

EAST RENFREWSHIRE COUNCILAUDIT AND SCRUTINY COMMITTEE14 March 2019Report by ClerkNATIONAL EXTERNAL AUDIT REPORTLOCAL GOVERNMENT IN SCOTLAND: FINANCIAL OVERVIEW 2017/18

1. To provide information on the Audit Scotland report *Local Government in Scotland – Financial Overview 2017/18*.

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 2017/18](#), published in November 2018, 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 has provided comments on it and a copy of the feedback provided is attached (see Appendix A).

RECOMMENDATION

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

Local Government Access to Information Act 1985

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Background Papers:-

1. Audit Scotland report *Local Government in Scotland – Financial Overview 2017/18*

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EAST RENFREWSHIRE COUNCILAUDIT AND SCRUTINY COMMITTEE14 March 2019LOCAL GOVERNMENT IN SCOTLAND: FINANCIAL OVERVIEW 2017/18**INTRODUCTION**

1. In November 2018 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 key messages from the report.

BUDGET & SPENDING IN 2017/18

2. Part 1 of the report considered Councils' Budgets and Spending in 2017/18 and found that Scottish Government revenue funding, which is the most significant element of Councils' funding, reduced by 2.3% in real terms in 2017/18. This was a larger decrease than the reduction in the total Scottish Government revenue budget. The report found that "Local government funding has reduced at a faster rate than other areas of the Scottish public sector"

3. The report states that

"Distribution of funding from the Scottish Government could be clearer about how it reflects factors that drive costs in councils". and goes on to say that

"...the main determinant of a councils' overall funding. Grant-aided Expenditure, or GAE, is a needs-based methodology, used to allocate the Scottish Government's pre-determined spending review totals among councils. It is made up of 89 indicators such as 'services for people with disabilities' and 'road maintenance'. These indicators are weighted to reflect factors that impact on the demand for and cost of delivering services, for example, 'the size of the 16 to 64 year-old population' and 'length of roads to maintain'.

The majority of GAE is allocated according to population-based factors. Other factors are far less significant influences on total funding. For example, those which might be considered to link to deprivation, for example 'the number of current income deprived', are linked to a much smaller proportion of funding than population-based weighting factors".

4. Whilst the finding of the report above is valid in terms of the ease of finding information about distribution mechanisms (especially for non GAE funding), the report underplays the sophistication of the GAE methodology. The indicators which relate to population size are broken down in considerable detail into population groups such as numbers of primary pupils, secondary pupils, pre-school age children and the number of over 85's.

5. For education the high proportion of children in our population and the high number of placements in the needs based GAE calculation means that East Renfrewshire attracts a higher funding allocation than would normally be expected for a Council of our population. We attract 2.3% of the total GAE for education with only 1.75% of the population. This means we receive a 32% higher allocation than a typical council of our size and is by far the highest variance from the average of any mainland council in Scotland. (See appendix 1). In cash terms this means that the education GAE of an average council of our size would be £74.5m but we are allocated £98m, £23.5m more.

6. For Social Care the indicators are focused on deprivation and age related populations such as the number of people with chronic illness and the number of over 85year olds and have a sophisticated weighting mechanism. We attract 1.69% of the total allocation just under our share of the population. This reflects low levels of deprivation but with a significant elderly population. Our share is increasing slowly, reflecting the growing older population in the area. The variation of shares compared to a population based average is shown in Appendix 2.

7. For other services, the indicators reflect a wide range of such as population, number of houses and road length. We tend to attract lower than our population share perhaps because of the relatively low number of houses (1.5%) relative to our population size.

8. Overall this means that we would expect the balance of our funding to education, social work and other services to be significantly different from that seen in other councils.

9. The report also states that *“Given Scotland’s demographic changes and the Scottish Government’s commitment to tackling social and economic inequality, there is a risk that the GAE weightings no longer sufficiently represent need.”* However it is important to note that GAE is not the only factor in a Councils allocation and the allocations for “Former Ring fenced grants” and “Redeterminations” reflect specific government interventions over many years and would appear to reflect deprivation more strongly than the GAE allocations. Any move to review the Distribution formula as suggested by Audit Scotland would require careful consideration by COSLA. Any move to reflect significantly more indicators of deprivation in the GAE allocations would require a thorough analysis to determine if statutory services such as Education could still be delivered adequately with a new funding formula.

10. The report also suggest that there is only a weak correlation between deprivation and Council funding. However the Audit Scotland graph has been shown in absolute numbers and given the different scale of council budgets, a percentage analysis has provided a different perspective. Appendix 3 shows the relationship between actual estimated expenditure (essentially the funding calculation prior to the allowance for Council tax contribution to funding) and the same calculation based on population size only. The majority of the councils who receive more than their population share are those which are normally considered to be more deprived eg Dundee, Glasgow, Inverclyde and West Dunbartonshire. East Renfrewshire is one of the few councils who receive slightly more than their population share of budget but do not have high levels of deprivation. This is likely be due to the very high number of children attending our schools.

11. The report then goes on to discuss the other funding that Councils can access such as Council tax and reserves to address any funding gaps.

12. The Council agreed savings of £7m for 2017/18, raised Council Tax by the maximum permissible 3%, increased fees and charges in line with our annual review of charging policy and, in common with other Councils, utilised reserves to balance its budget. All of the planned £0.257m of reserves utilisation however, was to cover one-off investments rather than to temporarily address a savings gap.

13. The Scottish Government adjusted Council Tax banding weightings for 2017/18 with higher charges being imposed on Band E to H properties. The report in paragraph 23 states that

“These changes raised the remaining £140 million and benefited councils with a relatively higher proportion of higher banded properties”

Exhibit 5 in the report appears to show that East Renfrewshire was proportionately affected by this change more than any other Council. However, East Renfrewshire Council did not benefit from this change as general grant support is adjusted for the increased Council Tax income and this did not produce an overall financial gain for the Council. For example in 16/17 the assumed Council tax income was £37.920m and in 17/18 the assumed council tax income was £42.484m due to change in bands E to H. However the general grant paid to the Council was adjusted by the same amount. Whilst the total amount of money available to all councils would have increased by £140m if the total Government grant settlement to councils had stayed exactly the same as the previous year, this mechanism “smoothed out” the different amounts by which councils benefited.

14. The Council lived within its budget for 2017/18, applying savings early wherever possible with a view to mitigating future financial pressures ahead, and was able to allocate £4.6m to reserves at the end of the year.

FINANCIAL POSITION

15. Whilst the Council budgeted to draw on our reserves in 2017/18, we were able to restore our unearmarked general reserve to above its target 4% level at the year end.

16. Over a number of years, East Renfrewshire has built up reserves with a view to addressing specific future pressures. In addition to our policy of maintaining an unearmarked general reserve of 4% of revenue budget we have also established substantial reserves to assist with capital projects (particularly school building) and to enable transformation and modernisation of Council services (often leading to revenue saving efficiencies in future years). In 2017/18 we also established a new reserve for Devolved School Management funding controlled by Head Teachers. As such, our proportion of reserves to revenue budget is above average, although it is expected to reduce in future as these funds are spent on new infrastructure, ICT and structural changes.

17. On the other hand, East Renfrewshire is well below average in terms of the level of debt held in comparison to our annual revenue budget. This reflects the Council’s historic prudent approach, utilising capital reserves where possible rather than borrowing to fund investment. Again, however, this is likely to change in future as reserves are reduced and increased borrowing will be required to support the Council’s capital plans including those for new early learning centres and leisure facilities. It is recognised that this will increase revenue pressures but should still be affordable due to our low debt base and to new flexibility to be introduced on accounting for loans fund repayments.

18. The report highlights the pressures still being faced by some Councils in relation to equal pay claims. This is not seen as an issue for East Renfrewshire as we have now settled all of our equal pay claims.

19. Another issue raised by the report is the effectiveness of Management Commentaries in Councils’ accounts, in clearly explaining the Council’s financial position. In recent years we have tried to make our information more accessible by including graphics and increasing narrative comments and we will continue to seek to improve our presentation in future by liaising with our communications team and having regard to audit comments.

IJB OVERVIEW

20. The report includes an overview of Integration Joint Boards in 2017/18. The key messages are that, despite a 3% cash increase in funding, most Boards have underlying financial sustainability issues. 19 Boards either incurred a deficit in 2017/18 or needed additional funding from their partners to avoid a deficit for the year. Further, most IJBs did not have medium term financial planning in place.

21. Whilst the Council contributed £48.175m (including Criminal Justice specific grant) to our local IJB in 2018/19, responsibility for the operation, finances and governance of integrated health and care services lies with the Integration Joint Board itself and not East Renfrewshire Council and scrutiny is undertaken by the IJB's own Performance and Audit Committee.

22. Nevertheless, there is close liaison between the Council's and the IJB's Chief Financial Officers. On that basis, some high level comments have been incorporated into this report. Should any further detail be required this would have to be sought from the IJB Chief Financial Officer.

23. East Renfrewshire IJB did not report a deficit for 2017/18 and did not require additional funding from the Council.

24. The IJB holds various reserves, largely for specific purposes, and has used reserve funds to facilitate its long term restructuring of services in order to deliver future savings.

25. East Renfrewshire IJB falls within the NHS Greater Glasgow and Clyde area and, as such, will be one of the IJBs impacted by the cessation of the health board's risk sharing arrangements for prescribing costs. This is being closely monitored by the IJB CFO.

26. In 2018 the Scottish Government published a medium term financial plan for Health & Care services. This is welcomed by the IJB and will assist them in developing their own medium term financial plans.

COUNCILS' FINANCIAL OUTLOOK

27. The Council's grant settlement for 2018/19 was close to flat cash and so did not make provision for inflation and demand pressures. The final figures were only confirmed vary late in the budget process and this made financial planning difficult.

28. In May 2018 the Scottish Government published its medium term financial strategy and more recently has also confirmed its intention to announce multi-year settlements for Councils from December 2019. As most Council services are not classed as priorities in the Scottish Government's strategy, continuing financial constraints are expected in the coming years, however the move to multi-year settlements will assist us in our own forward planning and is welcomed.

29. The Council adopts a 3 year budgeting approach, covering our medium term plans, and also publishes a Financial Planning report each year, setting out the indicative long term financial position (including a range of scenarios) for six years in the future. Both the medium and longer term plans take account of the Council's key objectives and anticipated local demographic trends in addition to the Scottish Government's medium term plans and other national economic factors.

30. Once again, in common with most other Councils, East Renfrewshire has balanced its revenue budgets for 2018/19 and 2019/20 by a combination of savings, Council Tax increase, charging increases and utilisation of reserves. Savings of over £7m have already been identified for 2020/21 and a further £5.9m will be identified during the course of 2019/20 to bridge the anticipated remaining 2020/21 budget shortfall.

31. The Council also updates its Capital Plans each year. For General Fund services these cover the next 8 years and for Housing the next 5 years. On 28 February 2019 the Council approved its first Capital Investment Strategy, which seeks to set out the Council's capital ambitions for the next 10-20 years so that policy aims can be clearly linked to financial and operational plans.

32. The Audit Scotland report also highlights that many Councils are in the early stages of delivering transformational change. East Renfrewshire would regard ourselves as having been an early adopter of this approach with our original Public Sector Excellence (PSE) programme being more recently replaced by our Modern Ambitious programme (MAP). This recognises the need for change due to both the increasing pressure for financial savings and the digital and technological transformation in all aspects of modern life. Our aim is to modernise and streamline services to take advantage of new technology, better meet client expectations and produce efficiency savings. Our current 3 year budget plans for Council services (excluding IJB) include over £9.6m of efficiency savings (70% of our total savings).

33. The final issue raised in the Audit Scotland report relates to the planned UK withdrawal from the EU in March 2019. The Council has recognised this as a strategic risk and is making contingency plans for a range of possible scenarios. A report on this issue was presented to the Audit & Scrutiny Committee on 21 February 2019.

CONCLUSION

34. The report outlines the main issues facing Scottish Councils in 2017/18. Overall East Renfrewshire is well placed in terms of addressing these but will continue to face substantial financial challenges in future.

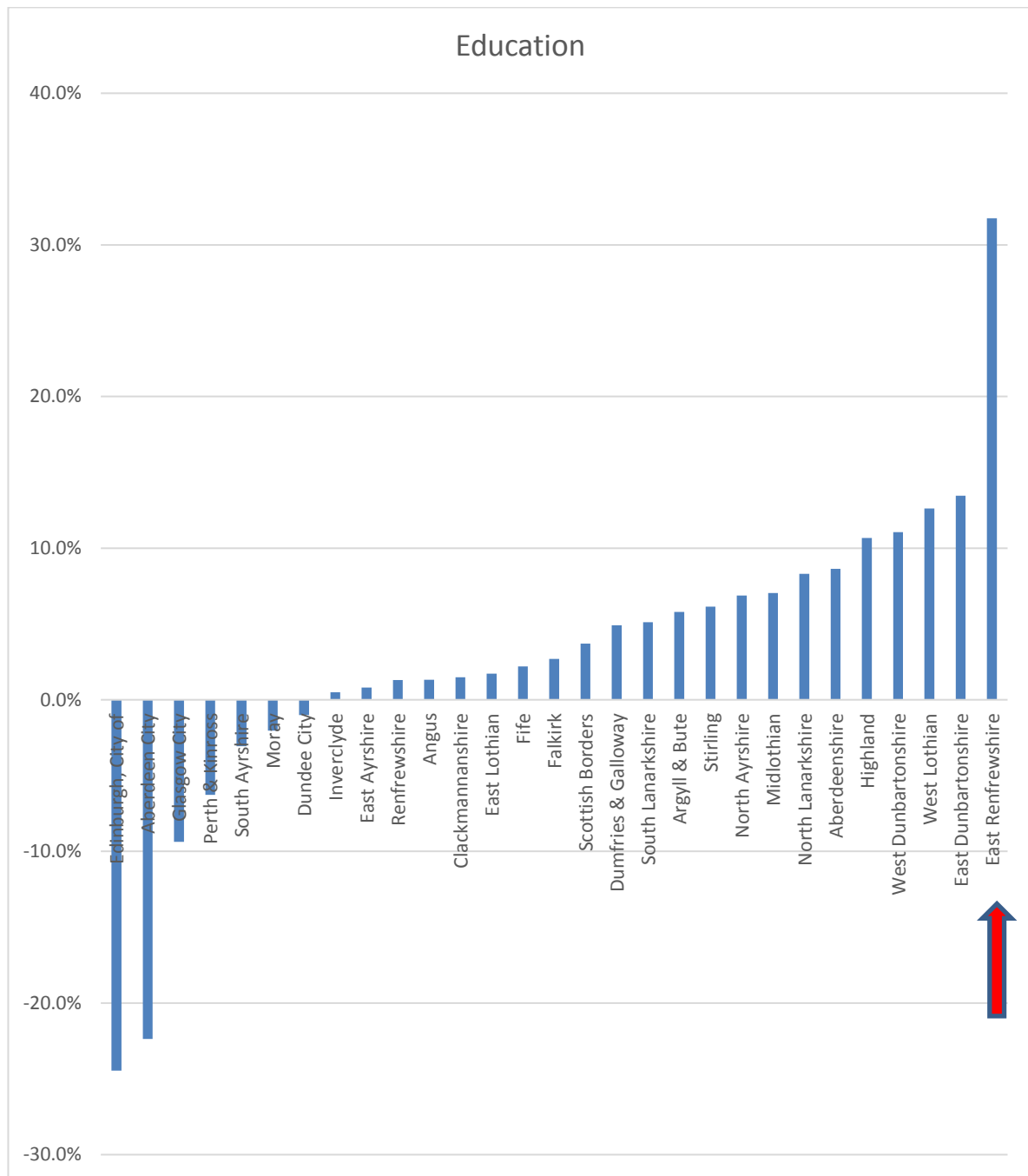
RECOMMENDATION

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

Margaret McCrossan, Head of Accountancy, 28 February 2019

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Education GAE Distribution – variation from distribution based on total population



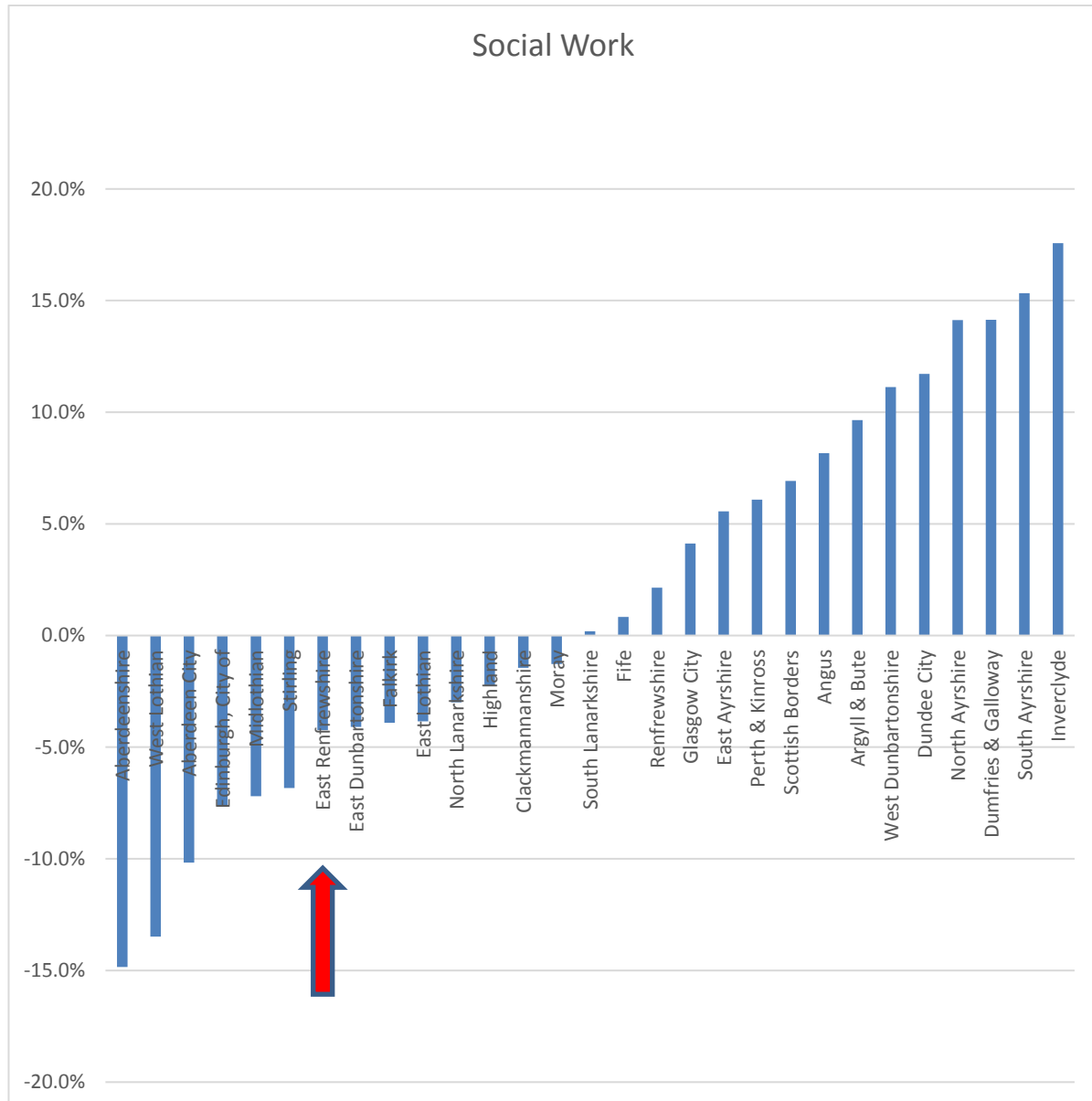
Key Points

- The Councils with higher population growth tend to have the highest variation from the average distribution for education but this is not a strong correlation and would require further analysis
- West Dunbartonshire has high levels of deprivation and a falling population but has a higher than average education allocation through GAE. This could in part be due to high allocations for “education deprivation” one of the GAE indicators
- East Renfrewshire has by far the highest allocation of GAE relative to total population size at 32% due to a high ration of children in the population and school placements. The nearest is East Dunbartonshire at 13.5%
- The Island authorities have been omitted form this analysis

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APPENDIX 2

Social Work GAE distribution - variation from distribution based on total population size only



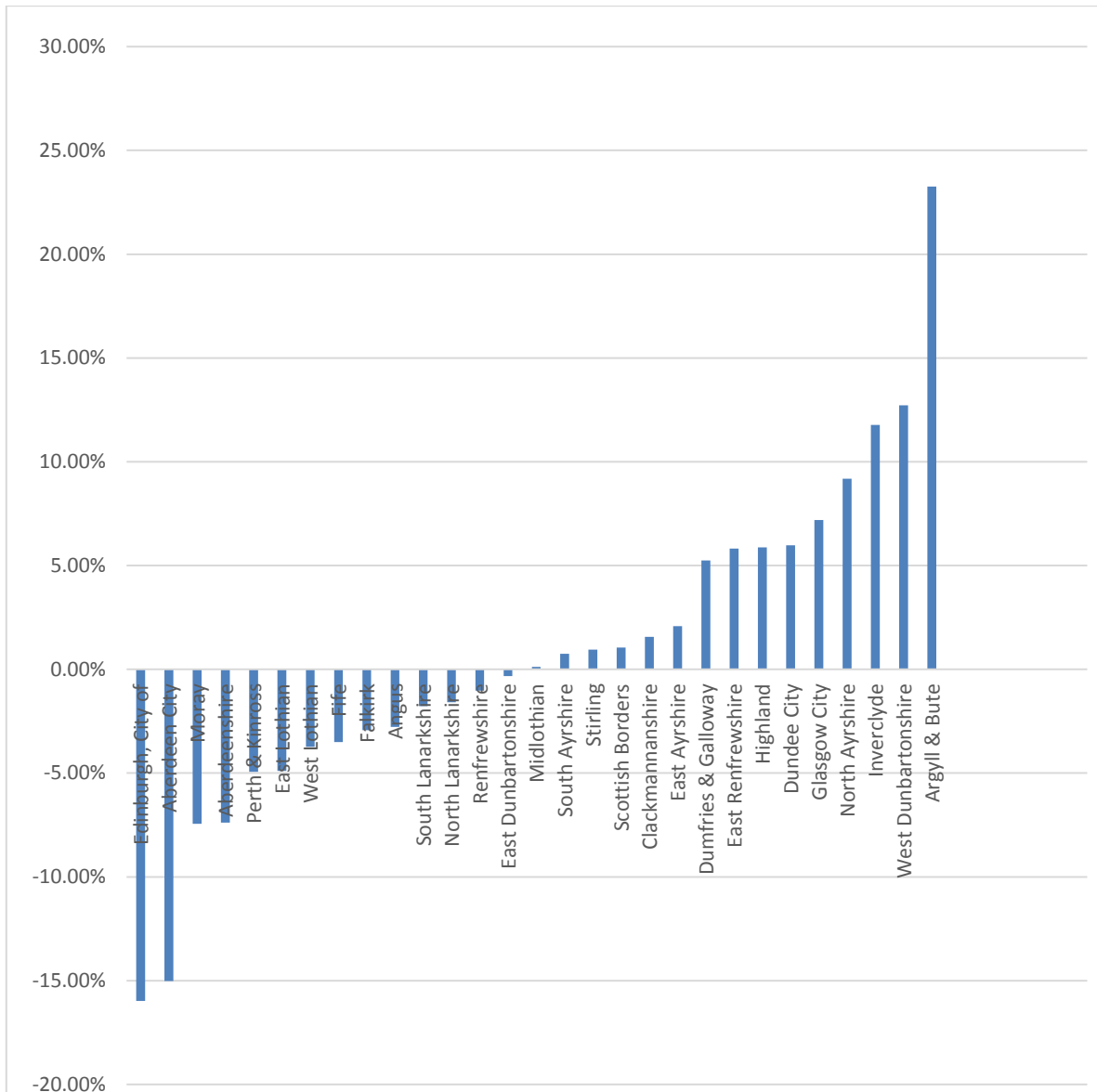
Key Points

- The councils with the highest relative GAE for social work i.e. (highest need) tend to have the highest factors of deprivation
- The councils with the lowest deprivation tend to have lower relative GAE for Social work
- The number of over 85s is a heavily weighted factor in the calculation so is likely to have an impact on areas such as East Dunbartonshire and East Renfrewshire where there is a growing older population is bringing these areas closer to the average distribution of GAE

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APPENDIX 3

Variance of Scottish Government Estimated Expenditure calculation per council compared to a calculation based only on total population size



Key Points

- The final grant allocation to councils is based on the estimated Expenditure minus the amount expected to be collected by Council tax. Estimated Expenditure has been used as a proxy rather than actual grant as council tax is dependent on property size and will make the grant for wealthier areas appear smaller and inconsistent.
- The estimated expenditure consists of GAE, former ring fenced grant, redeterminations, and loans minus the floors mechanism.
- Former ring fenced grants and dedeterminations were not discussed in the Audit Scotland report as the allocation methodology is unclear. Using east Renfrewshire figures, it appears that many are related to deprivation and reflect specific Government priorities.
- The Estimated expenditure appears to be related to levels of deprivation with more deprived areas generally receiving grants in excess of the average and wealthier areas less.
- For East Renfrewshire the extremely high allocation for education means that we receive an above the average grant which is unusual for a council with low levels of deprivation.

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