Appendix 1

Financial Strategy

2021-22 to 2025-26

Financial Strategy 2021-22 to 2025-26

1 Introduction

1.1 The Council continues to operate in a very uncertain and extremely challenging financial environment. The financial implications and consequences facing the Council from supporting the national crisis response to COVID has been on a scale which is unprecedented, and this is expected to continue well into 2021-22 with the economic impact likely to be felt for the foreseeable future. Alongside this, the continuing political and economic uncertainty surrounding future public sector funding, the UK's impending exit from the European Union, all against a backdrop of increasing demand for services means that it is inevitable the Council will need to find ways of ensuring that it can balance sustainable delivery of an increased demand for vital services to the public against a backdrop of reducing levels of like for like government grant support.

1.2 The Council continues to receive a significant proportion of its funding from the Scottish Government. The Chancellor has recently published a one year UK Government Spending Review, with the previously expected multi-year Comprehensive Spending Review now delayed indefinitely. In turn, the draft Scottish Government budget and related finance settlement for Local Government will now be delayed from early December until end of January 2021, however the final position will not be known until early March. This creates significant uncertainty both in the short and medium term. Current forecasts by independent commentators indicate that the level of core funding we receive from the Scottish Government is unlikely to increase, and this alongside the growing demand for services, suggests that more must be done to reduce our cost base or alternatively to expand our income streams such that the Council can meet its priorities within the finite resources which are available.

1.3 A key purpose of the Financial Strategy is to provide clear direction on how the Council will best manage its financial resources over the forthcoming years to ensure they are deployed effectively to achieve agreed Council plans and associated outcomes. It provides a critically important financial context for effective decision-making helping to ensure the future financial sustainability of the Council. It also provides a framework for financial management arrangements that support the proper financial stewardship of public funds as well as providing appropriate financial resilience ensuring that the Council has the ability to respond and adapt to changing operating environments and significant unforeseen events. The principal objectives of the proposed Financial Strategy are to:

- Outline the Council's high level financial position over the years 2021-2026 based on a range of assumptions.
- Highlight the key financial drivers and other relevant issues that have been considered in developing the strategy.
- Ensure that limited available resources are focused on delivery of the Council's approved key priorities and plans and their associated key outcomes.

- Provide a solid financial planning platform for the development of a sustainable revenue budget and capital investment programme which will support the Council's key priorities.

- Ensure that the Council is fully aware of the financial challenges and uncertainties that it faces and is in the strongest possible position to deliver the best possible quality and range of services within available resources.

- Increase both organisational awareness and wider community understanding of the Council's financial position and the challenges it is facing over the medium term in balancing and delivering against its budget.

1.4 The Strategy also sets out the proposed policy for the effective utilisation of reserves, including a clear rationale between holding fund balances for specified purposes and making decisions on the extent to which reserves can be applied when actually setting the formal budget.

1.5 The Strategy covers the five year planning period from 2021-22 to 2025-26 and includes revenue and capital budgets for both General Services and the Housing Revenue Account (HRA).

2 Current Economic Context

2.1 The economic outlook and financial prospects for the strategy period were considered by Council in October 2020. The report set out the financial context within which the Council is currently operating and also many of the key pressures and variables that may impact on the way in which the Council spends its financial resources, and the funding it receives.

2.2 With so many exceptional and unpredictable external influences currently impacting on the wider economy, future forecasting with any degree of credible certainty is very difficult. The recently announced UK Government Spending Review delivered a very stark warning that the 'economic emergency' caused by COVID has only just begun, with record level of public sector spending and associated levels of debt required to support the crisis, and future economic projections suggesting that by 2025 the UK economy will be 3% smaller than in March 2020. It seems inevitable that balancing the public sector books could lead to another prolonged period of public sector expenditure restraint.

2.3 In Scotland, as well as any limitations imposed through resource decisions taken within the UK Budget, the spending available to Scottish Local Government is further dependent on the Scottish Government's own budget priorities. Recent years' settlements have seen reductions in core revenue funding, with associated cash terms increases largely ring-fenced to support the delivery of new national policy commitments and other statutory burdens such as early learning and childcare.

2.4 The Scottish Government does now have at its discretion a range of new fiscal powers over taxation and welfare, and this makes determination of the Scottish Budget significantly more complex than it has been in the past.

2.5 The recently announced UK Spending Review (25 November 2020) suggested that Scotland will receive an extra £2.3bn of funding in 2021-22. Of this, £1.3bn is to support recurring COVID related funding, a further increase of £1.3bn on revenue baseline, and a reduction in capital funding by £0.3bn. As highlighted earlier, the Scottish Government will publish its draft budget plans (covering 2021-22 only) on 28 January 2021. This is considerably later than normal and even with accelerated parliamentary procedure, it is not expected this will formally complete its passage through Scottish Parliament until early March.

3 Local Context

3.1 The local environment within which the Council operates has changed significantly in recent years and will alter further in future years due to the impact of national legislation and policy changes, further economic turbulence, societal changes and developing customer expectations.

Council Plan

3.2 The existing approved Council Plan for 2017-2022 sets the strategic policy direction for the Council, and continues the journey towards realising our vision for an even more prosperous, safe and sustainable East Lothian, with a dynamic and thriving economy that enables our people and communities to flourish. The overarching aim is 'reducing inequalities within and across our communities' with four themes each designed to make the biggest impact in our communities. These are: Growing our Economy, Growing our People, Growing our Communities and Growing our Capacity. The alignment of financial resources to enable the delivery of the Council Plan is a key requirement, working across all Community Planning partners to deliver this shared agenda for the benefit of local people.

Local Development Plan (LDP) & City Deal

3.3 The Council has an approved Local Development Plan (ELLDP 2018). This will continue to see a rapid expansion in population across the area, with an estimated population increase to 120,000 by 2037. This will continue to impact on the wider demography within the area, with significant growth in particular in the number of school-age children and the number of pensioners.

3.4 This will create opportunities for the Council but will also provide significant financial challenges in terms of the provision of necessary services to meet these growing demographic changes such as; the increased number of school children, care packages, households requiring waste collection etc. and there will need to ensure that the Council has the appropriate infrastructure in place to support these growing demands.

3.5 The Council is also part of a wider Edinburgh and South East of Scotland City Deal. This will see significant investment across the region, including through UK and Scottish Government, and will include the development of an Innovation Hub, which working in partnership with Queen Margaret University will facilitate the expansion of a new Scottish Centre for Food Development and Innovation and will therefore support the wider food and drink sector.

3.6 The impact of growth associated with high levels of development across the County will continue to have a significant impact in future years.

Climate Change

3.7 The global implications from climate change has resulted in the Council declaring a climate emergency in August 2019. To support this, a climate change strategy has been developed which sets out the commitment, vision and overall aims for a 'net zero Council' and a 'carbon neutral East Lothian' by working in partnership with the community to deliver specific outcomes to improve sustainability, encourage a low carbon lifestyle and look after our environment.

3.8 The Council will need to consider how this ambition can be realised, and this may require a change to what we are doing, and how we are using our resources.

Changing Public Sector Landscape

3.9 The public sector landscape continues to evolve as public bodies continue to explore ways to work together to achieve shared outcomes. Some of these changes are driven from legislative requirements, others are driven by local community planning and other collaborative arrangements. The development of new public sector provision presents new challenges and indeed opportunities for the Council as it seeks to ensure that shared outcomes are achieved and that resources are deployed efficiently and effectively.

3.10 These include:

- The East Lothian Integrated Joint Board (IJB) which supports the wider integration of health and social care services.

- The Community Empowerment (Scotland) Act places duties on the Council and its partners to provide new rights for community bodies and on the way the Council interacts with the Community.

- The Scottish Government has established a National Participatory Budgeting Strategic Group which is supported by a framework agreement which supports a wider resource allocation to determine local decision making. This will strengthen the requirement for active community engagement in local decision making, and resource allocation.

- The Scottish Government review on Education Governance has established Regional Improvement Collaboratives, with East Lothian forming part of the South East Regional Improvement Collaborative alongside Edinburgh, Fife, Midlothian and Scottish Borders. The main focus of the South East Collaborative is on Quality Improvement and Raising Attainment, and this will place new and revised duties on Local Authorities to work within the Collaborative arrangement to drive forward increased improvements within all educational settings.

- COSLA in partnership with the Scottish Government has embarked on a review of Local Governance, which will consider how powers, responsibilities and resources are shared across national and local spheres of government, and also with communities.

4 General Services Revenue Budget – Medium Term Outlook

4.1 Notwithstanding the many uncertainties facing Scottish local authorities, the need for medium to longer term financial planning is becoming increasingly important. Councils must ensure that they have robust financial plans in place that can respond to and absorb the potential impact arising from the increasingly wide range of variables highlighted earlier in this report. Only by doing so, can they ensure long term sustainability of effective service provision.

4.2 The current General Services revenue budget extends over a 3 year planning horizon with a high level summary of the spending plans approved in March 2020 set out below.

General Fund – Revenue	**2020-21**	**2021-22**	**2022-23**
	£'000	**£'000**	**£'000**
Approved Expenditure	262,622	266,294	270,794
Financed by:			
RSG (including NDR)	(176,598)	(176,598)	(176,598)
Other Government Grants	(19,717)	(19,457)	(19,457)
Council Tax	(64,751)	(69,899)	(75,399)
Other	(90)	(90)	(90)
Transfer (from) / to Reserves	(1,466)	(250)	750
TOTAL	**(262,622)**	**(266,294)**	**(270,794)**
Delivery of Planned Efficiencies (contained in above)	**(3,213)**	**(1,487)**	**(829)**

4.3 The October financial update report considered by Council, set out the key variables which will have the most significant implications for future budgets. A summary of these key variables is set out below;

- The level of future Scottish Government grant funding;
- The level of Council Tax income, influenced both in terms of any annual increase in the rate and also any additional properties that will increase the overall yield;
- Future contractual commitments including pay and pensions;

- Ability to deliver planned efficiencies;
- Non-COVID budgetary pressures;
- COVID related pressures;
- Estimated financial outturn 2020-21.

4.4 The most significant of these relates to the level and make up of future Scottish Government grant funding, which makes up the largest proportion of the funding available to the Council. The complexity of the finance settlement, current delayed notification of anticipated settlement details for 2021-22, and uncertainty relating to future funding levels makes this very difficult to forecast with any accuracy. Relatively modest percentage variations in grant funding result in financially material consequences. For illustration; a 1% reduction in core revenue funding equates to an annual impact of £1.8m or cumulative £5.4m over a 3 years planning horizon.

4.5 The Council is a very large organisation and employs a significant number of staff, who support the delivery of services in accordance with the Council plan and associated outcomes. The Workforce Development Plan will assist in planning and shaping the workforce to ensure it can effectively meet our obligations. The contractual costs relating to pay and pensions must be contained within the overall resources available to the Council, and collectively these can have a material impact on the Council's overall cost base. By way of illustration, a 0.5% increase amounts to just under £1 million on our annual pay bill (£3m across the 3 years), and prevailing rates are subject to the outcome of both national pay settlements and actuarial pension valuations, both of which remain unknown for 2021 and beyond.

4.6 As previously highlighted to Council, current year forecasts suggest that the Council is facing a financial deficit in excess of £7 million, most of which relates to the direct implications from supporting the government's COVID response. Officers continue to explore a range of mitigation options to manage the funding deficit which includes the pursuit of full and proper funding to support all COVID implications, continued application of enhanced cost control measures, and as a last resort, exploration of any new temporary fiscal flexibilities in line with national guidance.

4.7 Whilst COVID has unquestionably created significant additional financial challenges many of which may have a long lasting economic impact both for the Council and the communities we serve, there may also be some opportunities to consider alternative ways in which we operate going forward. Reset and renewal and building back better are key concepts within the Council's Recovery and Renewal Strategy and it is likely that the way in which the Council delivers many of its services will change, with increased numbers of staff working remotely supported by digital technologies, and the way in which we provide services to our communities also under constant review.

General Services Capital Budget – Medium Term Outlook

4.8 The Capital Strategy sets out the how future capital investment plans will be determined and supported, and this is set out in more detail in Appendix B of this report. In March 2020, the Council approved an ambitious, growth driven 5 year General Services capital budget, a summary of which is set out in the table below.

	2020-21 £000 *	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £'000	TOTAL £'000
General Services Gross Expenditure	98,152	81,480	76,824	72,038	28,966	357,460
General Services Income	(48,433)	(30,670)	(43,411)	(49,935)	(18,131)	(190,580)
Net General Services	**49,719**	**50,810**	**33,414**	**22,103**	**10,835**	**166,881**

*Note * - 2020-21 has been updated to reflect 2019-20 outturn as reported in 2020-21 financial update reports*

4.9 Funding for the capital plan comes from a range of sources including; Scottish Government (General Capital Grant and Specific Ring-Fenced Capital Grants), developer's contributions, capital receipts from asset disposals, other income such as grant funding from other bodies, with the balance made up from borrowing funded through loan charges to the revenue budget.

4.10 The current capital investment plans recognise the growth and ambition of the Council, with current plans designed to support the future infrastructure requirements across the Council area. These plans are aligned to the delivery of the approved Local Development Plan (ELLDP 2018) and ambition relating to the commitment from the Council relating to the Edinburgh and South East of Scotland City Deal. The related investments will create significant economic long term benefits for the East Lothian economy, but will place a significant financial burden upon council finances, and affordability remains a key consideration both in terms of the short and longer term.

4.11 Whilst much of the current LDP commitment falls within the 5 year capital investment plan, there will also be significant impact on future years and the anticipated emergence of a subsequent successor LDP.

4.12 The Council has an extensive operational asset portfolio to support service delivery needs. The Corporate Asset Strategy provides the framework for the efficient management of the Council's core assets, with significant and future investment requirements, it aims to provide a modern, efficient and sustainable asset base that meets the needs of its existing and future service users and employees. Since March 2020, COVID has created many challenges but also some opportunity to review the way in which we deliver and support services, including what assets we hold, and how they are used. This may provide us with scope to rationalise assets, which would be critical to support the affordability of future capital investment plans.

4.13 The Council has agreed to undertake a Learning Estate Review to formally assess the condition and suitability of our education and early learning assets. This review is on-going and will inform the establishment of a Learning Estate Investment Plan which will help inform future capital investment plans for the Council.

4.14 As highlighted in previous Council reports, the severe COVID restrictions prevalent throughout this operating year, effectively brought most construction and maintenance activity to a halt, and with recovery still slow, this has had a major adverse impact on the planned delivery of our capital programmes in this financial year, and will also have implications for future years. Capital investment can often be used as a major stimulus to assist economic recovery and it will therefore be important to see how national governments respond in terms of their own spending plans and subsequent allocations made to Local Government.

4.15 Affordability is a key consideration within effective capital planning with the capital investment programme generating significant revenue consequences for the Council, such as staffing, rates, utility costs, cleaning etc, which must be met from within the revenue resource levels available to the Council. At a time where revenue budgets remain under significant pressure, it is essential that capital investment decisions take into consideration the full cost implications facing the Council.

4.16 In addition, the borrowing for capital infrastructure is funded through annual loans fund payments which are charged to the revenue budget and repaid over the lifetime of the asset. Despite current low interest rates, all borrowing will need to be repaid in the future and capital investment decisions which are taken now must be taken within the context of longer term projections. All capital investment decisions are supported by the Capital Strategy and Treasury Management and Investment Strategy to assess and better understand the implications for both current and future Council Tax payers and to ensure that investment plans remain affordable and sustainable.

4.17 The economic consequences of COVID will have an impact both directly on the Council and also upon its community in the years to come. It is essential that the capital investment plan is targeted to ensure it provides essential investment aligned to Council priorities and where possible, to stimulate and support economic growth. To help get this delicate balance right, this will require enhanced affordability criteria to be applied to the capital investment programme to protect both current and future Council Tax payers. Within this context, the Strategy will:

- Focus on a comprehensive review of the Council's asset base, with a view to maximising capital receipts where possible. In turn, this will help maintain ambitious levels of future capital investment and will support transformation of council services that will help minimise on-going revenue costs.

- Introduce an upper limit on net borrowing is now required to be introduced over the strategy period. This limit will ensure that over the next 5 years, net additional borrowing does not exceed £150 million. This will retain a significant capital investment programme over this period which remains vital to support the Council's plans and ambition as well as support local economic stimulus, but importantly recognises the financial challenges facing the Council, minimising future revenue costs.

4.18 Managing the consequences of Covid has introduced a further requirement for enhanced flexibility in how we best manage the capital investment plan. Much of the programme is underpinned by prevailing economic conditions, including the realisation of developer contributions dependent upon wider housebuilding that are critical to support the delivery of many of the related capital infrastructure projects. Should there be any further national or local restrictions imposed adversely affecting the construction sector, the ability to be flexible and adaptive with our capital planning will prove critical.

5 Reserves

5.1 Holding an adequate level of reserves to meet unexpected costs is a key management tool for delivering the Financial Strategy. It remains the responsibility of the Chief Financial Officer (Section 95 Officer) to advise the Council on the level of reserves which it should hold and ensure that there are clear protocols for their establishment and use.

5.2 In determining medium term financial plans and preparing budgets, the Council needs to consider the establishment and maintenance of reserves in accordance with its statutory powers. Reserves can be held for three main purposes:

- Working balances to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of General Reserves.
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of General Reserves.
- A means of building up funds often referred to as Earmarked Reserves, to meet known or predicted liabilities.

5.3 In accordance with the now audited annual accounts, the General Services reserves (excluding HRA reserves) available as at 31 March 2020 was £19.121 million, further detail including a breakdown is set out below. It should be noted that many of these reserves already have post 31 March commitments against them and will be spent during this year.

2019-20 General Reserves

Required to support future budgets	1,716
Civil Emergency *	2,000
Cost Reduction Fund	3,445
Earmarked Reserves	
- DSM	21
- MELDAP	303
- Other	485
Insurance Fund	2,009
Capital Fund & Capital Receipts	713
General Services Capital *	2,282
Capital Grants & Receipts Unapplied	245
Council Tax 2nd Homes	1,962
Uncommitted Balance necessary to support min level *	798
Uncommitted Balance	3,142
TOTAL	**19,121**

* Specific reserves, which collectively reflect the minimum level of reserves as approved in 2020-2025 Financial Strategy.

5.4 Each of these reserves is set out for a specific purpose with the detail of their intended use explained below.

- **Requirement to support future budgets**: This balance has already been committed to support the budget in 2020-21 and 2021-22 as per approved budget plans in March 2020.

- **Civil Emergency**: This fund should act as a cushion against the costs of any emergency or other unforeseen event should it arise. This is currently retained at a level of £2 million, however the level of this remains under constant review as to the adequacy of this.

- **Cost Reduction Fund**: This fund is used to support delivery of change which will realise a financial saving and/or service efficiency going forward. The Chief Executive and Head of Council Resources have responsibility to consider projects which supports these objectives. The fund already has a number of earmarked forward commitments in place.

- **Earmarked Reserves**: These funds are earmarked for specific purposes and include: Midlothian Drug and Alcohol Partnership (MELDAP), balances established from both Primary and Secondary Devolved School Management (DSM) schemes as well as a reserve earmarked to support some of the wider growth development plans.

- **Insurance Fund**: The insurance fund is used to insure against a risk, or pay premiums on a policy to insure against a risk. The level of fund retained remains subject to ongoing fund valuations.

- **Capital Fund & Capital Receipts**: This fund has been established from Capital Receipt income which has not yet been applied in year. This Fund can be used meet future capital investment costs either reducing loans fund advances or providing funds to cover the principal repayments of the loans fund. This fund cannot be used to support General Revenue budgets.

- **General Services Capital**: The Fund was established in recent years from flexibility arising from year end underspends, in order to mitigate the impact of the growing capital infrastructure commitments. Unlike the Capital Receipts reserve this Fund does have the flexibility to be transferred to other General Reserves.

  Capital Grants and Receipts Unapplied: Allows capital receipts to be used to transform service delivery to reduce costs and/or reduce demand. This flexibility is only available to Councils until 2021-22.

- **Council Tax 2nd Homes:** An earmarked fund established by reducing the second home or empty property Council Tax discount for the development of affordable housing. Under Scottish Government direction within certain criteria, Local Authorities can now use this income to support the development of affordable housing, including the disbursement of funds to other organisations or individuals, as well as RSLs. This fund was previously classified as a provision on the Council's balance sheet and more appropriately transferred to an earmarked reserve in 2019-20.

- **Uncommitted Balance to support minimum level**: In line with the previous approved Financial Strategy, these specific reserves collectively support the minimum level of uncommitted reserves.

- **Uncommitted Balance**: Current level of general reserves with no specific earmarked commitments.

Reserves Strategy

5.5 The use of reserves should not be used in place of developing a sustainable budget. Given that, the final year of the three year budget must demonstrate sustainability and show a balanced income and expenditure without the use of reserves.

5.6 The Council's Chief Financial Officer should be delegated authority to approve any specific commitment of funds for both the Cost Reduction Fund and the Council Tax 2nd Homes within the policy intent described in Section 5.4 above. Any such commitments made during the year, will be reported to Members Library Service.

5.7 The Council's overall general reserve balance remains at a very low level. The financial environment is now even more challenging given the on-going impact of COVID and wider economic uncertainty associated with Brexit, and there is a significant risk that the Council will be unable to support all future commitments and effectively mitigate against future financial risks. The level of general uncommitted reserves should remain at a minimum of 2% of the Council's annual running costs (per 2020-21 approved budget £5.2 million). Given the significance in many of these uncertainties, particularly caused by COVID and Brexit, it is recommended that at least for 2021-22 a higher general reserve balance should be maintained. This will allow flexibility to support any shortfall in balances should all other mitigation options not materialise:

• Civil Emergency Fund	£2.000 million;
• General Services Capital Fund	£2.282 million;
• Uncommitted balance (per previous min level)	£0.798 million;
• Uncommitted balance	£3.142 million
TOTAL	**£8.222 million**

5.8 From 2022-23, should the projected level of uncommitted reserves fall below the 2% minimum level, Members must have a clear route for bringing reserves back up to the minimum level over the subsequent three financial years.

5.9 In October 2020, in response to COVID related financial implications, the Cabinet Secretary for Finance advised of work being progressed by Scottish Government and COSLA that would potentially open up some additional financial opportunities described collectively as Fiscal Flexibilities. Although no substitute for full and proper funding, they would provide some further scope for managing the severe impacts of COVID and any consequence of full funding not being made available by national governments. Should any additional balances arise through the current review of flexibilities permissible by the Scottish Government and or Treasury, any uncommitted balance will initially be held in a specific earmarked COVID fund until that need has expired. Anticipated statutory guidance is still being developed.

6 General Services Financial Strategy

6.1 The Council continues to operate in a very uncertain and challenging financial environment, and this predominant feature of uncertainty is likely to continue at least in the immediate short to medium term. It remains clear that the potential impact of a wide range of variables facing the Council is very significant and it is unlikely that the total resource available to the Council will be able to support all of the requirements that we have. In addition, COVID has created significant financial pressures for our partner ALEO's, and there is a need to continue to work collaboratively to ensure future financial sustainability. COVID has unquestionably created significant financial challenges, but there may also be opportunities to consider how services are delivered in future years. This must act as a solid foundation to support how we support our communities, and interact with our customers in the future.

6.2 As a consequence, the Council must now re-focus our efforts and consider an extensive programme of transformational change that will look at a range of options including alternative service delivery models and identification of significant new income streams. Only by doing so, will it be possible to protect and preserve what are deemed to be essential priority services whilst supporting the Council in realising its ambition and plans, but at all times, ensuring future financial sustainability.

6.3 The General Services Financial Strategy for the next 5 years will focus on the following:

- Delivering essential sustainable services within approved budget levels which support the Council Plan and outcomes;

- Delivering a refreshed and extensive change programme designed to transform services that will help protect essential services aligned to core objectives and priorities within Council plans;

- Maximising the income generation opportunities available to the Council in order to protect vital services;

- In support of a changed approach post COVID, as to how we support and use our assets, focus on a comprehensive review of the Council's asset base which will support the way in which we deliver and support services, minimise future revenue costs, and maximise where appropriate capital receipts which in turn can be used to support future capital investment plans;

- Enhanced focus on procurement and contract monitoring of goods and services, ensuring good financial control by managers and delivery of best value;

- Continue to explore options for the Council to become more entrepreneurial;

- Continue to progress opportunities for partnership and collaborative working where there are proven efficiency and/or service gains;

- Continue to constrain cost growth – through effective demand management, continuous review of all expenditure commitments, sound financial control by managers and through effective negotiation with suppliers;

- Consider greater focus on prevention and early intervention, which is designed to reduce future demand for council services by stopping problems arising or by addressing them early on, and supports the Council's overarching priority to reduce inequalities;

- Continue to support a Capital Investment Programme, which will provide essential investment aligned to Council priorities, stimulate and support economic growth and critically, remain affordable based on a clear understanding of both capital and future revenue costs;

- In support of ensuring affordability for current and future tax payers, the Council should work to minimise the additional net borrowing over the next 5 years, by ensuring it does not exceed £150 million;

- The Council should continue to manage and review the General Services Loans Fund balance ensuring prudence, maximising the use and application of capital receipts, capital grant, and any flexibility arising from revenue balances, in order to minimise the future impact of debt charges;

- In recognition of the continued uncertainty arising from COVID, continue to seek assurance from national governments that full and appropriate funding is provided to meet the cost implications from COVID. Within this context, continue to explore options to apply fiscal flexibilities in line with national guidance.

6.4 Taking these specific areas of attention into consideration, alongside the Reserves Strategy outlined in Section 5 above, it is also recommended that budgets are developed annually in accordance with the following approach:

- Develop a sustainable three year General Services budget avoiding the use of reserves in Year three (2023-24).

- Develop a five year General Services Capital Plan aligned to the new Capital Strategy, which seeks to ensure capital investment decisions remain affordable.

7 Housing Revenue Account

7.1 In recent years there has been a significant increase in HRA capital spend as both the modernisation and Council house building programmes have been expanded, and as a consequence, the share of revenue spending on debt charges has also increased.

7.2 The Local Housing Strategy continues to set the strategic approach of the local authority and its partners to delivering high quality housing and housing related services across all tenures, to meet identified need. The Strategy has been prepared within the context of a highly pressured housing market, and significant demand for social rented housing. A high level of homelessness applications persist and the economic climate continues to impact on the ability of households to meet their housing needs.

7.3 Against this backdrop, increasing the supply of affordable housing continues to be a high priority for East Lothian Council ensuring that it meets the needs and aspirations of local people that they live in good quality homes which are located in strong, safe communities.

7.4 The Strategic Housing Investment Plan (SHIP) sets out the priorities for affordable housing investment in East Lothian over the next five years and will be dependent upon a combination of affordable housing providers, which includes Registered Social Landlords (RSLs), East Lothian Council and the private sector. It will also be dependent on complex funding models delivering different tenures.

7.5 During 2019-20, East Lothian Mid Market Homes LLP was established to support the provision of mid-market rent, and is a partnership between East Lothian Council and Scottish Futures Trust. The establishment of this vehicle will allow further opportunities to support the delivery of affordable housing across East Lothian.

7.6 The Housing Revenue Account is a balancing act between the income raised through rent, the revenue expenditure to support the tenants, and necessary capital investment to support and modernise existing council housing stock and deliver new Council homes. To support this ambition, the financial strategy must ensure that financial plans remain affordable and sustainable both for existing and future tenants.

7.7 Given this ambition, the financial strategy for the HRA will continue to focus upon the following;

- Review the existing rental levels, to ensure consistency across the housing stock where relevant, and ensure rental income and any future rental increase remains affordable for tenants whilst benchmarked against national average;
- Continue to constrain cost growth – through effective demand management continuous review of all expenditure commitments, good financial control by managers and by effective negotiation with suppliers and focusing spend in line with agreed priorities whilst maintaining high quality service delivery for Council House tenants;
- Ensure that the HRA can sustainably support the ambition set out in the Strategic Housing Investment Plan, working with RSL partners to deliver the affordable housing needs across East Lothian, and maximise subsidy opportunities to support capital investment;
- Ensure capital investment is prioritised to support statutory requirements, such as Scottish Housing Quality Standards and EESSH (Energy Efficiency Standard in Social Housing);
- Recognise the challenges faced by the global health pandemic, aligning targeted intervention which best supports tenants in the immediate short term, whilst supporting the longer term ambitions;
- Reduce rent arrears, ensuring targeted and flexible support is provided to tenants to who are experiencing financial difficulties;

- Delivering a new housing management system, which will provide an integrated management system designed to support and improve forward planning and customer service;

- Ensure that the Council stays within the recommended upper limit for the ratio of debt charges to income of 40%, maximising the in-year use and application of capital receipts, available capital grants, and any flexibility arising from revenue balances, in order to minimise the future impact of debt charges. This limit maintains an appropriate long term balance between the various elements of the HRA budget;

- Support contingency planning, ensuring that the reserve or balance left on the HRA should not fall below £1.0 million. This will allow the Council to maintain a cushion against any unexpected increase in costs or loss of income. Given the uncertainty that exists over the timing and scale of capital investment in new affordable housing, there is no upper limit on reserves.

8 Financial Management

8.1 The Council's current external operating environment is very dynamic and subject to constant change. The continuing impact of COVID has required the Council to support and deliver significant change and has created significant financial challenges for the Council to manage. The financial performance relative to approved financial plans is kept under constant review, and this is supported by regular financial monitoring and scrutiny reports provided to Council.

8.2 As part of our normal financial management support service, monthly and quarterly performance reports are issued to managers with budget responsibility and in addition to that, the overall finances of the Council are subject to detailed annual independent audit review.

8.3 The need for continued application of enhanced cost control measures remains a vital discipline that all managers should continue to operate, demonstrating effective stewardship and application of council funds at all times.

8.4 It is vitally important that through the Council Management Team (CMT), the Council maintains a disciplined approach to the implementation of its change programme and does everything possible to deliver the financial efficiencies planned in accordance with that programme and the supporting budgets. Heads of Service will be required to manage expenditure commitments within approved budgets and if at any time spending pressures are not containable within the Business Group, the relevant Service Manager should report this to their Head of Service and Depute Chief Executive who has the flexibility to manage budgets across various business groups.

8.5 Should this not prove possible, the Chief Financial Officer can ask Heads of Service to prepare a cost recovery plan, which will seek to demonstrate actions, designed to bring the budgets back into financial balance. Cabinet/Council may be asked to reconsider the policies applying within that Group with a view to reducing services and costs or increasing charges and income. If this cannot be achieved, then the Council may be asked to approve policy changes elsewhere that will yield the necessary savings through service reductions or increased charges.

8.6 Although the Financial Strategy quite properly covers the 5 year period until 2025-26, the Strategy will be subject to an annual refresh to ensure that it remains relevant and enables the Council to respond to any future financial challenges to ensure its on-going sustainability.

9 Summary

9.1 Unquestionably the Council is continuing to operate with a very uncertain financial and economic environment. In support of the continuing global health crisis caused by COVID, the Council has experienced unprecedented levels of need amongst the communities we serve. This in turn has created significant financial challenges in the immediate short term for the Council to manage, but will also create a degree of opportunities to change the way in which we support and deliver services going forward.

9.2 The strategy must find a way of bridging the immediate financial imperatives and continuing to support the approved future direction of the Council. The Council plan has the ambition to reduce inequalities and create a more prosperous, safe and sustainable East Lothian. To achieve this, the Council must continue to embrace inclusive growth and both the benefits and challenges it brings, but it must also ensure that it can continue to deliver essential core statutory services against the backdrop of significant economic uncertainty.

9.3 It is recognised that there are a wide range of risks and variables facing the Council, and there is a need to ensure that the Council has sufficient financial resilience to satisfy delivery of approved outcomes whilst ensuring future financial sustainability. It is now clear that the level of future resources available to the Council will not be sufficient to meet future demand and pressures, and as such, the way in which we deliver services to the community must change.

9.4 To achieve this, the Council must embark on an enhanced programme of transformational change, which embraces digital technology and continues to support Council plans. To protect the delivery of vital essential services, the Council must do all that it can to maximise revenue income streams available, and to support economic growth and achieving wider aims and outcomes, the Council must accelerate a review of all Council assets, which will seek to minimise future revenue costs, and maximise future capital investment.

9.5 The financial strategy set out will assist the Council in meeting the future financial challenges ahead. It is recognised that the wider economic uncertainty and potential scale and significance may mean that the Council must prioritise its resources to deliver and support essential services, and this may in turn require some difficult decisions and choices ahead.