

REPORT TO: East Lothian Council

MEETING DATE: 20 February 2024

BY: Executive Director for Council Resources

SUBJECT: Budget Development & 2024-25 Council Tax & Rent Levels

1 PURPOSE

- 1.1 To provide Council with an overview of the national funding settlement for local government, and the implications of this for East Lothian.
- 1.2 To set the Housing Revenue Account budgets for 2024/25 – 2028/29 and rent levels for 2024/25.
- 1.3 To set the General Services revenue budget and council tax levels for 2024/25 and agree strategic level budgets for 2025/26 – 2028/29.
- 1.4 To set the General Services Capital budget for 2024/5 – 2028/29.
- 1.5 To set the council’s policy on applying a council tax premium on second homes.
- 1.6 To set out the next steps towards delivering the council’s financial strategy 2024/25 – 2028/29.

2 RECOMMENDATIONS

The Council is recommended to:

- 2.1 Note the extremely challenging context within which budget proposals for 2024/25 onwards have been developed, and the factors which have contributed to the gap between forecast income levels and expenditure demands.
- 2.2 Note the content of the 2024/25 local government finance order and the funding implications for East Lothian Council.
- 2.3 Note the key assumptions and risks within the budget projections set out at paragraph 3.40.

- 2.4 Agree that a 100% council tax premium will be applicable for second homes from 1 April 2024.
- 2.5 In line with agenda items 3 and 4 on the agenda:
- a) Approve the Housing Revenue Account revenue and capital budgets for 2024/25 to 2028/29 and rent levels for 2024/25, as set out in Item 2a;
 - b) Approve the General Services capital budget 2024/25 to 2028/29, as set out in Item 2b(i);
 - c) Approve the General Services revenue budget and council tax levels for 2024/25, as set out in Item 2b(ii);
 - d) Approve the high level General Services revenue budget projections for 2025/26 to 2028/29, as set out in Item 2b(iii);
- 2.6 Agree the indicative timetable for developing budget projections and closing the budget gap for 2025/26 onwards, as set out at paragraph 3.55.

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 pressures in both this financial year, and a significant funding gap set out for 2024/25 and beyond.
- 3.2 The scale of the challenges 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 In December 2023, Council approved the Financial and Capital Strategies for the period 2024/25 to 2028/29 which sets out how the Council should seek to manage its resources during this period to achieve financial sustainability in the context of these significant challenges and risks.
- 3.4 The following sections highlight the key features, and associated risks within the proposed budget for 2024/25 onwards.

Local Government Finance Settlement 2024/25

National Context

- 3.5 Scottish Government published the draft local government finance settlement for 2024/25 on 19 December 2023. This is a one-year settlement and key features of this were set out within the report to Cabinet on 30 January 2024. The parliamentary process for finalising the Local Government Finance Order is expected to conclude on 28 February 2024, and any changes to the draft position will be reported to a future council meeting, along with the implications for East Lothian Council.
- 3.6 The Cabinet report set out the national context, and reflected that COSLA nationally indicates that the settlement represents:
- An overall cash cut to revenue funding of £62.7m
 - An overall cash cut to capital funding £54.9m
 - Whilst £144m has been made available to support ‘a fully funded Council Tax freeze’ this falls significantly short in meeting this commitment.
- 3.7 The Institute for Fiscal Studies (IFS) has now published its analysis on the Scottish Government’s budget which notes that:
- Whilst the headline Budget figures suggest councils’ day-to-day funding will increase by 7.9% in cash terms (6.2% in real terms) in 2024–25, the reality is that this gives a seriously misleading picture.
 - Their analysis states that after taking account of the baselining of funding to support the 2022/23 and 2023/24 pay awards, and funding required to fund new policy commitments along with the requirement to freeze council tax in 2024/25, it is estimated that that the funding available to councils will increase by just 3.5% in cash terms (1.8% in real terms) next year.

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.

- 3.8 The national budget discussions for local government are being led by COSLA and are set within the context of a new partnership agreement (Verity House Agreement) which was signed by both the First Minister and COSLA Leaders in June 2023. The agreement sets out a clear commitment to addressing shared priorities and a clear process for budget engagement. Since the draft local government finance settlement, discussions have continued, but in recent days some fundamental changes to the national settlement conditions have been announced, and these present significant enhanced risks councils in delivering sustainable

services going forward. More details setting out these key changes and national discussions are set out below:

- The Cabinet Secretary for Education and Skills has written to COSLA on 12 February 2024 setting out her intention to remove a national share of £145.5 million from the general revenue funding with Council's only being able to receive this funding via specific grant should they meet specified criteria to protect Teacher numbers. For East Lothian this represents a significant financial risk to £2.95m of funding.
- In addition, the letter makes reference to the potential to legislate to maintain learning hours and numbers of days of education each year. Should this progress, this creates both financial and wider risks to the Council to be able to deliver financially sustainable services and transform service delivery to support outcomes and deliver best value.
- An additional £600m of UK Government funding has been made available to local authorities in England and Wales to support funding challenges in recent weeks. The DFM through discussions with COSLA has confirmed that this will give rise to Barnett Consequentials of approximately £45m through the national fiscal arrangement between UK and Scotland, however no clear assumption has yet been made to Scottish Councils that this will be passed over. The DFM has indicated any decision will be taken once she has clarity of any net changes arising through the UK Spring Budget on 6 March.
- The DFM has requested that each Council notify her as to their intention to freeze Council Tax no later than Friday 16 February 2024 to inform the Scottish Government approach to stage 2 of the Budget Process which is scheduled to take place on 20 February 2024. COSLA has continued to make this clear to the DFM that any decision whether to accept or reject the Grant would be subject to individual Council consideration and most Councils, including East Lothian, would not be in a position to confirm this prior to Council budget considerations.
- The DFM has recently confirmed within correspondence that she will pass on to Local Government any additional Barnett Consequentials aligned to the increase in Teachers Pensions Contributions. For East Lothian the financial implication equates to £1.589m. Should the funding fall short of this level this will pose further risk to the Council.

Local Context

- 3.9 The significance and scale of the funding challenge facing this Council in the current year, 2024/25 and beyond has been the subject to a great deal of local and national debate and currently reflects a very real challenge to the financial sustainability and viability of this Council. The Council has already delivered significant efficiencies over the past 10 years in excess of £50m and going forward faces a further funding gap for 2024/25 of

£17.3m, rising to just under £56m over the next 5 years. The cumulative scale represents a significant challenge both in terms of delivering a balanced budget for 2024/25 and on-going ability to deliver core statutory services.

- 3.10 Despite a reduction in national funding, the Council has seen an increase of £2.157m in core revenue funding arising from an updating of indicators aligned to the most recent population census. In addition, the Council has received additional funding linked to new policy commitments including the expansion of free school meals for P6 and P7, funding to be passed to the IJB and funding linked to freezing the council tax charges should the council agree to do so. The draft settlement also reflected the baselining of the specific grant for early learning and childcare along with pay funding linked to the 2022/23 and 2023/24 pay awards. No funding has been made available specifically to support any national pay awards for Council staff for 2024/25. Much of the detail was set out in the report to Cabinet on 30 January and the draft budget has been updated to reflect current projections, with a more detailed breakdown of the funding uplift received through the settlement provided below:

£22.315m	Total increase in general revenue grant
Of which:	
£6.551m	is baselining of funding to support the 2022/23 and 2023/24 pay awards
£10.927m	is baselining of early years specific grant
£0.272m	is to support new policy commitments
£0.371m	is to be passported to the IJB
£1.589m	is to support the increase in employer contributions rates for teachers pension (not yet confirmed but anticipated to be allocated in line with DFM commitment)
£3.400m	is funding for the council tax freeze in 2024/25
-£2.952m	is the removal of funding for retaining teachers from the GRG as this will be paid as a specific grant from 2024/25.
£2.157m	Net increase to core funding

- 3.11 Council is asked to note that at the time of drafting this report, the following funding streams remain undistributed;

- £230m to support £12ph in adult social care (the council's share of this is estimated at £4.6m and will be passed to the IJB);

- £145.5m funding to protect teacher numbers, to be distributed by a specific resource grant from 2024/25 (the council's share of this is estimated at £2.95m).
- £16m to support £12ph in early years (the council's share of this is estimated at £0.35m).
- £40m capital funding to support the rollout of free school meals to P6 & 7.

3.12 In addition, as highlighted in paragraph 3.10 above, we have yet to receive confirmation as to the actual funding to be provided to support the increase in Teachers Pensions Contributions arising from Barnett Consequentials.

3.13 In order to ensure that there is stability within the national distribution of funding to local authorities, the formula includes a minimum grant "floor" calculation to ensure that individual Councils do not see excessive year on year variances. The floor is self-financing and funded through the redistribution of funding from some councils to others. Based on the draft settlement for 2024/25, the floor has been set at -0.5%, and East Lothian Council will be required to contribute £2.734m to the floor.

3.14 Current budget projections for the General Services Revenue budget assume a 3% pay award in 2024/25 and annual increases of 2% thereafter. The projections also factor in growth on contracts linked to inflation as well as revenue consequences of capital and debt charges.

3.15 Over the medium term, income projections assume a flat cash settlement from Scottish Government, with a projected increase in 2026/27 in accordance with the Spending Review announcement published in June 2022.

3.16 Taking these factors into account, the funding gap for 2024/25 before applying budget efficiencies, increases to the council tax charge or use of reserves is £17.289m. This rises to £55.859m by 2027/28. This is detailed within Item 2b and summarised within table 1 below:

	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Total
Base Budget	303,996	308,576	316,239	318,079	319,875	
Growth	22,005	20,121	11,028	11,112	8,248	72,514
Income changes	-4,716	-2,279	-5,101	-2,292	-2,267	-16,655
Funding Gap	17,289	17,842	5,927	8,820	5,981	55,859

Table 1: Summary budget pressures & funding gap

3.17 As noted elsewhere in this report, the gap between expenditure demands and available funding is now at a scale which will require a fundamental shift in how the Council delivers and prioritises its core services. The current draft budgets and forward projections contain a number of assumptions, all of which remain subject to change. In addition, efficiencies are proposed as part the draft budgets presented, however there is still a significant amount of work to be done in this area in order to

ensure financial sustainability over the medium term. More detail setting out the risks associated with this is set out in paragraph 3.40.

- 3.18 The draft budget proposals set out in the associated appendices have been developed by the administration and discussions through the cross party budget working group have continued throughout the year. In developing the proposals and closing the budget gap, members have also been provided with results from the budget consultation with details available in Members Library. In line with the recommendations set out in section 2 of this report, Council is asked to consider and agree budget proposals, with more details on each of these set out in the sections below.

Housing Revenue Account

- 3.19 The Housing Revenue Account (HRA) budgets 2024/25 – 2028/29 and proposed rent levels for 2024/25 are set out within Item 2a. Council is asked to approve the budget and proposed 2024/25 rent levels.
- 3.20 The proposed rents represent a 7% increase to current rent levels. This follows a 5% increase in 2023/24 and a rent freeze in both 2022/23 and 2021/22. The proposed rent levels would increase the current average weekly rent from £76.69 to £82.06. Tenants were consulted on the proposed rent increase, and a report detailing the consultation response has been lodged in the Members Library.
- 3.21 Setting the rents at the proposed level will enable the planned programme of modernisation and investment in new council houses to proceed as previously planned, and for key ratios including 40% debt to income ratio and minimum reserves of £1m to be met, which remain particularly important in the current context managing the wide range of concurrent risks and pressures.
- 3.22 The Scottish Government budget reflects significant reductions to the national funding available to support the delivery of affordable housing, including a full reduction in the level of grant available to the council to support this in 2024/25. Consequently, any increase below 7% would require a reduction in the level of planned investment in new affordable housing, and increases of 5% would also require reductions in the modernisation and energy efficiency improvements in order to ensure that the key ratios are met.

General Services Capital Budgets

- 3.23 Scottish Government has announced capital funding of £638m for local authorities in 2024/25, which COSLA has indicated represents a cash reduction of £54.9m to local authorities. Additional funding totalling £40m to support the expansion of free school meals to P6 and P7 has also been announced, but not yet distributed.
- 3.24 At a local level, the Council is expecting confirmation that it will receive core general capital grant funding of £7.897m for General Services. In

addition, £17m funding to support the Musselburgh Flood Prevention Scheme is anticipated in 2024/25.

3.25 The proposed capital programme for 2024/25 to 2028/29 is detailed within Item 2b(i) and represents planned investment to support the delivery of the council's strategic objectives and statutory obligations over the next five years. Council is asked to approve these proposals.

3.26 Key changes to the previous capital plan include:

- reprofiling planned spend on the education estate, with reference to housing completions and updated school roll projections;
- adjustments to planned expenditure on Haddington Flood Prevention Scheme and East Linton Primary school, aligned to Scottish Government decisions around the funding and criteria available to support these schemes;
- updates to planned expenditure reflecting the recent council decision around Musselburgh Flood Prevention Scheme.
- addition of planned expenditure to repair the roof and support the reopening of the Loch Centre Swimming pool in Tranent;
- addition of planned expenditure to support repairs to harbours damaged in the recent storms;
- addition of a street litter bin replacement programme; and
- addition of externally funded budget lines including Community Public Art (funded through external contributions), Coastal Change Adaptation (grant funded) and Pencaitland Primary School (funded through developer contributions).

3.27 The impact of these changes is a net borrowing requirement of £116.35m over the next five years. Given the current financial projections facing this Council, the capital programme remains subject to significant and on-going affordability challenges.

3.28 Whilst the capital plans currently remain within affordable financial limits, the scale of current and future capital infrastructure requirements facing this Council are significant, and how these are met within prudent, affordable and sustainable financial limits will remain of critical focus in the years ahead. As set out within the approved financial and capital strategies, the affordability of future capital investment decisions must consider the impact of future borrowing and debt repayment charges, and it is likely this will require a reduction and realignment of capital investment decisions going forward. Furthermore, wider pressures on the capital programme including inflation and supply chain issues continue to present significant risks to the deliverability and affordability of the programme.

3.29 The capital programme will continue to be closely monitored throughout the year, with updates and further recommendations being reported through to Council as appropriate.

General Services Revenue Budgets

3.30 Item 2(b)(ii) to this report sets out the proposed budget and council tax levels for 2024/25 which has been developed by the administration working in conjunction with the cross party budget working group. Council is asked to agree the 2024/25 budget and council tax levels.

3.31 As previously reported to Cabinet and aligned to the 2024/25 national settlement conditions, £144m of funding has been provided to freeze Council Tax. This specific policy has remained subject to significant national discussions, and the proportionate share of the grant funding is only being made available to Councils who accept the freeze. For East Lothian this is equivalent to approximately 5% increase in Council Tax and equates to £3.4m. In setting any level of Council Tax, Councils should take cognisance of the resources being made available and spending obligations. Given the significance of the funding gap for East Lothian, an increase in Council Tax would have remained an appropriate option available to members as part of balancing the budget, but this would have been at the expense of the national funding being made available.

3.32 Should members accept the recommendation to freeze Council Tax this will see a freeze to existing Council Tax levels as set out in the table below, and will represent a Band D Council Tax bill being frozen at £1,435.62. Members are reminded that the Council operates a joint billing of Council Tax, water and sewerage. Scottish Water have indicated their intent to increase their charges by 8.8% which means that household bills will increase during 2024/25, and this will be an important feature within the annual billing information. The table below summarises the proposed council tax charges for 2024/25, based on a council tax freeze, on an annual and weekly basis:

	Annual	Weekly
Band	2024/25 Council Tax Charge (excluding Water & Sewerage)	
A	£957.08	£18.36
B	£1,116.59	£21.42
C	£1,276.10	£24.47
D	£1,435.62	£27.53
E	£1,886.24	£36.18
F	£2,332.88	£44.74
G	£2,811.42	£53.92
H	£3,517.26	£67.46

Table 2: Proposed council tax levels 2024/25

- 3.33 Item 2b(iii) shows the strategic budget projections for the next five years, which highlights the anticipated funding gap of £56.859m by 2028/29. These projections are based on a range of assumptions all of which remain subject to change. This assumes a freeze to council tax levels in 2024/25, an indicative 10% council tax increase in 2025/26 and 5% indicative annual increases thereafter. Even with these levels of assumed Council tax, further budget efficiency plans and indicative council tax rises proposed as part of this budget will only partially close the gap, leaving a residual budget gap of £13.074m to close over the next five years. Council is asked to agree the high level budget projections included in Item 2b(iii). Considering these options in the context of the critical enablers set out within the approved Financial Strategy, alongside an impending review of the Council Plan to reshape and refocus political priorities will be of critical importance in meeting the future budget gap.
- 3.34 Councils have a range of legislative and statutory duties to undertake, and achieving financially sustainable core statutory services alongside national and local policies is now going to be very challenging with the resources which are now being made available. This Council has now reached a critical tipping point in terms of financial sustainability, and alongside the decisions being taken in the budget, will continue to require some very difficult decisions going forward. Whilst it is imperative that the Council continues to pursue national discussions to seek support and holistic and creative solutions, locally we must continue to do all that we can and focus must now be aligned to reshape what services the Council can deliver and align available resources to support clear priorities. Inevitably this will mean change, and this will also mean that other areas which are not priority may need to be reviewed, and potentially stopped.
- 3.35 For 2024/25, it is proposed that the budget gap will be closed through a combination of existing savings agreed by Council on 28 February 2023 and new savings proposals which are aligned to the Financial Strategy and these proposals have been subject to consideration by the Cross Party Budget Working Group. Efficiencies totalling £8.175m have been identified for 2024/25. The impact of debt charges on the revenue account has also been reduced through application of the capital fund in order to smooth and offset some of the revenue impact in 2024/25.
- 3.36 The residual gap of £1m is being closed on a one-off basis during 2024/25 through planned temporary use of reserves, to be replenished in 2025/26. This has been deemed permissible and competent given the proposed increase in Council Tax in year 2 and transfer back into reserves. Should this level of Council Tax increase either not be needed or not materialise during 2025/26, Council will need to be clear that alternative savings proposals will be required to deliver to replenish the reserves balance. Given the wide range of concurrent financial risks facing the Council this must be a clear consideration of any proposal.

Reserves

- 3.37 The Financial Strategy agreed by Council in December increases the target minimum level of reserves to be held as contingency for unforeseen events, from £7.2m to £7.6m, reflecting the critical nature of the concurrent risks which now threaten the council's capacity to demonstrate financial sustainability. At this stage it is anticipated that the proposed budgets for 2024/25 will allow for the target minimum balance to be maintained, however, the Council continues to face a significant number of variables and a high degree of risk with regard to its financial position.
- 3.38 The budget proposals for 2024/25 reflect planned use of £1m reserves to balance the budget, however the proposals for 2025/26 seek to ensure that this is repaid from the revenue budget in the following year. This reflects the financial strategy and budget development principles adopted by Council which include a commitment to minimise use of reserves in order to balance the budget. Officers will continue to work towards this objective, supported by investment in the enablers for transformation outlined within the financial strategy.

Key assumptions and risks

- 3.39 The council faces a growing range of concurrent risks relating to its financial position. The nature of the risks has been reflected on the corporate risk register, with managing the financial environment reported as the highest rated risk that have ever been reported to Council and the risk to financial sustainability remains of critical concern.
- 3.40 There are a number of substantial risks built into the assumptions and the key risks are set out below:

4 Delivery of planned savings & income levels

Given the scale of the financial challenge being faced, the budget and financial strategy rely on the delivery of a significant amount of savings in order to achieve a balance position.

The draft budget proposals for 2024/25 include the delivery of over £8m of efficiencies. Many of these savings proposals will require development, review and consultation by officers, and this will give rise to timing delays relating to full implementation.

Officers are currently working to deliver previously identified savings, but proposals totalling £0.475m have been removed from the proposed budget as they are no longer considered to be deliverable. A further £2m of planned savings currently remain a high risk of timing and implementation delays, and officers will work hard to accelerate and implement proposals as early as practically possible.

Officer capacity to deliver savings also presents a risk, in the context of reduced staffing due to recruitment market challenges and enhanced recruitment control, delivery of some of the planned savings will require significant input from officers and ensuring that resources are adequate will be key to this.

If savings cannot be delivered as planned then alternative action will be required to mitigate the impact, and may include the suspension of some council services, reductions in staffing levels or changes to Council policy. Ultimately if these risks materialise and suitable alternative options cannot be identified, this could create in year budget overspends which would need to be funded from reserves. Progress and risks associated with the delivery of planned savings will remain a critical focus of 2024/25 Financial Reviews.

In addition, the budget projections for both general services and the HRA rely on a range of key assumptions around income levels which also reflect a significant degree of risk. Officers continue to monitor and implement key income streams very closely and work hard to ensure that the Council can maximise income collection and recover income which is due wherever possible. We seek to mitigate this through provisions (amounts set aside to reflect that a proportion of income may not be recoverable) but even marginal variations in key revenue streams like council tax and rents will be hugely significant in value. Furthermore, in accordance with the council's financial strategy, the council is developing new income streams which can be difficult to forecast as there is no historical data on which to base the projections. Collectively these areas will remain subject to close monitoring and review.

5 Reserve levels

The Council's general and uncommitted reserves levels remain at a very low level commensurate to the level of risk. Given the level of savings identified and wide range of concurrent risks facing the Council, there remains a key risk that the Council will not be able to fully mitigate any events, including overspends or timing differences aligned to the delivery of planned savings.

The Council is currently projecting a significant overspend in 2023/24 which will reduce the availability of reserves if the projections materialise.

If the minimum unallocated balance on the general fund falls below the level set out in the financial strategy, then action will need to be taken to replenish balances accordingly. In the first instance, we would seek to use other earmarked balances for this purpose. If this is not possible then a recovery plan would need to be

implemented, with a view to replenishing reserves from the revenue account over the subsequent twelve months.

6 Pay

Scottish Government's draft budget does not reflect a public sector pay policy or indeed funding to support a pay award for the local government staff. There remains a risk that that pay negotiations may result in a greater increases than the 3% allowed for within the current budget projections. Every 1% increase in pay will result in a further pressure on the council's budget of approximately £1.8m.

7 Funding for teachers pension increase

As highlighted in paragraph 3.8 above, the DFM confirmed in her letter to councils on 2 February 2024, her intention to pass on any funding provided for teachers pension contributions to local authorities, should UK government confirm this. In the event that there is no net benefit to Scotland announced in relation to this change, then this will leave an unfunded budget pressure of £1.589m next year which will need to be funded through alternative measures to reduce expenditure. This will not be confirmed until after the Chancellor's Spring Budget announcement on 6 March.

8 HRA Affordable Housing Subsidy

The Scottish Government's budget provides year 1 (2024/25) allocations of affordable housing subsidy allocations only, and for East Lothian this has resulted in an unprecedented situation where the Council is not anticipating to receive any national funding to support the delivery of new affordable housing during 2024/25. Future year's budget projections include an assumed level of grant subsidy that will be received in the years subsequent to 2024/25. If this funding does not materialise this presents an enhanced risk to the delivery of the planned number of affordable homes. Furthermore, this may present a further risk in terms of managing additional borrowing costs and may ultimately result in a delay to planned projects until clarity of future grant subsidy is provided. Given there remains a critical need for the supply of affordable housing this will be difficult to balance to manage the delivery of the programme and financial risk.

9 IJB Budget Shortfall

The IJB faces significant financial challenges, including an in year overspend for 2023/24 and a further budget gap in excess of £12m is planned over the next 5 years. If the IJB is unable to identify options to reach a breakeven budget position, then any overspends which cannot be contained within reserves will fall to partners to meet. A large proportion of the current IJB pressures are driven by demands within Council delegated adult social care services

including commissioned services, and therefore working in partnership with IJB to ensure that clear and deliverable plans aligned to meet this funding gap remains critical.

10 Council tax base

Council tax projections reflect assumed housing growth over the next 5 years. The projections are based on a series of assumptions and informed by data on housebuilding completions and intelligence from the planning service. There are a number of variables which could impact on the actual movement in the number of band D equivalent properties added to the rating list during the year, which are outside of the council's control. Should this arise, this may result in a lower than anticipated Council Tax income.

11 Inflation

Inflation remains above the UK Government target of 2%. Inflation impacts on many of the council's input costs and unexpected rises will create an unbudgeted pressure on the revenue account which may mean that the council will be unable to achieve its objectives without further unplanned use of reserves.

12 Interest rates

Interest rate assumptions are based on projections provided by the council's treasury management advisors and detailed within the Treasury Management Strategy. Any increase to projected interest rates in future years will have a significant impact on the revenue cost of borrowing, and also on the deliverability of the capital programme.

13 National funding

The high-level budget projections for 2025/26 to 2028/29 set out within Item 2b(iii) reflect a flat cash settlement other than in 2026/27, aligned to the Resource Spending Review announcement. Variations to this position will have a direct and significant impact on the council's financial outlook.

14 Demand management

External factors including the cost of living crisis are continuing to place upward pressure on current demand for council services. This represent a risk where funding allocations for demand led services are insufficient to meet the expenditure demands, or where the level of demand is significantly in excess of the assumptions incorporated into the budget. This remains of particular significance in areas of overspending identified within the Period 9 Financial Review, including Children's Services and the IJB.

15 Timing of section 75 contributions

There remains a potential risk to recovery of section 75 contributions, driven by the speed of housebuilding and solvency of developers and well as the obligations being met through the delivery of the council's capital programme. If the contributions do not materialise in line with the projections, this could result in temporary pressures which may increase the council's borrowing requirement over the short term. This increases the overall cost of the council's capital programme as the council incurs the cost of borrowing to deliver its obligations for a longer period of time.

16 Teacher numbers & learning hours

As highlighted in paragraph 3.8 above, on 12 February, the Cabinet Secretary for Education and Skills wrote to COSLA expressing her disappointment at the reduction in teacher numbers in the current year and announcing that the £145.5m funding provided to support this policy objective will be provided as a specific resource grant going forward, meaning that this funding could be clawed back from councils if the grant conditions are not met. This presents a risk to this income stream estimated at £2.95m funding if teacher numbers are not maintained.

The Cabinet Secretary has also indicated her ongoing commitment to specify the minimum number of learning hours and has proposed a draft voluntary commitment to maintaining learning hours at their current level. If the specified minimum hours was introduced in the future without additional funding, this will create a financial burden on the council to meet this policy commitment which is currently estimated at £0.75m.

- **Capital Accounting Review**
The Deputy First Minister has indicated that it is not her intention to take forward the Capital Accounting Review at present and will instead await the outcomes of the Fiscal Framework discussions. However, on the basis of initial modelling of the potential changes that were consulted on in December, changes which may be implemented in the future have the potential to result in significant budget pressures for both general services and HRA budgets.
- **Growing Population**
The East Lothian population continues to grow, and the impact on Council services has been subject to significant local and national discussions and has resulted in a number of significant 'asks' to the Scottish Government including additional revenue funding and the establishment of a 'Growth Fund'. Despite continued official and political discussions, to date, there has been limited progress in meeting these asks. The recurring impact on these services will further increase as the population grows, and will become further challenging should the Council meet the additional Scottish

Government national housebuilding allocation targets. Without a holistic and joined up intervention, this will present a significant risk and threat to the financial sustainability of this Council, the services we can provide to our local community, and will impact on delivery of many of the outcomes which are supported nationally and locally.

- 16.1 These risks are significant and if they materialise and the council is not able to take adequate mitigation action, this will result in a significant threat to the financial sustainability and could ultimately result in the Council effectively facing insolvency.
- 16.2 The financial resilience of this Council is and continues to be a very challenging balance to manage, and it is critical that all key stakeholders are aware of the severity and range of concurrent risks. The Council must do all that it can to manage these risks and ensure financial sustainability, and it remains critical to ensure all key stakeholders are aware of the challenge and risks, all reasonable attempts have been made to mitigate these risks including the identification and deliverability of clear savings, and the Council must be clear and concise around its priorities.
- 16.3 Subject to Council approval of the budget, Officers will continue to closely monitor these risks in line with the council's risk management framework, and through quarterly financial update reports to Council.

Second Homes 100% Council Tax Premium

- 16.4 The Council Tax (Variation for Unoccupied Dwellings) (Scotland) Amendment Regulations 2023 have given local authorities the power to add an Additional Council Tax Premium of up to 100% to properties which are considered for Council Tax purposes to be Second Homes.
- 16.5 Council Tax legislation states that a property is considered a Second Home if it is furnished for occupation and it is occupied for at least 25 days per annum.
- 16.6 The Council has not awarded Council Tax discount on Second Homes since 1 April 2017.
- 16.7 As at 13 February there were 505 properties classed as Second Homes on the Council Tax database in East Lothian. This is equivalent of 0.96% of the properties held on the local authority's Council Tax database.
- 16.8 It is proposed that following the introduction of the Council Tax (Variation for Unoccupied Dwellings) (Scotland) Amendment Regulations 2023, the council levy a 100% Additional Council Tax Premium on Second Homes.
- 16.9 If agreed, it is proposed that this policy becomes effective from 1 April 2024.

16.10 Those properties classed as Second Homes occupied by persons occupying tied accommodation and those properties classed as purpose built Second Homes are each excluded by the provisions of the Council Tax (Variation for Unoccupied Dwellings) (Scotland) Amendment Regulations 2023 from the levy of a 100% Additional Council Tax Premium.

16.11 The Water and Waste Water charges listed separately on Council Tax bills will not be increased by the levy of an 100% Additional Council Tax Premium.

Next Steps

16.12 As noted above, the proposed budgets are based on the draft local government finance settlement and any changes to the projected grant levels will be reported to council. The stage one debate took place on 8 February and the remaining stages are as follows:

- **Stage 2** – 20 February 2024
- **Stage 3** – 27 February 2024
- **Local Government Finance Order** – 28 February 2024

16.13 In the event that further funding was to materialise through the final settlement, then it is strongly recommended that this should be applied as follows:

- Reduce the planned use of reserves in 2024/25
- Mitigate the risks set out at paragraph 3.40 of this report.

16.14 The UK Government will publish its Spring Budget on 6 March, which will provide clarity around the availability of additional funding to Scottish Government through the Barnett Formula. In her letter to Council Leaders on 2 February, the Deputy First Minister indicated that she currently has no certainty whether there will be additional funding to be allocated. If further funding were to materialise following the Chancellor's Spring Budget announcements, then it is strongly recommended that this should be applied as set out in accordance with the principles set out above.

16.15 Subject to the approval of the recommendations within this report, work must continue to focus on addressing how future financial plans will be balanced. The recommended next steps to supporting the development of the Council's future budget plans are outlined below:

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.

Table 3: Budget development next steps

- 16.16 In line with the commitments previously made by Council, it is assumed that the Cross-Party Budget Working Group will continue to meet on a regular basis throughout the year, to oversee the implementation of budget proposals in 2024/25 and to support the development of proposals to balance the budget from 2025/26 and beyond. Although not a forum for decision making, this approach is intended to support the budget development process by ensuring that members are sighted on the detail and impact of changes linked to budget decisions, to ensure that progress towards delivery of budget savings is on target and to act as an informal sounding board for ideas. CIPFA advises that effective cross-party working is an important factor in navigating challenges to financial sustainability.
- 16.17 There are a number of evolving policy areas that will continue to be pursued over the coming year, which may impact on future budgets. These include:
- Introduction of a transient visitor levy
 - Introduction of empty property premiums (above 100%) for council tax and second homes, subject to legislation
 - Reform of the council tax system
 - Consideration of a workplace parking levy
 - Advancement of the transformation strategy

Conclusion

- 16.18 The proposed budgets for 2024/25 onwards have been developed against a backdrop of hugely challenging circumstances including external factors driving up costs and demand for council services, and the growing population of East Lothian facing further pressure on our budgets. These additional obligations have not been met through a commensurate increase in funding from Scottish Government, resulting in a significant

funding gap for 2024/25 onwards. This has been compounded by the council tax freeze announcement and has resulted in some difficult decisions needing to be made regarding funding for council services, in order to set a balanced budget.

- 16.19 There are significant risks inherent in the budget projects for 2024/25 onwards which are outlined in this report, and the low reserves position leaves the council vulnerable to these risks.
- 16.20 In this context, it is crucial that efforts continue to lobby Scottish Government and relevant stakeholders to highlight the need for additional funding to support the population growth delivered in East Lothian, as well as to support the range of combined pressures facing local government as a whole. Emphasis needs to be on sustainability and the fact that it will not be possible to continue supporting current expenditure and service levels without significant increases to our budget.
- 16.21 Alongside this, the way in which the national budget discussions have been undertaken has been profoundly challenging, and this has been the most complex and difficult financial settlement this Council has ever experienced. The lateness in the budget settlement, the direction of funding to meet new policy commitments and the late notification of critical issues including introducing specific conditions around funding very late in the budget process is placing this Council in an almost impossible situation to set a balanced budget.
- 16.22 Looking ahead, in the context of the significant projected funding, there is now a need to reprioritise and focus Council Plan objectives to ensure that the council's limited resources are allocated in a way which allows for key priorities to be met is now required. The updated plan will be subject to future Council consideration.

17 POLICY IMPLICATIONS

The council's budget and financial strategies should be a representation of the Council Plan and strategic priorities in financial terms. The proposals within this report are intended to support the effective delivery of policy objectives as far as possible. However, in light of the acute financial challenges which the council is now facing, without significant additional funding it is unlikely that it will be possible for the council to deliver on all of the policy commitments within the Council Plan.

18 INTEGRATED IMPACT ASSESSMENT

- 18.1 Integrated impact assessments are required for budget some of the proposals where these involve a significant change to delivery of services by East Lothian Council.

19 RESOURCE IMPLICATIONS

19.1 Financial – as described above and in the supporting appendices.

19.2 Personnel - none

19.3 Other – none

20 BACKGROUND PAPERS

20.1 Council – 27 June 2023 – Item 4 - Budget Development 2024/25 Onwards

20.2 Council – 29 August 2023 – Item 3 – Finance Update

20.3 Council – 31 October 2023 – Item 2 – Finance Update

20.4 Council – 12 December – Item 3 – Financial and Capital Strategies 2024-29

20.5 Cabinet – 30 January 2024 – Item 2 – Budget Development 2024/25 onwards

20.6 Members Library Service – 31 January 2024 – Item 11/24 – Budget Consultation 2024/25

20.7 Members Library Service – 31 January 2024 – Item 14/24 – Proposals to Increase Council House Rents – Consultation Exercise

AUTHOR'S NAME	Sarah Fortune Ellie Dunnet
DESIGNATION	Executive Director for Council Resources (Chief Financial Officer) Head of Finance
CONTACT INFO	edunnet@eastlothian.gov.uk
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