AGENDA ITEM No. 8

EAST RENFREWSHIRE COUNCIL

26 February 2025

Report by Head of Finance (Chief Financial Officer)

MEDIUM TERM FINANCIAL STRATEGY 2025 - 2030

PURPOSE OF REPORT

1. The purpose of this report is to provide an update on the financial outlook facing the Council and seek approval of Medium Term Financial Strategy covering the five years from 2025/26 to 2029/30, attached as an appendix.

RECOMMENDATIONS

2. It is recommended that the Council:

- note the financial outlook, budget projections and key assumptions for financial planning from 2025/26 to 2029/30, set out within the appendix; and

- approve the Medium Term Financial Strategy 2025 – 2030.

BACKGROUND

3. East Renfrewshire Council has undertaken long-term financial planning for many years, which has included producing a Financial Planning document each year, forecasting financial resource levels for the next six years. Traditionally this document has been presented at the annual budget meeting, with the last document approved on 28 February 2024.

4. Capital planning is undertaken over a rolling ten-year period, reflecting the contents of the Capital Investment Strategy, and the need to plan infrastructure over a longer period. The Capital Investment Strategy covers the period 2024 – 2034, and was last updated in February 2024.

5. The Council has also previously had a separate Reserves Policy, which is required to be reviewed and approved no less frequently than three yearly by the Council. This policy was last approved on 28 February 2024.

6. This year, the Financial Planning document has been refreshed to form the Medium Term Financial Strategy (MTFS) 2025 – 2030.

7. The MTFS sets out the Council's strategic approach to the management of its finances and the wider context within which these plans have been developed. It also links with the Community Planning Partnership's shared vision, set out in 'A Place to Grow', which was approved in September 2024.

8. The strategy will be used as the framework for setting detailed budgets to ensure these resources are effectively managed and allocated to enable the Council to meet its statutory responsibilities and deliver on key priorities.

9. This strategy also includes the Council's reserves policy, which will no longer be presented as a separate document. This policy will be updated and approved annually as part of the annual update of the MTFS.

10. The Council's agreed financial policy states that "the Council will make spending decisions based on an assessment of medium to long-term needs and consequences, and will seek to avoid taking a short-term outlook in its policy making, service planning and budget setting decisions." Whilst it is intended that the Council adopt a longer-term budgeting approach in future, the lack of multi-year budget information from the Scottish Government has resulted in the Council having to set only a single year budget for 2025/26, accompanied by high level projections covering the four years to 2029/30, which are set out in the MTFS.

FINANCIAL OUTLOOK

11. This Council continues to face financial challenges. As one of the fastest growing Councils in Scotland, there are increasing demands for Council services which have not been matched by real terms funding increases over the last decade. In addition to this, as with all public bodies, the Council has seen the cost of delivering services increase significantly as a result of high inflation, rising interest rates and the impact of turbulence in global markets on areas such as energy and construction. Whilst the 2025/26 settlement was better than expected, local government continues to face uncertainty surrounding future funding settlements. This is compounded by the service pressures the Council continues to face as a result of factors such as the cost of living crisis and demographic change.

12. The Council receives a significant proportion of its funding from the Scottish Government. The UK Government made its autumn Budget Statement on 30 October 2024, and advised that a multi-year spending announcement covering the period 2026 to 2030 is anticipated in spring 2025. The Scottish Government 2025/26 Budget was published on 4 December 2024, with the draft local government finance settlement issued on 12 December 2024. The budget contains details of a one-year settlement covering 2025/26 only, which means that uncertainty remains from 2026/27 onwards. Given the ongoing pressure on the Council's finances, it is likely that the gap between available resources and the cost of delivering Council services will not be met by Scottish Government funding alone, meaning that the Council will need to find ways to further reduce its cost base, grow income streams and increase Council Tax to close the gap.

13. This MTFS sets out the budget projections for the next five years and reflects an anticipated cumulative funding gap of £12.8m by 2029/30, on the basis of an assumed 8% Council Tax increase in 2025/26 and a 3% increase each year thereafter, but before application of any new savings or drawdown from general reserves in these years.

14. The Council has a good track record of making savings and has achieved recurring savings of £34.22m in the last six years. As a result of this, it will not be possible to close future budget gaps through efficiencies alone. Reduced resources will need to be directed to provide maximum impact, deliver the Council's 'Place to Grow' vision and improve financial sustainability.

MEDIUM TERM FINANCIAL STRATEGY

15. The key areas in the strategy include:

- the current economic context, including information arising from the UK Government Autumn Budget Statement in October 2024 and the Scottish Budget announcement in December 2024;
- the local context in which the Council is operating;
- financial scenario planning and key assumptions setting out the projected revenue funding gap over the next five years;
- an updated reserves position and policy; and
- the strategy to close the projected funding gaps over the medium-term.

16. The strategy will be updated on an annual basis.

CONCLUSIONS

17. In view of the financial and demand pressures facing the Council over the next five years, it is essential that this financial strategy is updated regularly for consideration by the Council. This is in line with the Council's agreed financial policy of basing decisions on an assessment of medium to long-terms needs and consequences.

RECOMMENDATIONS

18. It is recommended that the Council:

- note the financial outlook, budget projections and key assumptions for financial planning from 2025/26 to 2029/30, set out within the appendix; and
- approve the Medium Term Financial Strategy 2025 – 2030.

Further information is available from K Stanners, Head of Finance, phone 0141 577 3035.

EAST RENFREWSHIRE COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2025 – 2030

February 2025

1. Introduction

1.1 The Financial Strategy sets out the Council's strategic approach to the management of its finances and the wider context within which these plans have been developed. It also links with the Community Planning Partnership's shared vision, set out in 'A Place to Grow', which was approved in September 2024. The strategy will be used as the framework for setting detailed budgets to ensure these resources are effectively managed and allocated to enable the Council to meet its statutory responsibilities and deliver on these key priorities.

1.2 This strategy covers the five-year period from 2025/26 and has been developed in the context of the continuing financial challenge faced by the Council. As one of the fastest growing Councils in Scotland, there are increasing demands for Council services which have not been matched by real terms funding increases over the last decade. In addition to this, as with all public bodies, the Council has seen the cost of delivering services increase significantly as a result of high inflation, rising interest rates and the impact of turbulence in global markets on areas such as energy and construction. Whilst the 2025/26 settlement was better than expected, local government continues to face uncertainty surrounding future funding settlements. This is compounded by the service pressures the Council continues to face as a result of factors such as the cost of living crisis and demographic change.

1.3 The Council receives a significant proportion of its funding from the Scottish Government. The UK Government made its autumn budget statement announcement on 30 October 2024, and advised that a multi-year spending announcement covering the period 2026 to 2030 is anticipated in spring 2025. The Scottish Government 2025/26 budget was published on 4 December 2024, with the draft local government finance settlement issued on 12 December 2024. As with previous years, the national funding settlement will remain in draft until it passes through the parliamentary scrutiny process in the Scottish Parliament. The final position is likely to be confirmed towards the end of February 2025. The budget contains details of a one-year settlement covering 2025/26 only, which means that uncertainty remains from 2026/27 onwards. Given the ongoing pressure on the Council's finances, it is likely that the gap between available resources and the cost of delivering Council services will not be met by Scottish Government funding alone, meaning that the Council will need to find ways to further reduce its cost base, grow income streams and increase Council Tax to close the gap.

1.4 The Council has a good track record of making savings and has achieved recurring savings of £34.22m in the last six years. As a result of this, it will not be possible to close future budget gaps through efficiencies alone. Reduced resources will need to be directed to provide maximum impact, deliver the Council's 'Place to Grow' vision and improve financial sustainability. The following principles will guide the delivery of detailed budgets over the lifespan of this plan.

1. Continuation and support from the cross-party Budget Strategy Group (BSG) to oversee the development of detailed budget proposals.

2. Commitment to developing an approach, which is aligned to this financial strategy, which combines a range of options to close the gap between available funding and the anticipated cost of delivering Council services. These options will include initiatives related to transformation, service redesign and digitisation, increased income generation, asset rationalisation and energy efficiency, early intervention and prevention, and service reductions.

3. An approach to budget development which strengthens the relationship between capital and revenue planning and expenditure, ensuring the revenue implications of capital are accounted for in medium-term financial planning when decisions are taken, and the role of investment in cost reduction strategies.

4. Commitment to minimising the use of one-off resources to balance the budget, focusing on using reserves for investment in initiatives which will provide cost reductions, or deliver specific investment in delivering the Council's priorities.

5. Ensuring alignment of financial planning and resources with wider strategic priorities, including the 'Place to Grow' vision.

This strategy will support financial sustainability by:

- Outlining financial projections for 2025/26 and high level financial projections from 2026/27 to 2029/30 based on a range of key assumptions.

- Setting out the wider economic context and external factors which will impact financial planning and available resources.

- Ensuring that available resources are focused on delivery of the partnership and Council's vision, 'Place to Grow', as well as the key priorities set out in the Council's strategic plans and their associated outcomes.

- Provide a financial planning platform for the development of a sustainable revenue budget over the medium-term which will support the Council's key priorities.

- Documenting the range of challenges and uncertainties facing the Council and setting out the approach to responding to these challenges.

- Setting out the Council's approach to holding and utilising balances and reserves, ensuring that there is an appropriate balance between risk management and investment.

- Increasing the awareness and understanding of the Council's financial position and challenges, both within the organisation and across the wider community.

1.5 This document covers the financial planning period to 2029/30 for the General Fund revenue budget and the Housing Revenue Account (HRA). It should be read in conjunction with the Council's Capital Investment Strategy, which covers the period 2024 to 2034, which sets the framework for the Council's capital expenditure plans and the governance arrangements for the capital programme. The Capital Investment Strategy was last updated in February 2024 however a refresh of this document will be undertaken across spring 2025, before being brought to Council for approval in early autumn 2025. It should also be read in conjunction with the Strategic Housing Investment Plan 2025 – 2030.

2. Current Economic Context

2.1 As with all Scottish local authorities, the Council continues to operate in challenging financial circumstances. Whilst inflation (CPI) has fallen to 2.5% in December 2024 after peaking at 11.1% in 2022, the significant increase in the costs of service delivery and capital investment continues to impact on the Council's financial sustainability.

Inflation rates remain changeable and stubbornly above the Bank of England's target of 2%. As a result of this stubborn inflation, alongside the impact of the 30 October UK Budget and other global events, such as the US Presidential election on 6 November 2024, the current forecast from the Council's treasury management advisors, MUFG Pensions and Markets Services (previously Link Group) shows that interest rates are expected to remain over 4.25% until autumn 2025, before falling slightly into 2026 and 2027.

2.2 The UK has been impacted by the ongoing global turbulence and uncertainty, with wars in Ukraine, the middle east, as well as the aftermath of the Covid-19 pandemic and the ongoing effects of Brexit. These factors have caused instability in the financial markets, as well as driving the high inflation noted above.

2.3 The cost of essential items like food and energy have increased substantially in the last five years, impacting households and businesses alike, requiring difficult decisions to limit spending. The cost increases also impact the public sector and has seen government spending plans squeezed.

2.4 Within the capital programme, the capital grant that the Council receives from Scottish Government has reduced in recent years, whilst the requirement for investment in infrastructure and assets remains significant. As a result, the majority of expenditure is funded through borrowing. Higher interest rates mean that borrowing is less affordable than five years ago. High inflation and global turbulence mean that the costs of previously approved capital budgets are increasingly not sufficient and need to be revisited. These factors have resulted in growth of the Council's capital financing requirement by 58.7% from £203.05m in 2019/20, to a projected £322.24m by 2024/25. It is expected to grow by a further 34.7% to £434.03m by 2030 based on current capital plans.

2.5 At the UK Autumn Budget and Spending Review on 30 October 2024, the Chancellor announced increases in UK public spending worth around £70bn per year and confirmed updated Block Grant funding total for the Scottish Government. It will receive additional Barnett Consequentials of around £3.4bn across 2024/25 and 2025/26. In 2024/25, resource funding will increase by around £1.4bn in cash terms, and capital funding will increase by around £70m. The Cabinet Secretary for Finance and Local Government in the Scottish Government announced that this funding was in line with expectations and would be used to support the costs of the 2024/25 public sector pay settlements.

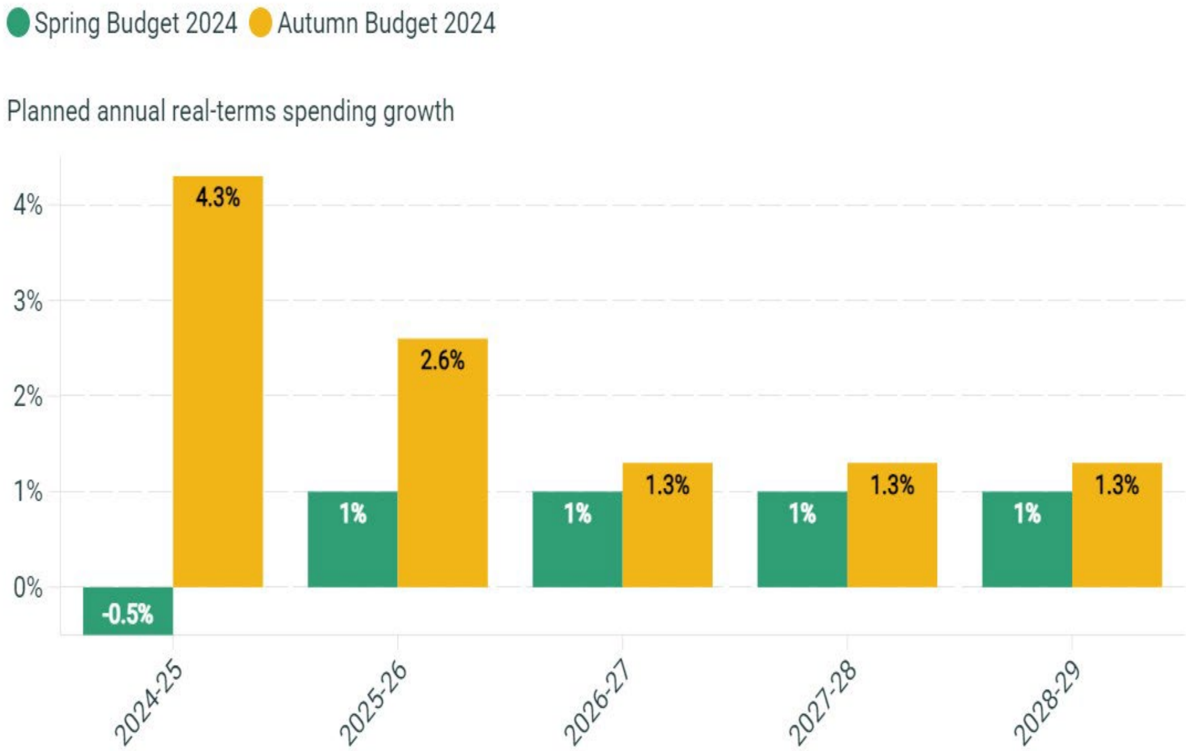
2.6 In 2025/26, Scottish Government resource funding will increase by a further £1.4bn and capital funding by around £600m. This represents a cash increase in resource funding of 3.4% compared to 2024/25. Controlling for inflation, this is a real terms increase of around £400m or around 1.0%.

2.7 In order to deliver on spending plans, the Chancellor increased the rate and starting point at which employers pay National Insurance Contributions of employee pay from April 2025. An initial estimate of the direct cost to the public sector in Scotland is around £500m in 2025/26, with any knock-on additional costs from providers of commissioned services over and above this. Funding for this change has not been included in the Scottish Government Resource Block Grant for 2025/26. HM Treasury have confirmed that an exercise will be undertaken to calculate the direct cost for the public sector and further funding will be provided at the UK Main Estimate in spring 2025. However, it must be noted that the public sector in Scotland in larger and relatively better paid than in the UK as a whole and there is a significant risk that any Barnett Consequential funding for this increase will not be sufficient to cover the full direct cost for Scotland.

As per guidance from Scottish Government, a planning assumption has been made that the Council will receive funding to the equivalent of around 60%, subject to local distribution, of the direct cost for Council and IJB staff, and the remainder of the cost of the increase is a budgetary pressure. The potential increase from commissioned services will be identified as a risk which will need to be managed within the overall budget.

2.8 Detailed analysis of the UK Budget has been undertaken by the Institute for Fiscal Studies[1] (IFS). In terms of the resource (day-to-day) budget, Figure 1 illustrates the front-loaded nature of it and the anticipated reduction in the growth rate after 2025/26. This is what leads the IFS to believe that further funding will be needed in these later years, possibly coming as soon as the Spending Review in spring 2025.

Figure 1 – Real terms day-to-day spending growth from 2024/25 to 2028/29



2.9 In terms of overall spending, there are marked changes between spending growth set out in the Spring Budget (0.5% for 2024/25) and the Autumn Budget (4.3%). However, this growth in expenditure is front loaded up to the end of 2025/26, where it stabilises at 1.3% thereafter. This £3.4bn of Barnett Consequentials has provided some additional capacity for the Scottish Government.

2.10 The Scottish Government announced its budget on 4 December 2024, with the draft local government finance settlement issued on 12 December 2024. In her speech, the Cabinet Secretary for Finance and Local Government made commitments to renew public services and invest in the nation's priorities. This includes an increase in Local Government Funding by over £1bn from 2024/25 levels, including a £289.3m increase in the General Revenue Grant which has been provided without direction or ring-

[1] Autumn Budget 2024 | Institute for Fiscal Studies

fencing. Final confirmation of the 2025/26 Scottish Budget will not be available until all parliamentary stages are completed at the end of February 2025. The Council's indicative individual share of the draft Local Government settlement for 2025/26 is better than was planned for. Notwithstanding the overall increase in funding, much of the additional funding comes with additional spending commitments and, overall, it is not sufficient to close the Council's budget gap over the medium-term. This means that the Council will continue to have to make difficult decisions around where to prioritise and direct resources in future years.

2.11 The most recent Scottish Government Resource Spending Review, published in May 2022, included a commitment to agree a new deal for local government in Scotland. This led to the signing of the Verity House agreement in 30 June 2023, which set out a framework for collaboration between Scottish Government and Local Government to empower local communities, tackle poverty, transform the economy and provide high-quality public services.

2.12 As part of the Verity House agreement, officers from the Convention of Scottish Local Authorities (COSLA) are exploring potential options for a 'Rules Based Fiscal Framework' to deliver a long-term financial relationship between Scottish Government and Local Authorities that promotes stability, certainty, transparency, affordability and sustainability. Once implemented, this framework could see Councils receiving a fixed percentage of Scottish Government's budget, however it would not include a review of distribution of funding across Scottish Councils. There are both risks and potential rewards from such an arrangement, however a final decision around this will not be taken until after a proposed 'shadow year' of operation during 2025/26, with the earliest potential implementation in 2026/27. This framework could have significant long-term implications for how the Council is funded. However, given the early stage of testing this proposal, any potential impact will have to be built into future iterations of this strategy.

3. Local Context

Demography

3.1 East Renfrewshire, as with Scotland as a whole, is facing profound changes to its demography. Reporting following the 2022 Census shows that since 2011, the population in East Renfrewshire has grown by 6.9% to 96,817 in 2022. This is the fourth largest increase of any Scottish local authority over this period. Much of this increase in the population has been driven by net inward migration, with the highest proportion of entrants entering being between 30 and 45.

3.2 Nationally, the overall population is aging, and the numbers of people aged 16 and under are decreasing. This is not the trend in East Renfrewshire, with the proportion of young people in the area having increased by 7.6% between 2011 and 2022. East Renfrewshire has the highest proportion of young people (0-19) of any local authority area (24.6% in 2022). This is reflected in occupancy rates in East Renfrewshire's nurseries, primary and secondary schools, with schools at 88.3% occupancy levels. There are 15 establishments where the school roll is in excess of 90% of its planned capacity.

3.3 Further new education places will be required as a consequence of ongoing and planned new residential development and inward migration to the authority. This includes the need to increase the very specialist places for the most vulnerable children and young people as more families move into the area to access this widely recognised and valued specialist provision. Projections also show the children and young people cohort continues to grow over the next 25 years, which will produce increasing demand for early learning and childcare, primary and secondary school places in the coming years.[2]

3.4 Despite having the highest proportion of young people in the area, the number of older people in the area as a percentage of the population is also increasing. Between 2011 and 2022, the number of people aged over 70 in East Renfrewshire has grown by 27.6%. By 2043, almost one quarter of East Renfrewshire residents will be aged 65 or over.[3]

3.5 In recent years, the number of people aged over 85 needing key services has been rising. This will continue to have an impact on demand for Council services because the number of people aged 85 and over is expected to grow at a faster rate than the rest of the population. On this basis, it is expected that the number of people with a need for home care or residential care will steadily increase year on year.

3.6 The 2022 Census states that East Renfrewshire had 39,732 households. This is an increase of over 2,500 since the last census in 2011. The area also continues to have the largest average household size in Scotland.

3.7 The Council's financial plans reflect the expectation of additional income from Council Tax due to an increase in the number of dwellings. However, any increase is dampened by a decrease in Government Grant as an estimate of Council Tax income is part of the calculation of General Revenue Grant from the Government.

3.8 In terms of changes to the Council's General Revenue Grant allocation moving forward, in the draft 2025/26 allocation, the impact of East Renfrewshire's demographics, changes to distribution formulas and a reduction in the Floors adjustment[4], saw the Council's overall share of Grant Aided Expenditure (GAE) increase from 1.88% in 2024/25 to 1.91% in 2025/26, which was better than planned for.

3.9 Whilst the changes to the distribution and the Floor are positive, they are not sufficient to address the demographic factors outlined above, nor the impact of external factors including high inflation, higher interest costs, cost of living challenges, economic challenges and the previous years of constrained public sector budgets,

3.10 A comprehensive summary and analysis of the changing demographics of East Renfrewshire can be found in the Council's Planning for the future of East Renfrewshire report, which is updated bi-annually.

A Place to Grow

3.11 The Council and Community Planning Partnership has a long-term strategic framework in place that ensures a shared partnership vision and alignment of strategic priorities. The Community Plan, 'A Place to Grow' was approved in September 2024, setting the partnership's vision for the period to 2040. The vision is based on three strategic pillars, which refocus and prioritise the previous five strategic outcomes.

[2] NRS 2018-based household projections, published March 2020
[3] NRS 2018-based population projections, published March 2020
[4] The Floors adjustment is the mechanism designed to limit the level of grant reduction that any Council with falling demographics can bear.

The ambitions set out in the pillars are:

- **Our children and young people flourish:** every child and young person, regardless of background or circumstance, will fully flourish on their journey to adulthood.

- **Our communities and places thrive:** we will be an inclusive, connected and green place, with a fair, sustainable and healthy local economy, that our residents are proud to call home.

- **We all live well:** everyone can live well at all stages of life and communities will take the lead in driving change for good health and wellbeing.

3.12 Work will continue to develop a detailed Place to Grow three-year delivery plan, that will replace the current Fairer East Ren (Local Outcome Improvement Plan) and organisational development Plans. This is expected to be considered in April 2025. Action will also be taken to align the Council's medium-term planning framework to the priorities underpinning these ambitions.

3.13 As the work underpinning the 'Place to Grow' vision continues, future iterations of this strategic vision will support aligning the Council's financial planning to the achievement of these key priorities.

<u>Local Development Plan</u>

3.14 The Council has an approved Local Development Plan 2 (LDP2), which was formally adopted in March 2022. This is the Council's key strategic land use planning document and addresses the housing need identified in East Renfrewshire, as part of the wider Glasgow City Region.

3.15 This plan is currently being updated, reflecting National Planning Framework guidance (NPF4) and wider requirements. As part of this process, the Council approved an initial evidence report for LDP3 in September 2024. This sets out the future housing estimates for East Renfrewshire as a requirement for 5,876 new homes over the next

19 years (310 homes per year), with around 700 (37 homes per year) of these needed for social renting, and a further 600 (32 homes per year) for mid-market rent or alternative affordable housing tenures.

3.16 It is estimated that the population of East Renfrewshire will be 101,230 by 2028, and will grow to 107,971 by 2043, if trends continue. This will continue to bring changes to the demography of the area, with significant growth in school age children and the number of older people.

3.17 Population growth can create opportunities for the Council but, as noted previously, the complexity of the calculations of the share of the GAE for each Council and the operation of the Floor mean that an increasing population does not necessarily produce a similar increase in funding each year. As a result, growth will also contribute to the financial challenges in the medium to long-term as there will be a requirement for increases in services to serve this population, particularly in relation to school places, care packages and household waste collection. It is important that the Council has appropriate infrastructure in place to support the growth in these services and that this growth is factored into medium and long-term financial plans.

Glasgow City Region Deal

3.18 The Council has benefitted from a programme of Glasgow City Region Deal projects intended to stimulate growth in East Renfrewshire and allow improved transport routes across the areas, aligned to the Get to Zero Plan. The Council's City Deal programme will result in total investment of £44m, comprising £38m from the Scottish and UK Governments and co-funded by the Council's £6m capital contribution. Sustrans have also provided an element of funding for the Aurs Road project.

3.19 Work continues to progress these projects, with many substantially complete. In Newton Mearns, this has produced opportunities for business start-ups and networking at the new facility at Greenlaw. At Barrhead North, the remediation of the former Nestle site has provided exciting opportunities for retail and business and has created employment opportunities. The City Deal investment includes significant transport infrastructure projects which aim to kick start regeneration and to create access to employment in the communities of Barrhead and Eastwood. Improvements on Balgraystone Road have enabled an accelerated affordable residential development in Barrhead and improved accessibility to the Dams to Darnley Country Park. A new bus interchange has already been created and will serve a new rail halt in south Barrhead on the existing Glasgow to Neilston branch line. Works are well underway on site at Aurs Road for the Aurs Road Realignment Project that will improve connections and road safety between Barrhead and Newton Mearns, replace a weak bridge, deliver a new active travel route and a new public promenade on Balgray Reservoir, and install a replacement culvert between Balgray Reservoir and the Brock Burn. Following this, there will be a project to provide new visitor facilities at the Dams to Darnley Country Park.

New Legislative and Policy Requirements

3.20 As well as the pressures from the cost of living crisis, inflation and wider economic uncertainty, Councils have increasingly seen a requirement to deliver new burdens in relation to legislative change or to deliver national policies. Significant examples of these in recent years are the rollout of 1,140 hours in Early Years and the requirement to maintain teacher numbers at a specific level.

3.21 Whilst ring-fenced funding has followed these burdens in most cases, this funding often does not keep pace with the cost of delivering these burdens, thereby placing further pressure on the Council's core funding. This is not sustainable and can limit Councils' flexibility to take decisions on funding local priorities.

3.22 The Council has received funding from UK Government in relation to Extended Producer Responsibility for 2025/26. This is in relation to a new policy approach which aims to ensure that producers pay the full net costs of managing and recycling the packaging waste they produce through a system of fees. As Councils are responsible for waste collection and disposal, this payment is intended to assist with these costs in relation to packaging waste. There are no additional costs in relation to the first year of payment however there will be adjustments or new responsibilities in relation to this payment in future years.

3.23 Future areas of likely additional costs from new legislation or policies include the expansion of the UK Emissions Trading Scheme to Energy from Waste from 2028, and the recent joint commitment by Scottish Government and COSLA to make meaningful progress towards reducing class contact time for teachers.

3.24 Horizon scanning will continue to be undertaken and when the costs associated with new requirements can be estimated, these will be included in the financial outlook. Given the uncertainty in this area, this will remain a risk to accurately forecasting the cost of delivering Council services in the medium-term.

Responding to the Climate Emergency

3.25 The Council has committed to achieving net zero by 2045 and published its Get to Zero Action Plan (GTZAP) in February 2024. It sets out what may be required to adapt Council and community infrastructure, land and assets to the changing climate.

3.26 The costs to implement the GTZAP have been estimated and indicate that as much as £370m capital investment could be required in the period up to 2045. Given the need for detailed feasibility studies, the fact that low-carbon technologies are evolving amidst ongoing global market uncertainty, coupled with the long timespan which the GTZAP covers, the estimates should be treated as such. Whilst they are provided using the information and insight available at this time, these are not definitive costs but they do provide a guide to the potential scale of investment that would be required.

3.27 The Council's revenue and capital expenditure plans are aligned to the GTZAP wherever possible. However, in light of the significant costs to deliver the GTZAP, either in full or in part, and the funding gap facing the Council over the medium-term, the pledges within the plan are not included in the Council's current financial plans and are unlikely to be achievable without significant additional funding.

4. General Fund Revenue Budget – Medium Term Outlook

4.1 Despite the many uncertainties facing Scottish local authorities, the need for medium to longer-term financial planning is becoming increasingly important. Councils must ensure they have robust financial plans in place so they can respond to and absorb the impact of the increasingly wide range of variables set out earlier in this report.

4.2 The Council's agreed financial policy states that "the Council will make spending decisions based on an assessment of medium to long-term needs and consequences, and will seek to avoid taking a short-term outlook in its policy making, service planning and budget setting decisions." Whilst it is intended that the Council continues to adopt a longer term approach in future, the lack of multi-year budget information from the Scottish Government has resulted in the Council having to set only a single year budget for 2025/26, accompanied by high level projections covering the four years to 2029/30.

4.3 The 2025/26 draft local government settlement figures were announced on 12 December 2024. The Council's settlement appears more favourable than forecast, due to the increase in the overall allocation of funding to local government, the increasing population in East Renfrewshire and a change to the Floor mechanism. However, much of the additional local government settlement came with policy commitments which require additional expenditure to deliver them, and there is also a new pressure from the increase in Employers' NI Contributions from April 2025, as noted previously.

4.4 The impact of the settlement, the increase in NI Contributions and the EPR payment results in a shortfall for 2025/26 of £7.066m. Once already approved savings for 2025/26 of £0.844m are taken into consideration, this leaves a remaining budget gap of £6.222m. This is before applying any Council Tax increase, reserves or additional savings proposals that have not yet been agreed by Council. Detailed plans have been prepared to address this shortfall, including £0.391m of savings proposals and use of service concession flexibilities of £0.385m, which have been discussed by the cross-party BSG. The Council intends to set a balanced budget for 2025/26.

4.5 Looking further ahead to the medium-term, given that Scottish Government funding accounts for around 76% of the Council's overall funding in 2024/25, the level of increase the Council receives in this funding each year has the largest impact on the scale of the funding gap that the Council will face. A 1% increase in funding from 2024/25 to 2025/26 equates to £2.566m, however Council Tax would need to be increased by 3.8% to deliver the same level of additional funding for Council services.

4.6 To support planning for the medium-term, three high level scenarios have been developed to reflect the potential range in size of the budget gap that will face the Council over a five-year planning horizon, which are summarised below. Table 1 shows the cumulative funding gaps for the favourable, neutral and adverse scenarios, including an indicative Council Tax increase. The remaining gap will need to be closed through further savings and / or higher Council Tax increases. It should be noted that where a funding gap is closed through the use of recurring measures, this will reduce the funding gap in the following and subsequent years.

Table 1 – High level revenue cumulative funding gap scenarios, 2025/26 to 2029/30

	2025/26 £m	**2026/27** £m	**2027/28** £m	**2028/29** £m	**2029/30** £m
Favourable	0.385	2.964	5.839	5.134	4.168
Neutral	0.385	5.019	10.020	11.517	12.827
Adverse	0.385	6.383	12.755	15.629	18.323

4.7 Within Table 1 above, the neutral scenario has been adopted for planning purposes. Key assumptions (which are subject to change) include:

Neutral Scenario

- Pay awards of 3% in 2025/26, 2026/27 and 2027/28, then 2% for the remaining 2 years in the planning period.
- Inflation of 2.3% in 2025/26 and 2026/27, then 2% for the remaining 3 years in the planning period, in line with Bank of England target.
- Core funding from Scottish Government as per settlement for 2025/26, with a 0.5% increase each year thereafter.
- Around 60% of direct costs for the increase in Employers' NI Contributions for the Council and IJB will be funded each year.
- Extended Producer Responsibility payment remains at the 2025/26 level (£2.3m) across the five-year planning period but is offset from 2026/27 by anticipated new costs emerging from the scheme and the expansion of the UK Emissions Trading Scheme in later years.
- Increase in Council Tax of 8% in 2025/26 and 3% thereafter.
- Recurring savings of an additional £0.391m are agreed for 2025/26 as part of the 2025/26 budget setting process.
- Assumes the 2025/26 remaining budget gap of £0.385m is funded through one-off use of reserves to deliver a balanced budget.

4.8 It should be noted that there is a significant degree of risk within the assumptions in the neutral scenario, and small changes in any one year can have a significant impact on the budget gap both in-year and in future years, particularly changes to year-on-year increases to Scottish Government core funding. In order to provide an indication of the range of funding gaps that the Council could face, a more positive 'favourable scenario' and a more negative 'adverse scenario' have both been modelled, with the annual funding gaps also detailed in Table 1 above and the details of the variations to the assumptions in the neutral scenario detailed below.

Favourable Scenario

- Core funding from Scottish Government as per settlement for 2025/26, with a 1.0% increase in each year thereafter.
- Assumes an increase in Council Tax of 8% in 2025/26 and 4% thereafter.

Adverse Scenario

- Core funding from Scottish Government as per settlement for 2025/26, with flat cash thereafter.
- Assumes an increase in Council Tax of 8% in 2025/26 and 3% thereafter.

4.9 Current financial planning is based on the neutral scenario as the most likely outlook for the Council. Given these funding gaps follow over a decade of constrained public sector funding that have necessitated substantial savings being delivered to date, the scale of the funding gap presents a further challenge for the Council to overcome, whist maintaining statutory services, meeting increasing demands and responding to new burdens.

5. General Services Capital Budget – Medium Term Outlook

5.1 The Council has a Capital Investment Strategy to inform investment priorities and to ensure that the capital infrastructure required is in place to service East Renfrewshire Council's population's demands. This looks beyond the Capital Plan, which covers ten years.

5.2 This Capital Investment Strategy sets the framework for capital investment expenditure decisions and the arrangements for governance and monitoring of these plans. Given the significant impact of debt financing costs and the revenue consequences of capital expenditure, it is important that both the Capital Investment Strategy and Medium Term Financial Strategy are closely aligned and the interdependencies are understood. The current version of the Capital Investment Strategy, which covers the period 2024 to 2034, was last updated in February 2024.

5.3 The Council's ambitious draft General Fund Capital Plan 2025/26 to 2034/35 is on the Council agenda at the 26 February 2025 meeting. A summary of the first five years of the plan, which aligns with the lifespan of this strategy, is summarised below.

Table 2 – General Fund Capital Plan summary, 2025/26 to 2029/30

	2025/26 £m	**2026/27** £m	**2027/28** £m	**2028/29** £m	**2029/30** £m	**Total** £m
Gross Expenditure	66.371	44.076	25.690	17.095	22.281	175.513
Resources (Excl. Borrowing)	11.943	8.258	7.158	6.258	6.268	39.885
Borrowing	54.428	35.818	18.532	10.837	16.013	135.628

5.4 Funding for the Capital Plan comes from a range of sources including: Scottish Government (General Capital Grant and Specific Ring-fenced Capital Grants), specific City Deal funding, small capital grants from other bodies, developer contributions and capital receipts from asset disposals, with the balance and majority of funding coming from borrowing, which is funded through loan charges to the revenue budget.

5.5 The current capital plan reflects the growth and ambition of the Council, with current plans designed to support the delivery of the Council's key plans and strategies, including asset management strategies for key areas of infrastructure. It is also designed to support the future infrastructure requirements across the Council area.

5.6 CIPFA's Prudential Code places prudence, affordability and sustainability as the foundations to effective capital planning. This includes consideration of the cost of long-term borrowing alongside the revenue consequences generated from investment in existing or new assets, such as staffing costs, utility costs, rates and cleaning costs, which must be met from within the Council's existing resources. As there will continue to be pressure on the revenue budget over the medium-term, it is essential that capital investment decisions take into consideration the full cost implications facing the Council. This is also an important consideration when considering undertaking additional external funding applications, as this can often divert resources away from existing capital projects which support the delivery of key Council priorities.

5.7 In addition, as noted above, the borrowing for capital infrastructure is funded through annual loans fund payments, which are charged to the revenue budget and repaid over the life time of the asset. Interest rates continue to be higher than in recent years, with the expected timescale for these rates to become more favourable continuing to be pushed out into late 2025 and beyond. The interest rate directly impacts on the cost of new borrowing, and it is important to remember that new borrowing must be repaid in addition to existing borrowing. As well as the Capital Investment Strategy, all borrowing decisions are supported by the Treasury Management Strategy to ensure that investment plans remain affordable and sustainable.

5.8 As with all public sector bodies, the Council has faced significant external market pressures in relation to both supply and cost of capital works in recent years, which has impacted on the ability to deliver the plan in full each year. Additionally, whilst the Council is ambitious about what it wants to deliver, this does not always match the capacity for what it can deliver.

5.9 Given the challenging financial landscape the Council will continue to operate in for many years, alongside a trend of not delivering the capital programme in full in recent years, the Capital Investment Strategy will be refreshed across spring 2025, to update the approach to how the capital programme is both determined and managed moving forward. This will be brought to Council for approval in autumn 2025. The relationship between capital spend and revenue consequences will be strengthened, and the governance processes and forums for capital strategy, planning, reporting and monitoring will be reviewed.

5.10 The updated strategy will take a longer-term view to the investment needs of the Council, and affordability of this investment in the context of the Council's longer-term financial position and the priorities set out in the recently approved 'Place to Grow' vision to 2040.

5.11 In addition to refreshing the Capital Investment Strategy, it is proposed that a full stock condition survey be undertaken across 2025 to 2027, to provide a baseline to inform and govern decisions in relation to investment in the medium and long-term, and ensure that constrained capital funding is used in the most effective manner.

5.12 Alongside refreshing the Capital Investment Strategy, the Council will continue to utilise its Capital Reserve provision and forecast developers' contributions to help support the investment required in relation to population growth in the coming years, but whilst inflation on capital works remains high and Scottish Government capital grants remain relatively fixed or declining in cash terms, this will increase pressures for Councils to borrow to finance capital works. This in turn increases pressures on revenue budgets from capital financing charges, especially as interest rates are unlikely to return to their pre-pandemic low levels. This will be an increasing constraint on capital ambitions in the future.

6. Reserves

6.1 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 responsibilities.

6.2 Reserves can be held for three main reasons:

- Working balances to maintain liquidity and avoid unnecessary temporary borrowing. These reserves form part of General Reserves.

- An unallocated or non-earmarked contingency to mitigate the impact of unexpected events or emergencies. This reserve also forms part of the General Reserves.

- A means of building up funds often referred to as Earmarked Reserves, to meet known or predicted liabilities.

6.3 The Reserves Strategy is built on three key principles:

1. Council policy is to maintain the General Fund Non-Earmarked Reserve at between 2% and 4% of net budgeted revenue expenditure. The Council would not expect reserves to fall below 2%.

2. Where the Council has known risks and liabilities, reserves to manage that risk should be established and also used to assist with expected and unexpected pressures.

3. The use of one-off resources to balance the budget should be minimised.

6.4 The following table sets out the projected reserves and balances of the Council for 2025/26 and could be subject to change in the coming months.

Table 3 – Projected reserves and balances on Council reserves

	Estimated Balance at 31/3/25	2025/26 Contribution	2025/26 Interest Receivable	2025/26 Expenditure	Estimated Balance at 31/3/26
	£m	£m	£m	£m	**£m**
General Fund – Non Earmarked Core	**7.645**	0	0	0	**7.645**
Earmarked Reserves					
Equalisation Reserve	**3.398**	0	0.136	0	**3.534**
Modernisation Fund	**5.853**	0	0.234	(1.401)	**4.686**
Unspent Grants	**2.707**	0	0	(0.423)	**2.284**
Whitelee Wind Farm	**1.024**	0	0.041	(0.190)	**0.875**
Commuted Sums	**1.933**	0	0.077	(0.325)	**1.686**
Devolved School Management	**2.819**	0.922	0	(1.876))	**1.865**
Feasibility Fund	**0.240**	0	0.010	0	**0.250**
Get to Zero Fund	**0.531**	0	0.021		**0.553**
Service Concessions Flexibility	**2.490**	3.159	0	(3.085)	**2.564**
Workforce Restructuring Fund	**1.799**	0	0.072	(0.081)	**1.790**
Employee Wellbeing & Development Fund	**2.318**	0	0.093	(0.212)	**2.199**
Community Capacity Building Fund	**1.751**	0	0.070	(0.100)	**1.721**
Investment in the Future	**2.923**	6.415	0.117	(3.216)	**6.239**
Capital Reserve	**15.835**	0	0.633	(6.500)	**9.968**
Repairs and Renewals Fund	**3.870**	0	0.155	(1.900)	**2.125**
Insurance Fund	**2.145**	0	0.086	0	**2.231**
Housing Revenue Account	**1.654**	0	0.017	(0.250)	**1.421**

6.5 Each of these reserves is set out for a specific purpose, with the detail on their intended use set out below.

- **General Fund Non-Earmarked Reserve** – This funding is often referred to as the "Unallocated Reserve" and is held for unforeseen emergencies and contingencies. Council policy is to aim in the medium to long-term for this unallocated reserve to be between 2% and 4% of net budgeted revenue expenditure.

- **Equalisation Reserve** – This reserve represents earmarked funding to equalise future PFI/PPP payments as grant levels will be well below payment commitments in the later years of the schemes.

- **Modernisation Fund** - This funding has been set aside by the Council to enable the upfront investment required in staffing and systems to maintain modern systems, drive forward the Council's transformation activities and to generate future savings which will demonstrate payback within an agreed timescale.

- **Unspent Grants** – This reserve is to allow the matching of grant spend against grant received in order to meet accounting requirements. Where grant has been received and the Council is permitted to use the funding in the following year, this reserve is used to enable the balance to be carried forward.

- **Whitelee Wind Farm** – The income for this fund is from sums provided by the Whitelee Wind Farm operator to provide grants to the local area, manage and maintain the current access infrastructure and allow for future access improvements to the wind farm. Bids to this fund from local groups will continue to be considered and determined by a panel consisting of elected members and a representative of Voluntary Action East Renfrewshire.

- **Commuted Sums** – The income for this reserve comes from standard second home / long-term empty Council Tax income, as well as contributions from planning gains to fund infrastructure and affordable housing investment within the area which have no time restrictions. The additional premiums levied on second / empty homes are not assigned to this reserve, but are used instead to fund an Empty Homes Housing Officer and to support the wider Council budget.

- **Devolved School Management (DSM) Reserve** – Legislation requires Councils to maintain a DSM reserve and, in this regard, the Council permits Head Teachers to set aside a proportion of in-year underspends, up to a cumulative maximum of 6% of their budget, in order to assist schools in meeting financial savings challenges and in managing budgets which span more than one financial year.

- **Feasibility Fund** – The small reserve was set up by the Council to permit preliminary investigations to be progressed for potential future capital projects. This is intended to enable a prompt start if a project is then approved for inclusion in the Capital Programme. Where such an approval is confirmed, the preliminary expenditure will be recharged to the capital project and the feasibility fund refunded.

- **Get to Zero Fund** – This small fund is used to permit preparatory works in relation to the Council's Get to Zero plans. It is recognised that this will fund only a small proportion of the Council's climate action requirements and that substantial government/other external funding will also be needed.

- **Service Concession Flexibility** – In closing the accounts for 2022/23, the Council was permitted to align PFI/PPP debt to the life of these assets, rather than to the contract term. This released £14.8m of funding which was earmarked to help ease the transition to challenging budget savings over the years 2023/24 onwards.

- **Workforce Restructuring Fund** – The Council acknowledges that significant reductions in staffing might be required in order to address medium-term budget shortfalls. This fund is intended to assist with these pressures by funding short-term additional HR staff requirements as structures are redesigned, and by contributing towards the one-off costs of ending staff contracts across affected services.

- **Employee Wellbeing and Development Fund** – This fund was set up in 2023 to support staff wellbeing and continuous professional development opportunities in line with the Council's People Strategy. It will cover current and future skills; absence and wellbeing and organisational change readiness.

- **Community Capacity Building Fund** – This fund is a long-term investment in our local communities. It will be used to build capacity and capability; skills; to support place-making and build on the positive assets of our local people in service of the delivery of 'Place to Grow'.

- **Investment in the Future Fund** – This reserve was established as part of the 2024/25 budget to hold the funds available due to the short term reduction in employers' pension contributions. Proposals for drawdown from this reserves are considered by Cabinet, after consultation with the cross-party BSG.

- **Capital Reserve (including HRA)** – This reserve has assisted in addressing capital investment needs during periods of funding constraint

- **Insurance Fund** – This fund has been established to provide for insurance voluntary excess costs.

- **Repairs and Renewals Fund** – This fund was established to enable a continuing programme of repairs and renewals to roads, properties and other infrastructure.

- **Housing Revenue Account Reserve** – This fund provides a contingency to meet short term financial demands of the HRA as well as permitting major costs to be spread over a period of time rather than impacting on rent payers in only one year. CIPFA guidance stated it should be at least 5 - 10% of annual HRA turnover.

Reserves Policy

6.6 Previously the Council's Reserves Policy, last approved by Council in February 2024, set out the policy for use of reserves and how its reserves are governed. This will now be consolidated within this strategy document.

6.7 Council policy is to maintain the General Fund Non-Earmarked Reserve at between 2% and 4% of net budgeted Revenue Expenditure. It is recognised that this target level cannot always be met. The level of this unallocated reserve will be reviewed annually by Council as part of the budget setting process and a lower level may be agreed to assist the Council in addressing short to medium-term financial challenges. Unless there are exceptional circumstances, the Council would not expect this reserve to fall below a level of around 2% of net budgeted revenue expenditure.

6.8 Due to the Council's prudent long-term approach to financial planning, a range of reserves have been built up over a number of years to assist with expected and unexpected pressures. Should a budget gap remain after the application of savings measures and income generation, the Council may consider the short-term measure of drawing down on some of these reserves.

6.9 The use of one-off resources to balance the budget should be minimised. While this may be unavoidable in certain circumstances, this should be a short-term response only and should not replace the development of a sustainable budget.

Governance of Reserves

6.10 It is the duty of the Chief Financial Officer to report on the robustness of estimates and adequacy of reserves as part of their statutory duty.

6.11 Fund balances are reviewed and reported to the Audit & Scrutiny Committee and Council as part of the Annual Accounts exercise.

6.12 The establishment of new earmarked reserves will be considered through the budget process. The BSG will be informed of changes.

6.13 Proposed utilisation of Earmarked Reserves is agreed by the Council as part of the annual budget setting process or in response to specific reports if needs arise during the year. In the case of the smaller reserves, utilisation during the year may be delegated to senior management in response to service needs.

6.14 Payments from the Whitelee Wind Farm fund are determined by a panel of elected members and a representative from the local voluntary sector in response to applications from local groups.

7. General Fund Revenue Budget Financial Strategy

7.1 Each year Councils have a legal duty to set a balanced budget for the coming financial year. Despite the challenging circumstances facing the Council, it continues to plan to set a balanced budget in February 2025, and for each of the subsequent financial years within the lifespan of this strategy. In order to achieve this, the Council will need to develop detailed and robust plans for closing the gap between expenditure demands and available resources subsequent to 2025/26.

7.2 Given these funding gaps follow over a decade of constrained public sector funding that have necessitated substantial savings being delivered to date, it is clear that the Council's transformation programme cannot deliver the full scale of budget savings required alone. It is prudent for the Council to plan for a range of initiatives, broadly aligned to the following categories:

- **Transformation, service redesign and digitalisation** – The Council has a strong track-record of delivering efficiency savings and increasing productivity through its Digital Transformation Programme (DTP). This programme has been a key mechanism to drive change across three key areas: customer experience, workforce productivity and business systems and processes. Whilst it is recognised that it will become progressively more difficult to identify efficiencies in future, the Council will continue to seek opportunities to do so through reviews and transformation initiatives wherever possible. Work is underway to refresh the Council's Digital Transformation Strategy for summer 2025. This will take account of employee productivity, the Council's customers, and maximising the benefits of major systems through business change. The strategy will set out the Council's approach to the appropriate use of artificial intelligence, process automation, and the use of data and business intelligence to improve performance, efficiency and outcomes as well as helping to identify opportunities for early intervention and prevention.

- **Income generation** – Income generation helps to reduce the extent to which cuts are required to front-line services. The report setting out the annual review of Council charges for 2025/26, which was agreed by Cabinet in December 2024, set out a principle-based approach to determining fees and charges. One of the key principles is that where a charge is not statutory and the Council is not achieving cost recovery, the charge will be increased to work towards this. The Council also considers implementing new charges, where appropriate. Work is already underway in this area and will continue to be considered as part of the strategy to reduce future budget gaps.

- **Asset rationalisation and energy efficiency** – The Council has an extensive operations asset portfolio to support service delivery needs. The Council has a number of asset management strategies for key areas of infrastructure that provide the framework for efficient management of these assets. Upcoming actions in this area include a proposal to undertake a full stock condition survey to provide a baseline to inform and govern decisions in relation to investment in the medium and long-term, and ensure that constrained capital funding is used in the most effective manner. The Council will also be conducting a review of its fleet across 2025 and 2026. This will consider how services use fleet assets. Within the review the type of vehicles, volume of vehicles and opportunities to align with Get to Zero priorities will be explored.

  The GTZAP sets out actions focused on reducing operational emissions, which includes opportunities to reduce expenditure through energy efficiency. The Get to Zero Board meet regularly to monitor progress in delivering these actions.

  Both of these work streams align with the GTZAP priority of responding to the climate emergency and meeting the Council's net zero target.

- **Early intervention and prevention** – investment in prevention measures supports cost reduction by reducing the need for expensive interventions over time, and also results in improved outcomes for the Council's service users. The Council has a solid foundation of successful preventative initiatives, including a focus on early years and reducing teenage pregnancies. A key focus of 'Place to Grow' will be on building the case for further preventative spend which will lead to long-term outcomes for the local area.

- **Service reductions** – Service reductions will only be taken once all other routes have been explored and outcomes for the most vulnerable residents will be protected, where possible. Given the scale of the budget gap, it is likely that a further reduction in service levels in some areas will be required. A clear link to 'Place to Grow' will be maintained to ensure that there is a focus on delivering the Council's vision and key priorities.

7.3 Savings plans will need to be aligned to the five-year financial strategy, with plans for savings featuring in each of the five years. This will be a continuous programme of work which will be underpinned by robust governance arrangements to develop plans, monitor progress and evaluate the resources required to progress the different elements of the strategy.

7.4 Previous savings plans for 2023 – 2026 were informed by significant public consultation and early discussion with cross-party elected members. The Council will ensure that that this good practice is continued across the financial years covered by this strategy. Undertaking engagement with key stakeholders, public consultation and the completion of all appropriate impact assessments will be a key aspect of future savings options development.

7.5 Investment will be required to deliver the actions set out above, which are required to balance the budget in the medium-term. This will be sought from the relevant earmarked reserve, as and when required, and in-line with the appropriate governance processes.

8. Financial Flexibilities

8.1 During 2022, the Scottish Government offered Councils a new fiscal flexibility in relation to PFI/PPP type service concessions. Such service contracts usually run for 25 or 30 years although the assets delivered (such as schools or roads) will last much longer. The new flexibility allows Councils to account for the debt element of these contracts over the life of the assets concerned – typically 50 years, rather than the 25 - 30 year contract periods. Applying this approach to the Council's historic PFI/PPP schemes produced a one-off financial benefit of £14.812m at 31 March 2023. This sum was added to the General Reserve and then used to assist with closing challenging budget gaps in 2023/24 and 2024/25.

8.2 There is £2.284m remaining in the Service Concession Flexibility Reserve from the original one-off financial benefit however there is an annual in-year benefit, which varies year-to-year, but is around £2.700m per year across the lifespan of this financial plan. As per the decision taken at the time of the creation of this reserve, use of the in-year benefit on an annual basis has been assumed as part of this financial strategy. The previous financial strategy was to use the remaining £2.284m of the one-off benefit to assist with closing the budget gap in 2025/26. In line with this financial strategy, it is recommended that, using this reserve to balance the budget should be minimised, if possible, as it will be on a one-off basis. While this may be unavoidable, it is acknowledged that this will be a short-term response only and will not replace the development of a sustainable budget.

9. Housing Revenue Account

9.1 The Local Housing Strategy 2024 – 2029 (LHS) sets out the strategic vision for the delivery of housing and housing related services across all tenures and types of housing provision in East Renfrewshire. The LHS is the key planning document which details the framework of actions the Council and its partners will take to make sure this vision becomes a reality. This strategy has been prepared with the backdrop of the cost of living crisis, ongoing economic turbulence, a highly pressured housing market and significant demand for social rented housing. Extremely high levels of homelessness applications persist, and this, alongside the constrained supply of social housing or temporary accommodation available to meet this need, led the Council to declare a housing emergency on 11 September 2024.

9.2 In 2022, East Renfrewshire had the lowest rate of socially rented households in Scotland (10.8%) and there is a gap between demand and available homes. Increasing the supply of good quality, affordable housing continues to be a high priority for the Council.

9.3 The Strategic Housing Investment Plan (SHIP) is the key document that sets the priorities for investment in housing in East Renfrewshire. This is reviewed annually, and the current SHIP covers the five-year period from 2025 to 2030. It outlines how the affordable housing priorities identified in the LHS will be delivered by the Council and Registered Social Landlords (RSLs), as well as the projected level of Affordable Housing Supply Programme (AHSP) grant required to deliver them. Projects included reflect the sites available through the established housing land supply set out in the LDP.

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

9.5 The Housing Revenue Account: 30 Year Financial Business Plan was approved in November 2024 and covers the period 2024 to 2054. The key areas of focus for the 30 Year Plan are to ensure that existing stock is invested in over the life of the plan, as well as investing in new affordable housing stock, while ensuring that the ratio of debt charges to income remains at or below the upper limit of 40%, both in the short-term and the long-term.

9.6 The current HRA reserves are within a healthy range of £1.654m in 2024/25. The strategy is to maintain the level of reserve over the medium-term to a prudent level of 7 - 8% of net expenditure, in order to meet any future unexpected needs.

9.7 For 2025/26, the Council has consulted on rent increases of up to 5.9%, with a proposal of an increase of 4.9%. This increase is required to sustain investment in both existing stock and new housing stock, particularly in light of the significant reduction in affordable housing subsidy in 2024/25.

9.8 However, it is noted that the Scottish Government's wider capital budget to support the AHSP Programme will increase in 2025/26, with the overall budget increasing to £767.7m, which is £15.8m more than the 2023/24 budget (the level before cuts to this budget were made in 2024/25), with more of the budget being focused on capital expenditure to support building works. Details of the Council's specific allocation for 2025/26 are not yet available.

10. Financial Management

10.1 Financial management at East Renfrewshire Council comprises a number of elements.

10.2 There is a strong internal financial control environment within the Council, with helps to ensure that the Council's assets are used as efficiently, effectively and economically as possible and the Council has a good track-record of delivering within the approved annual budget.

10.3 Officers and elected members are fully engaged in the annual budget setting process through the cross-party BSG, which meets on a regular basis and ensures that there is a shared understanding of financial plans and budgets, as well as the financial pressures facing the Council.

10.4 The BSG is also important in supporting the development of a balanced budget through consideration of budget proposals intended to close the gap and providing political oversight to steer financial planning to ensure alignment between resource allocation and the priorities identified within ‘A Place to Grow’ and the priorities which underpin this vision.

10.5 As part of the Council’s normal financial management arrangements, the Finance team provide budget holders, Heads of Service, and Directors with monthly and quarterly performance reports, which set out the anticipated final outturn position for their area.

10.6 In addition to this, quarterly financial performance reports for revenue and capital are reviewed by CMT, scrutinised by Cabinet and remitted to the Council for approval. The overall finances of the Council are subject to detailed annual independent audit review and the outcome of this review is scrutinised by the Audit & Scrutiny Committee.

10.7 In order to deliver the activities which will be required to balance the Council’s budget in coming years, it will be important that through CMT, the Council maintains a disciplined approach to the monitoring and oversight of the workstreams which will be required to be put in place. Heads of Service will be required to manage expenditure commitments within their approved budgets, and if these cannot be contained, this should be reported to the Director, and ultimately the CMT, who have flexibility to manage budgets across various Departments.

11. Review

11.1 Although this medium-term financial strategy covers a five-year period, it will be updated on an annual basis to ensure that it remains relevant and enables the Council to respond to future financial challenges.

12. Risk

12.1 The Council’s financial strategy is subject to a high degree of risk and uncertainty. Given the current lack of multi-year budget settlement, the tumultuous economic environment and the variability of the assumptions on which the Council’s financial forecast is based, future budget gaps may be smaller or larger than those set out in this document. This strategy is intended to be used as a planning tool only.

12.2 The Council has a robust risk management process in place to capture risks and to ensure that appropriate mitigations are developed and maintained. The risk of Scottish Government funding not being sufficient to maintain the current service level, and therefore impacting on the Council’s financial sustainability, has been highlighted as one of the highest-rated risks on the Corporate Risk Register, with a score of 12. Corporate and departmental risk registers remain live documents, which are shared with senior managers, CMT and Audit & Scrutiny Committee.

13. Summary

13.1 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 is financially sustainable over the medium and long-term, whilst being able to deliver the 'Place to Grow' vision, and the priorities and outcomes which will underpin this vision. Based on current estimates, the future level of resources will not be sufficient to meet future demands and pressures, without action being taken in how services are delivered.

13.2 To achieve this change, the Council must undertake initiatives across a range of categories, including transformational change, income generation, asset rationalisation and efficiency, and early intervention and prevention, to ensure that service reductions are only implemented as a last resort.

13.3 This strategy will assist the Council in meeting the future financial challenges ahead by providing a robust framework for setting the budgets from 2025/26 onwards. It is recognised that with the wider economic uncertainty, and the significant impact that small changes of the Council's cost base can have in future years, the scale of the budget gap facing the Council in future years may exceed those set out in this document. Difficult decisions and choices may need to be made to ensure that the Council remains financially sustainable over the medium-term.