

REPORT TO: East Lothian Council

MEETING DATE: 12 December 2023

BY: Executive Director for Council Resources

SUBJECT: Financial and Capital Strategies 2024-29

1 PURPOSE

- 1.1 To provide an update on the financial outlook facing this Council, to provide an update on the budget development process which will inform the setting of budgets for 2024/25, and to seek approval for the 2024/25 to 2028/29 Financial and Capital Strategies attached as Appendices 1 and 2.

2 RECOMMENDATIONS

- 2.1 The Council is recommended to:
- Note the update on the financial outlook facing this Council.
 - Note the changes to the current approved strategy and approve the updated Financial Strategy for 2024/25 to 2028/29, set out in Appendix 1.
 - Note the changes to the current approved strategy and approve the updated Capital Strategy for 2024/25 to 2028/29, set out in Appendix 2.
 - Approve the budget development framework set out in paragraph 3.23 which will inform the development of 2024/25 and future years budget proposals.
 - Approve the proposed changes to timescales set out in Standing Orders for the purposes of the budget development process and, as set out in paragraph 3.23, delegate authority to the Chief Financial Officer and Monitoring Officer, in discussion with Political Group Leaders, to make any further changes necessary due to external factors.

3 BACKGROUND

- 3.1 The Council is continuing to operate within the most extreme and challenging financial environment that it has ever faced with very difficult financial challenges in both this financial year, and a significant funding gap set out for 2024/25 and beyond.
- 3.2 The extreme scale of these challenges being faced in East Lothian has been highlighted continually in recent years and has resulted in significant debate both locally and nationally around the scale of the challenge. Particular focus has been given to the cumulative financial impact arising from our growing population, aligned to national strategic housing land supply allocations.
- 3.3 Given the scale of the current and future financial outlook facing this Council, it is now very clear that there will need to be a change in what we do, and how services are delivered to ensure that maximum value can be derived from the limited available resources.
- 3.4 The financial and capital strategies set by the Council aim to set out the framework as to how public resources will be deployed to support Council priorities and responsibilities. Given the severity of the financial challenges, it is essential these strategies are considered alongside one another, and are used to support a holistic approach to the budget development process.
- 3.5 Council approved the current 5-year Financial and Capital Strategies on 13 December 2022. Although the strategies cover a five-year period, they are subject to an annual refresh to ensure that they remain appropriate and reflect any developments relevant to financial planning. More details setting out the key elements updated in the strategies are set out in the sections below.

Financial Outlook

- 3.6 Council has continued to be updated on the current and future financial outlook and associated risks. Since the most recent update provided in October, the Chancellor announced the autumn budget statement. He provided an update on spending plans and projections and indicated that resource spending would remain challenging in the medium term, and capital spending would be held flat through to 2028-29.
- 3.7 Whilst the actual amount of funding being made available to this Council will remain dependent on the decisions taken by the Scottish Government when they publish their budget on 19 December 2023, a large proportion of the funding available to the Scottish Government is driven by UK Government fiscal spending formula. The recent budget statement provided additional spending consequential to the Scottish Government of £545 million (£223m in 2023/24 and a further £321m in 2024/25).

- 3.8 The Deputy First Minister has indicated that savings of £680 million (£391m revenue and £289m capital) will be required by the Scottish Government to balance spending obligations in this current financial year and has written to the Chancellor setting out her concerns around the continued austerity relating to public finances.
- 3.9 It is currently unclear what spending choices will be made by the Scottish Government and the specific impact on the Council's finances for next year and beyond. However, it remains clear that pressure on public finances will remain for the foreseeable future alongside range of growing demands and pressures, which will mean some extremely difficult choices in the years ahead in terms of developing sustainable services for our communities.

Financial and Capital Strategies

- 3.10 As highlighted previously, the current strategies cover the financial period 2023-2028. These strategies have been updated to reflect any key areas which may change the current strategy and support the budget development process and have also been extended to cover the period until 2028/29.
- 3.11 The Council has already endorsed a strategy aligned to progressing with key themes which are set out below, and it is considered essential that the Council continues to work at pace and adopt policy which is aligned to these themes and focus on supporting the ongoing sustainability. As a reminder these key themes are:
- Asset rationalisation & energy efficiency
 - Income generation
 - Transformation, service redesign & digitalisation
 - Service reductions
- 3.12 In June, Council approved an updated reserves strategy which set out plans for utilising the Council's limited reserves to support ongoing sustainability. As such the current strategy has been updated to reflect the current position.
- 3.13 In addition, the Council must ensure that it continues to proactively lobby to ensure that the revenue and capital implications of a growing local economy are supported by both national governments, and the shared ambition and opportunities is not lost. The financial implications facing this Council in supporting this ambition have been well documented and remain a significant area of concern and challenge. The benefits and opportunities that this Council and national government can deliver through economic growth, particularly at a time when the national economic forecasts remain challenging is essential and includes: support and creation of jobs, stimulate economic regeneration, and increase national revenues through increased tax. This Council has taken

responsible and appropriate decisions to support national housing land supply allocations, but the severity and scale of the financial implications aligned to delivering this must be supported. If it is simply left to the Council alone with no additional funding to meet these costs, then this will result in a major deterioration of essential local services or could simply put a halt on the growth ambition and meeting statutory housing obligations.

3.14 The key areas within both strategies that have been updated are set out below:

- Current economic context including further information arising from recent Autumn Budget Statement;
- Updated financial scenario planning and key assumptions setting out the projected revenue funding gap over the next 5 years;
- Updated reserves position and strategy aligned to the June Council position.
- Updated capital budgets and controls covering the 5-year period to 2028/29.

Budget Development Process

3.15 The Council has a legal obligation to set a balanced budget and Council Tax and Rent Levels for 2024/25. The scale of the financial challenge facing this Council is extreme, but this remains a critical obligation for Members and is particularly important to set the priorities and direction as to how the limited resources available to the Council are to be utilised and support the future direction of services.

3.16 To inform decisions and future priorities, a public budget consultation has been developed, seeking views to shape spending decisions. The consultation closes on 5 January 2024, and an analysis of the responses will be provided to Members in advance of the budget considerations in February.

3.17 In addition, Members are reminded that a rent consultation is currently underway and closes on 15 December 2023 and will be used to inform rent setting for 2024/25. Current and future tenants are asked to support these consultations and similar to wider budget consultation, analysis of the responses will be provided to Members in advance of the budget considerations.

3.18 Officers continue to engage in urgent discussions with Scottish Government officials, with professional associations and national lobbying organisations, and through COSLA to set out the scale of the financial challenge facing this Council. These discussions will continue to be progressed. In addition, COSLA are also due to embark on their national budget lobbying in advance of the Scottish Budget announcement with a campaign centred around partnership and showcasing the vital work that councils do to support local communities.

- 3.19 As previously indicated the Scottish Government will publish its draft budget in Parliament on 19 December, and it is expected that the Local Government Finance allocations for each Council will be announced on 21 December. These figures will remain in draft through the parliamentary scrutiny committees and whilst the timetable remains unclear, it is anticipated that the final Local Government Order will be laid at the end of February 2024.
- 3.20 In line with the approved budget development process, discussions continue to progress through the cross-party budget working group and this forum will be used to inform the budget development options which will be considered by Council in February 2024.
- 3.21 The budget which Council will be asked to consider in February 2024 will comprise the following:
- A 2024/25 General Services revenue budget and future projections covering the period 2025/26 to 2028/29, including proposed Council Tax levels for 2024/25;
 - A General Services capital budget covering the 5-year period 2024/25 to 2028/29;
 - An HRA budget (revenue and capital) covering the 5-year period 2024/25 to 2028/29 including proposed Rent levels for 2024/25.
- 3.22 To support this process, and ensure that Members are able to make informed decisions around the budget at this time, the following action will be taken:
- All correspondence will be issued to political groups through Political Group Leaders and wider members of the cross-party budget group;
 - A budget briefing will be scheduled with all Members in January to set out the key assumptions and implications for the Council;
 - Cabinet will be provided with an update on the key implications from the national funding settlement on 23 January 2024.
- 3.23 A further timetable set out below has been developed to support the budget-setting process and it is recommended that Council approves this. Given the parliamentary timetable remains unclear, these dates may be subject to change, and it is recommended that any variance to these dates is delegated to the Executive Director for Council Resources (Chief Financial Officer) and Head of Corporate Support (Monitoring Officer), in discussion with Political Group Leaders. Meetings will continue to be progressed through the cross-party forum to seek update/awareness and where possible seek consensus on options prior to Council budget decisions.

- 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**

Conclusion

- 3.24 The Council continues to operate within an extremely difficult financial landscape and is now facing an unprecedented challenge in ensuring ongoing financial sustainability.
- 3.25 Whilst the specific detail setting out the national funding being made available to this Council in 2024/25 will not be known until 21 December 2023, current projections indicate that the financial outlook facing public sector finances will remain extremely challenging and it is highly unlikely that national funding will be able to fully mitigate the extent of the funding gap this Council is facing.
- 3.26 It is now inevitable that the Council will need to operate within significantly reduced level of resources, and as such some very difficult choices will need to be made in the months ahead as to what services will be prioritised, and how services will be delivered in the future.
- 3.27 The unprecedented scale of the financial challenge now being faced means that it is critical for Council to take action in order to ensure the financial sustainability and protect essential statutory services. These are hugely difficult times, but it is essential that the Council demonstrates leadership and embraces the decisions which need to be made, with sufficient pace and expediency to balance the budget over the medium term. Aligning the limited available resources to the Financial and Capital Strategies is now essential to ensure the Council can meet its legal obligation to set a balanced budget and support ongoing financial sustainability.
- 3.28 The Council Plan sets out the Council's strategic priorities, and it is important that the Council's available resources align to the Council Plan and priorities. Given the financial challenges, work is ongoing to refocus the immediate priorities set out within the Council Plan with a view to refocusing the longer term priorities. An update will be brought forward to the Council in due course.

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. However, in light of the acute financial challenges which the Council is now facing, without significant additional funding it is unlikely that it will not be possible for the Council to deliver on all of the policy commitments within the Council Plan.

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 and in the supporting appendices.
- 6.2 Personnel - none
- 6.3 Other – none

7 BACKGROUND PAPERS

- 7.1 None

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