

EAST RENFREWSHIRE COUNCIL  
AUDIT AND SCRUTINY COMMITTEE

12 March 2020

Report by Clerk

NATIONAL EXTERNAL AUDIT REPORT – LOCAL GOVERNMENT IN SCOTLAND  
FINANCIAL OVERVIEW 2018-19

**PURPOSE OF REPORT**

1. To provide information on the Audit Scotland report *Local Government in Scotland Financial Overview 2018-19*.

**RECOMMENDATION**

2. It is recommended that the Committee considers the report.

**BACKGROUND**

3. A copy of the Audit Scotland report [Local Government in Scotland Financial Overview 2018-19](#), published in December 2019, has already been circulated to all Audit and Scrutiny Committee Members. Under the Committee's specialisation arrangements, the Members leading the review of this particular report are Provost Fletcher and Councillor Ireland. The Head of Accountancy (Chief Financial Officer) has provided comments on that report and a copy of those comments is attached (see Appendix A).

**RECOMMENDATION**

4. It is recommended that the Committee considers the report.

Local Government Access to Information Act 1985

Report Author: Linda Hutchison, Clerk to the Committee (Tel.No.0141 577 8388)  
e-mail: [linda.hutchison@eastrenfrewshire.gov.uk](mailto:linda.hutchison@eastrenfrewshire.gov.uk)

Background Papers:-

1. Audit Scotland Report – Local Government in Scotland Financial Overview 2018-19.

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EAST RENFREWSHIRE COUNCILAUDIT and SCRUTINY COMMITTEE12 March 2020LOCAL GOVERNMENT IN SCOTLAND: FINANCIAL OVERVIEW 2018/19

## INTRODUCTION

1. In December 2019 Audit Scotland prepared a financial overview report of local government in Scotland. This report advises members on the Council's position in relation to the findings from the report.

## COUNCILS' INCOME IN 2018/19

2. Part 1 of the report considered Councils' Income in 2018/19 and found that total revenue income rose by 2.3% between 2017/18 and 2018/19. The largest element of this income is Scottish Government revenue funding, which increased by 1.1% (reduced by 0.7% in real terms) in 2018/19. A growing proportion of this funding was committed to national policy initiatives.

3. Scottish Government revenue funding for local government has fallen by 7.3% in real terms since 2013/14, whilst funding for other areas fell by only 0.4%. This has resulted in Councils having to raise more funding themselves through Council Tax and charges or to identify additional savings. All Councils raised Council Tax by the maximum permissible 3% in 2018/19.

4. The Scottish Government distributes around 2/3 of its funding to Councils using the Grant Aided Expenditure methodology, which takes account of factors such as population, deprivation, crime and rurality. In recent years East Renfrewshire has increased its share of the national grant funding as our population was rising faster than most other authorities. This trend has now changed as Council areas in the east are experiencing significant increases in house building at the same time as grant allocations are taking more cognisance of deprivation, crime and rurality factors which are not prevalent in East Renfrewshire. The remainder of funding is distributed using a variety of other methodologies agreed by the Scottish Government and COSLA. From 2020/21 details of these methodologies will be published in the annual Green Book document to improve transparency.

5. The increasing commitment of funding to national policy initiatives is reducing local flexibility for Councils. COSLA estimates that around 60% of Council operations (e.g. teachers, adult social care, PFI/PPP etc.) is effectively ring fenced or protected in 2019/20. This increases pressure for savings on other Council services.

6. In comparison to other Councils, East Renfrewshire receives a relatively low level of income from grants and NHS funding. This is likely to reflect the relatively low levels of deprivation in this area.

## COUNCILS' FINANCIAL POSITION IN 2018/19

7. Overall, Scottish Councils faced a 2018/19 funding gap of 3%. East Renfrewshire was similar to this at 3.2%.

8. The Council planned to make some £4.830 million savings in 2018/19 and achieved this target. We expect £3m of savings each year to be achieved from efficiencies or as a result of our transformation programmes which modernise processes, systems and structures across all Council services.

9. In common with many other councils, East Renfrewshire also drew on reserves to balance the budget in 2018/19. As our unallocated general reserve was at a healthy level (4% of revenue budget) we agreed to utilise £1.5 million to assist with the budget gap in 2018/19. This represented almost 19% of the budget gap. In 2019/20 utilisation of £4.312 million of reserves was also budgeted (28% of the budget gap), with a further £1.5 million committed in 2020/21 to help address budget pressures. It is estimated that this would leave the unallocated general reserve level at 2.6% at 31 March 2021, still within the acceptable 2-4% range. This will be reviewed in setting the 2020/21 budget.

10. In closing the 2018/19 accounts half of Scottish Councils reported a reduction in their overall level of reserves. East Renfrewshire maintained or increased the level of most of its reserves during the year, but did make a planned draw of over £8 million on its capital reserve to support its school building programme.

11. East Renfrewshire Council sets out its plans for each reserve in its Revenue Estimates report to Council each year at the Council Tax setting meeting. In addition, the Council's Reserve Policy is reviewed every three years.

12. Reserves cannot be used indefinitely to avoid taking savings. The Council recognises that permanent savings plans must be identified to address savings gaps in the long term.

13. In terms of capital expenditure, the report notes that the proportion of expenditure across Scotland is rising on housing and economic development and falling on education projects. East Renfrewshire is also committing to more capital investment in new housing stock (a total of more than 240 new Council homes (8% increase) planned) and in economic development projects such as City Deal but we are also continuing to spend more on education, with Maidenhill Primary School completing in 2019/20 and £25 million of investment in Early Learning and Childcare underway.

14. Council Directors and the Corporate Asset Management Group have recently reviewed our capital programme and project management arrangements so as to minimise slippage and improve forecasting. Some slippage is, however, outwith Council control as some schemes can only proceed once utility company or Scottish government processes are complete.

15. Whilst some funding for capital projects comes from government grants, developers' contributions and capital receipts from selling assets, the majority of capital expenditure in East Renfrewshire is funded by borrowing. This has to be carefully monitored as the debt repayments impact on the revenue budget.

16. Audit Scotland report that net debt is rising across Councils. This will also be true of East Renfrewshire in future, given our ambitious capital plans, however in 2018/19 the Council is shown to be third lowest in Scotland in terms of debt as a percentage of annual revenue budget. Debt repayment charges are reviewed annually and action taken to ensure these are kept as low as possible. Interest rates are currently low and are expected to remain so for the next year or two and the Council took on all £20 million of its 2019/20 planned borrowing prior to the recent 1% increase in Public Works Loan Board (PWL) rates.

17. The report comments on Glasgow City Council's plans to address its outstanding equal pay claims. East Renfrewshire has settled all such claims and has no outstanding liabilities in this respect.

18. The increase in employers' pension liabilities as a result of the McCloud case is also covered in the report. This arose as a result of some transitional protections associated with 2015 pension fund changes being ruled unlawful. The impact on East Renfrewshire is relatively small and was reflected in our balance sheet for 2018/19. We do not expect any direct revenue consequences for the Council.

19. All Councils need to keep their staffing structures under review in order to maximise efficiency and deliver savings. The auditors report that some Councils' business cases in support of severance packages do not always demonstrate payback over a reasonable period. The Scottish Government recommends that the severance (redundancy) costs should be covered by salary savings within 2 years. East Renfrewshire's business cases apply a tougher test, in that both redundancy and "strain on the fund" costs associated with early retirements have to be covered by salary savings within 3 years. Our severance cases over the last few years have been checked and all of these also comply with the Scottish Government's recommendation.

20. In terms of the ongoing liabilities payable to the pension fund annually for enhanced pension commitments granted in the past to early retirees, East Renfrewshire is listed as being one of the 10 Councils with the lowest level of liability.

21. Overall explanations of a Council's strategic priorities, key risks and financial and operation performance should be set out in the Management Commentary include in the annual accounts each year. East Renfrewshire believes that we comply with the requirements and indeed we have been cited by Audit Scotland as demonstrating some exemplary practice, but will continue to review and implement the guidance issued each year with a view to improving transparency in future.

## COUNCILS' FINANCIAL OUTLOOK

22. Whilst total revenue funding to Councils in 2019/20 increased by 0.9% in real terms (2.9% cash terms), this resulted in increased savings for most Council services, largely due to above inflation pay awards and to the new duties that had to be delivered as part of the funding package.

23. East Renfrewshire plans its detailed revenue budgets on a 3 year cycle, with the first year fixed and the following years set on an indicative basis. In recent years this has been rendered more difficult as UK and Scottish Government settlement figures have been provided only on a single year basis. It is hoped that national multi year settlements will be published from 2021/22 onwards.

24. Departmental planning figures for Outcome Delivery Plan purposes are produced by the Council on a 3 yearly rolling basis to enable medium term planning. These include forecasts of government grant levels, loan charges, inflation and any departmental expenditure pressures. The Council also publishes its updated higher level financial plans, including consideration of possible scenarios for the coming 6 years, as part of the Council budget process each year. These plan takes into account economic forecasts and any medium/long term plans published by the Scottish Government.

25. In setting budgets for 2019/20 it is recognised that Councils faced particular pressures due to the above inflation pay award and the continuing demographic pressures, largely related to an ageing population. These contributed to typical funding gaps of between

2 and 4% for the year. In East Renfrewshire the position was more severe with a 6% funding gap. This higher gap reflects a number of factors including the decision to use reserves rather than identify savings to address the full gap the previous year and costs associated with opening new school and nursery facilities at Maidenhill and St. Cadoc's.

26. The report uses East Renfrewshire as an example of how Councils use a mix of different means to close their funding gaps. We addressed 61% of our 2019/20 funding gap through savings, 28% from use of reserves and 11% by increasing Council Tax. Nationally the respective proportions were 69%, 13% and 17% respectively.

27. Councils include increases in charges as a means of addressing funding gaps. In 2019/20 East Renfrewshire was one of 13 Councils who chose to increase Council Tax by 3%. The remaining 19 Councils opted for larger increases, with 12 applying the maximum 4.79% uplift.

28. East Renfrewshire also reviews all other charges for services annually and expects to increase these by inflation unless this would have a detrimental impact. More recently, a review into income generation has been undertaken, overseen by the Audit & Scrutiny Committee. The Council has no plans, however, to apply a Transient Visitor Tax or Workplace Parking Levy.

29. A further area of financial and operational uncertainty, relating to Brexit, was also highlighted in the report. East Renfrewshire has appointed a co-ordinator who works with relevant services and our Crisis Resilience Management Team to prepare for a range of scenarios.

#### INTEGRATION JOINT BOARDS OVERVIEW 2018/19

30. Part 4 of the report provides an overview of Integration Joint Boards for 2018/19 and the key messages along with East Renfrewshire's Health and Social Care Integration Joint Board (IJB) position are set out below:

31. Overall IJB budgets increased by 3%. East Renfrewshire IJB budget for 2018/19 (excluding grant funded and set aside) was £114.2m compared to the 2017/18 budget of £111.3m, so increased by 2.6%.

32. Nationally the budget gap reduced from 2.9% to 2.5%. For East Renfrewshire IJB the savings challenge in 2018/19 was £1m compared to £4.4m in 2017/18.

33. A majority of IJBs struggled to achieve break even and 19 would have been in deficit without additional funding from partners at year end. East Renfrewshire IJB ended the financial year with a modest underspend of £0.3m.

34. Around a third of the IJBs failed to agree a budget with their partners for the start of 2019/20; East Renfrewshire IJB agreed its budget on 20 March 2019 with budget contributions from both partners identified.

35. A focus on long term financial planning is required by IJBs to assist effective decision making; East Renfrewshire IJB agreed its Medium Term Financial Plan covering the period 2019/20 to 2023/24 at its meeting of 20 March 2019.

36. The projected funding gap in 2019/20 is estimated nationally at 2.5%; East Renfrewshire IJB savings target is 3.2% of the total partner contributions excluding set aside and grant funding.

37. Over a third of IJB senior staff have changed in 2018/19; East Renfrewshire IJB revised its structure from the top down, in order to achieve part of the 2017/18 savings. It was recently agreed that a senior post be added back to the structure in order to meet the capacity constraints and challenges faced by the HSCP.

**CONCLUSION**

38. The report outlines the main issues facing Scottish Councils in 2018/19. Overall East Renfrewshire is well placed in terms of addressing these but will continue to face substantial financial challenges in future.

**RECOMMENDATION**

39. The Committee is asked to consider and note the contents of this report.

Margaret McCrossan, Head of Accountancy, 5 February 2020

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