Lothian Council if there is any option to provide additional funding in 2024/25 to support the social care position.

In terms of our overall partnership and as part of my responsibility as s95 officer I am keen to flag up my concerns regarding the IJB's financial challenges in year. We have a partner's



meeting next week and thereafter a meeting between ourselves and Craig Marriott – it would be useful to discuss any additional funding issues at that time prior to the next meeting of the IJB which is scheduled for 24<sup>th</sup> October.

Yours sincerely,



David King

Interim Chief Finance officer

Cc Shamin Akhtar, Chair East Lothian IJB  
Andrew Cogan, Vice-chair East Lothian IJB  
Fiona Wilson, Chief Officer, East Lothian IJB  
Craig Marriott, Director of Finance, NHS Lothian