

EAST RENFREWSHIRE COUNCIL28 February 2019Report by Chief Financial OfficerFINANCIAL PLANNING 2019-2025**PURPOSE OF REPORT**

1. To submit for approval the updated Outline Revenue Financial Plan for 2019-2025.

RECOMMENDATIONS

2. It is recommended that the Council: -
 - (i) notes the increasing budget pressures anticipated in the next 5 years and the mitigating actions proposed; and
 - (ii) approves the Outline Revenue Financial Plan 2019 – 2025

BACKGROUND

3. East Renfrewshire Council has undertaken long term financial planning for many years. Capital planning is undertaken over a rolling 8 year period reflecting the need to plan infrastructure over an extended period. The detailed revenue budget has been planned over a 3 year time horizon to reflect the budget periods of the Scottish Government. Despite a recent move to annual budgets by the Scottish Government and significant shifts in the overall budget allocated to local government making long term planning challenging, the Council has continued to prepare and publish a 3 year budget updating the budget on an annual basis. The Scottish Government's recent confirmation of a move to multi-year settlements from 2020/21 is to be welcomed.

4. The Council budget, which will be set today, will be year 2 of the present revenue budget. The budget proposals for 2019/20 reflect the terms of the Local Government settlement, announced by the Scottish Government on the 12th of December 2018, and subsequent amendments.

5. The updated indicative budget for 2020/21 will also be published today to assist with longer term financial, workforce and asset planning. As recent settlements for Local Government have been on a single year only basis and have been difficult to predict, work has been undertaken by the Corporate Management Team to plan for a number of financial scenarios.

6. Traditionally the longer term financial outlook and the associated financial plans of the council have been presented at the annual budget meeting. This paper updates the Financial Planning document approved on 2 March 2018 and covers the next six years, 2019/20 to 2024/25.

7. It should be noted that financial planning is extremely difficult in the present economic and political situation, with Brexit uncertainty further complicating matters. Financial markets are uncertain about future economic growth prospects and the impact on the finances available to Scottish local government very difficult to predict. One year budget settlements are making the situation even more difficult. The Council will have to be prepared to continue to analyse a range of scenarios and be ready to undertake detailed budget planning as the most likely scenarios emerge for future years.

FINANCIAL OUTLOOK

8. In May 2018 the Scottish Government published its Medium Term Financial Strategy for the period from 2018/19 to 2022/23, taking account of the new financial powers provided through the Scotland Acts 2012 and 2016.

9. The new powers result in a change from Scottish Government funding being supported mainly from UK Block Grant and Non Domestic Rates to the introduction of a Scottish rate of Income Tax, Scottish Landfill Tax, Land and Buildings Transaction Tax, Scottish Air Passenger Duty and the retention of VAT raised in Scotland. UK Block Grant funding will be correspondingly reduced to take account of these new powers.

10. The Scottish Fiscal Commission will have a key role in forecasting future Scottish tax income but this will be very difficult, given the amount of concurrent change, so the Medium Term Financial Strategy contains only indicative figures and instead sets out a broad approach to managing the Scottish budget.

11. Scottish Government priorities are confirmed as Health, Police, Early Learning and Childcare, Higher Education and Social Security. The proportion of spend on these priority areas is expected to rise from 56% of the Scottish budget in 2019/20 to 64% in 2022/23. This indicates continuing constraints on non-priority areas, including unprotected elements of Council budgets.

12. The Scottish Government has also published a medium term health and social care financial plan which will impact on the Council's forward plans through our contribution to the local IJB.

13. The UK Autumn Budget 2018 again covered only one year and John McLaren of the University of Glasgow has since estimated that the mid-range impact on Councils' total General Revenue Grant would be flat cash until 2020/21, with Non Domestic Rates income rising by 3% per year over the same period. This, together with the prioritisation of some spending areas, confirms expectations of continuing reductions in non-protected services.

14. John McLaren's projections for 2020/21 and beyond could, however, change substantially as a result of the final Brexit outcome and the findings of the UK Spending Review scheduled for 2019 (although this Spending Review may cover only one year, due to Brexit uncertainty). At present, however, he notes that:

- all Brexit scenario outcomes suggest poorer GDP growth than staying within the EU
- whilst the UK economy is still expected to grow under each scenario public funding settlements, via lower revenues, are likely to suffer in line with weaker economic growth
- global economic slowdowns, particularly in the USA and China also contribute to a poorer outlook
- lower public spending settlements may be supported by short term fiscal stimulus efforts to avoid recession, together with longer term tax increases
- the Institute for Fiscal Studies report on the outlook for the 2019 UK Spending Review also expects continuing year on year reductions for unprotected services from 2020/21 onwards, although at a less severe level than in recent years.

15. Office for National Statistics, Bank of England figures published in November 2018 also estimate that, whilst GDP will continue to grow under all Brexit scenarios, growth will be slower than if the UK remained within the EU.

16. The Council's Treasury advisers, Link Consultancy, have recently assessed the overall balance of risk to UK economic growth and interest rates as probably neutral. They expect GDP growth to be subdued in 2019 but to begin to recover thereafter with the potential for a series of gentle increases in interest rates being used to manage inflation as growth picks up.

17. Overall, while the UK Government's fiscal position is now approaching its target balance, potentially allowing for higher settlements, poor economic growth forecasts may result in the 2019 UK Spending review delivering disappointing increases in some Government budgets and ongoing reductions in other non-protected areas.

18. The draft 2019/20 public sector revenue budget plans announced by the Scottish Government in December 2018 reflected an increase of 1.6% in cash terms for Councils, but after adjusting for £373m of new commitments included in the settlements COSLA calculated this to represent a 2% cash reduction in core budgets. Most protection and commitments related to Health and Social Care, to Early Learning and Childcare and to teachers. The Scottish Government assumed general pay increases for civil servants of 3%, slightly above inflation, resulting in Council staff pay claims coming in at or above this level. All of these factors increased pressures on local government, with protection of priority services such as Health, Police and Higher Education producing a smaller proportion of total government resources for unprotected Council services.

19. Scottish Budget plans published related only to 2019/20 and considerable uncertainty exists beyond this due to Brexit, future Scottish tax revenues and the slower than anticipated growth of the UK economy. The Scottish Government has indicated its intention to move to multi-year settlements from 2020/21 and this is to be welcomed as an aid to forward planning.

20. As the Scottish budget has progressed through the parliamentary debate stages £90m of additional grant funding has been announced for local government. This is a similar pattern to previous years.

21. At the same time, additional flexibility has also been announced for local authorities in terms of tax raising powers (e.g. workplace parking levy, transient visitor tax, and increased discretions on NDR empty property relief) and the ability to reprofile loans fund repayments, however more information is required before the potential impact of these options can be assessed. This is also the case in relation to the Scottish Government's commitment to explore a replacement for Council Tax.

22. The Council's grant for 2019/20 is £179.596m and produces a cash increase of £2.531m (1.4%) over the 2018/19 grant figure, however taking account of new burdens to be met, including Early Learning and Childcare commitments, the Carers' Act and other new IJB funding pressures, this represents a like for like 1.6% cash reduction. This is very slightly better than the anticipated level of reduction.

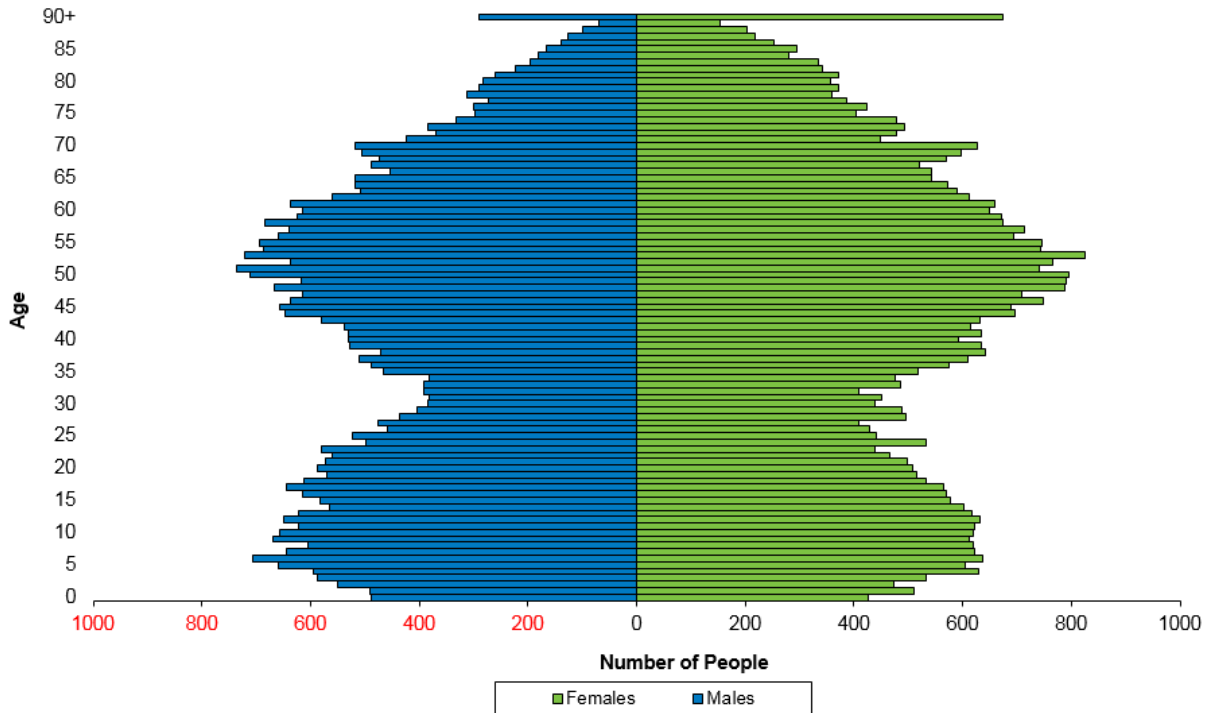
23. The settlement also confirmed that Councils could increase Council Tax by a maximum of 4.79% (3% in real terms), rather than the 3% cash increase previously set.

DEMAND PRESSURES

DEMOGRAPHICS

24. Our Planning for the Future report and Infographic summary provides a comprehensive summary of a detailed analysis of the changing demographics of the East Renfrewshire Area. The report includes trend information from the Census and the use of the NRS mid-year estimates and NRS 2016 population projections. Information which is used to create the Local Development Plan such as service demand, SIMD data and future housing projections and associated infrastructure is also included. The report provides an overview of natural changes in the population such as birth and death rates and incorporates the latest figures released on the significant rise in net migration across the East Renfrewshire area.

25. The population of East Renfrewshire is currently estimated at 94,760. The pyramid below shows the population split by age group and gender. Around 20 per cent of the population is made up of children and young people aged 0-15. The working age population (16-64) accounts for 60 per cent of the population whilst older aged adults (65 and over) make up the remaining 20%.



Source: NRS 2017 Mid-Year Population Estimates

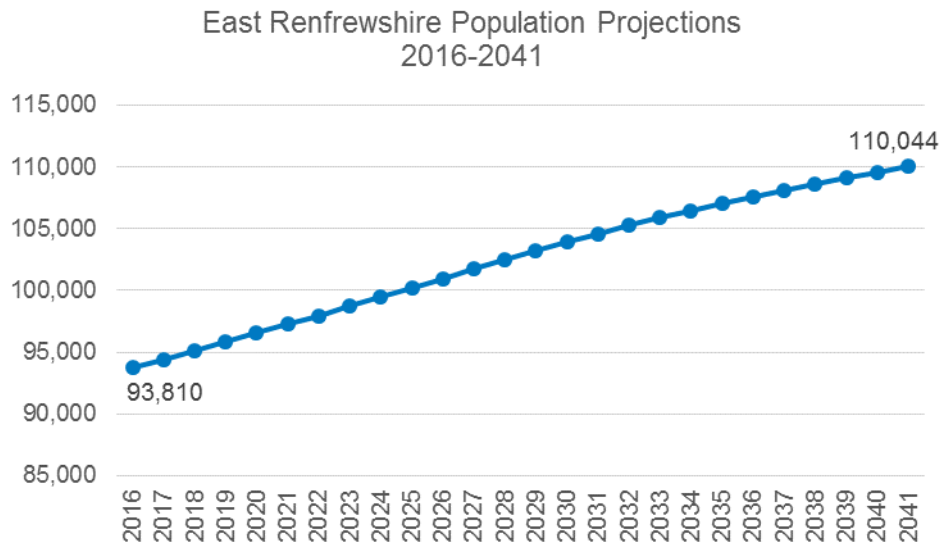
26. By 2041 the population of East Renfrewshire is projected to be 110,044, an increase of 17.3 per cent compared to the population in 2016 (base year for projections). The population of Scotland is projected to increase by 5.3 per cent between 2016 and 2041. Over the 25 year period, the age group that is projected to increase the most in size in East Renfrewshire is the 85+ age group.

27. The growth in the population of children, those of working age and older people is shown in the table below.

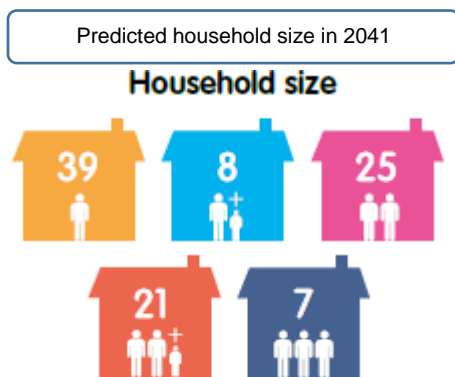
Age group	2016 population (base year for projections)	Predicted 2041 population	Population growth (%)
0-15 years	18,662	21,991	17.8%
Working age (16-64)	56,795	61,598	8.5%
65+ years	18,353	26,455	44.1%
Total population	93,810	110,044	17.3%

Source: NRS 2016-Based Population projections, published March 2018

28. It should be noted that a significant proportion of the growth in the 65+ population is accounted for by those aged 85 and over. This has an impact on our 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 we can expect the number of people with a need for home care or care home support to steadily increase year on year.



Source: NRS 2016-Based Population projections



Household size



29. The total number of households in East Renfrewshire is predicted to increase from 38,581 in 2016 to 47,649 in 2041.

30. It is predicted that single adult households (all ages) will account for almost 39% of all households in East Renfrewshire by 2041 (compared to 32% in 2016). Over a third of these single adult households will be occupied by someone aged 75 or over. Correspondingly, the average household size is expected to decrease from 2.42 people per household

in 2016 to 2.28 in 2041. (Source: NRS 2016-Based Household projections, published March 2018)

31. While single adult households will increase significantly, the proportion of households with dependent children is predicted to stay around the level of 29%. (Source: NRS 2016-Based Household projections, published March 2018)

32. The average household size is projected to decrease from 2.42 in 2016 to 2.28 in 2041.

33. In East Renfrewshire, from 2016 to 2041, households headed by people aged 75+ are projected to increase in number by 78 per cent as the older population grows.

The next 5 years

34. Over the next 5 years (2019- 2024), a number of changes have the potential to create financial pressure.

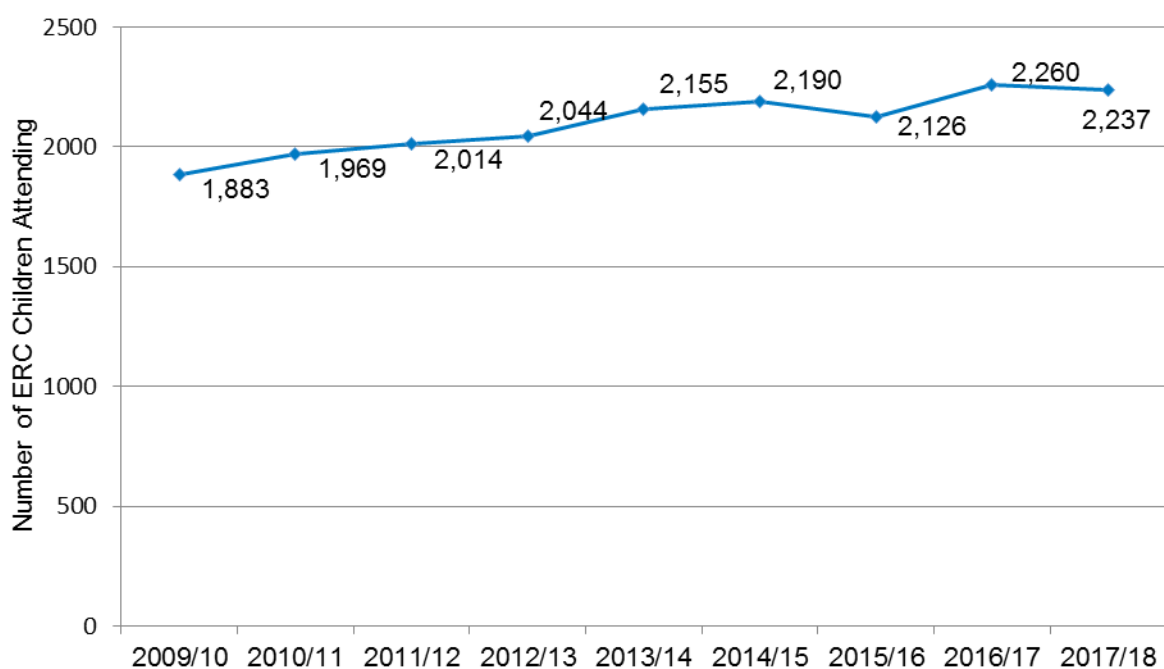
35. The number of households is projected to increase by more than 1,700 which represents a 4.5 per cent increase. This increase in households will create additional demand for the full range of council services especially waste management, road maintenance, parking, money advice, customer services, early learning, childcare and education, employability, schools, health and social care, leisure and transport.

36. The pattern of more people entering East Renfrewshire than leaving is expected to continue. The largest proportion of entrants mostly tends to come from the Glasgow City Council area each year.

37. In East Renfrewshire there has been a rise in population of children under 15 years old. From 2011 to 2017, the number of children under the age of 5 increased by 8.2 per cent and the number of 5 to 9 year olds increased by 16.3 per cent. The number of young people aged 10 to 14 increased by 2.4% during this period. The proportion of 5 to 14 year olds as a percentage of the total East Renfrewshire population is the highest across Scotland. This suggests that those moving into the area do so with young families.

38. Projections also show the children and young people cohort continues to grow over the next 25 years, which produces increasing demand for early learning and childcare, primary and secondary school places.

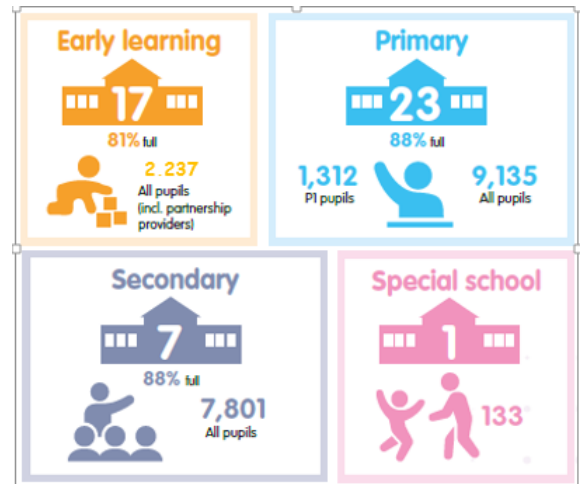
39. The chart below shows that increasing trend in the number of 3 and 4 year olds in East Renfrewshire attending Council and partnership providers early learning and childcare facilities over the past 9 years, an increase of 19 per cent.



Source: Education Management Information Service (East Renfrewshire) March 2018

40. The annual school census figures of the actual number of pupils in our schools shows that the total number of primary pupils has steadily increased by over 12% between 2011 and 2017. In particular, the number of East Renfrewshire resident children in the primary sector has increased over this period by 15%. This will impact on secondary school pupil numbers in subsequent years as these pupils move through the year stages. In recent years, the school census shows an increase in the number of East Renfrewshire resident young people coming through our secondary schools.

41. As at February 2018, the Council's early learning and childcare provision was 81 per cent occupied. Variations in demand for early learning and childcare places do exist across the Council area. Overall the occupancy rates in the primary and secondary school sector are at 88% of available planning places. There are varying rates across schools, but there are several establishments with very high occupancy levels.



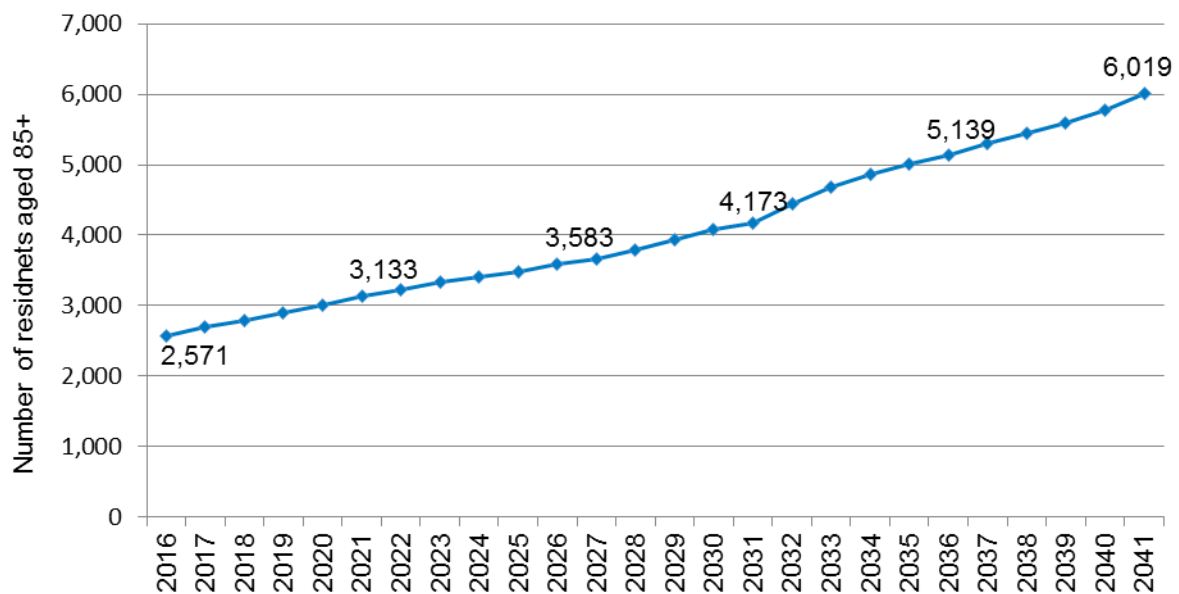
42. Further new education places will be required as a consequence of ongoing and planned new residential development. In addition there is the need to increase places from the private, voluntary and independent sectors and childminders to provide additionality in early years' provision as a consequence of a new statutory duty as noted later in the report on the increased entitlement to 1140 hours of free ELC for 3 and 4 year olds and eligible 2 year olds.

43. The number of looked after children has averaged around 160 children per year over the last decade. The majority of children are cared for away from their family home however there is a significant proportion on home supervision and growing numbers in kinship care. The need for residential accommodation continues to remain small in East Renfrewshire as we strive to develop more nurturing and supportive family type placements.

44. Foster care has accounted for over 25% of placements in recent years and demand for this will grow as more young people will need to be supported on their journey into young adulthood. In anticipation of this demand and the increasing complexity of the needs of children we have been actively working to increase our pool of foster carers. These changes are likely to place additional demand on services for children and families. Overall the local implementation of the national PACE (Permanency and Care Excellence) programme has ensured that we have reduced the number of children being in care for lengthy periods of time enabling them to move onto more stable and secure home environments. As such we will continue to see a reduction in numbers of children on supervision although this is forecast to level out as the programme is completed.

45. Between 2016 and 2017 East Renfrewshire experienced a 2.9 per cent increase in the number of births, increasing slightly from 861 in 2016 to 886 in 2017. The number of births across Scotland declined by 3.0 per cent over the same time period. The East Renfrewshire death rate increased by 5.7 per cent between 2016 and 2017. East Renfrewshire has amongst the highest life expectancy rates in Scotland for both men (80.5) and women (83.7).

46. East Renfrewshire already has an increasing ageing population. By 2041, almost one quarter of East Renfrewshire will be aged 65 or over. In recent years, the number of people aged over 85 needing key services has been rising. This has an impact on our 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 we can expect the number of people with a need for home care or care home support to steadily increase year on year.



Source: NRS 2016-Based Population Projections, National Records of Scotland

47. All of these changes will lead to increased pressures for both the Council and local health services so close partnership working with the IJB will continue to be important.

48. The Council would expect to receive additional income from Council Tax due to an increase in the number of dwellings and increased General Revenue Grant from the Government.

49. The Council's Grant Aided Expenditure (GAE) is the most significant contributor to our overall grant from the Government. Whilst population is an important factor in calculating GAE, the calculation is extremely detailed and takes into account the age profile of the population, the number of schoolchildren and levels of deprivation as well as rurality. GAE is built up from a detailed analysis of the pressures on each service the council delivers.

50. East Renfrewshire Council's share of overall GAE has been steadily increasing as the population has grown with the Council's share of GAE increasing by over £800k in the last year alone. The Council now has a 2% share of the overall GAE, significantly higher than the population share of 1.75%.

51. This high share is as a result of the relatively high number of pupils at our schools in part due to larger than average family unit sizes and in part due to the level of placements at our schools. Our share of Education GAE at 2.3% is well in excess of our population share and, as education GAE is the highest weighted part of GAE at 56%, the effect on the council's budget is significant.

52. In overall terms it is estimated that the high pupil numbers will increase our expenditure by in the region of £30m as compared to an average council of a similar population and this is taken into account by the Government in estimating our budget needs.

53. Our share of social work GAE is slightly below our population share at 1.69% but this too has been steadily growing over recent years primarily as a result of our ageing population with the calculations giving us a high premium for those over 85 years of age who are likely to be in the most need of care at home or a residential place.

54. At times when the overall funding for Councils is declining in cash terms however, and the population of Scotland is increasing overall, the GAE formula may only lead to those councils with above average population growth receiving a slightly lower reduction than councils with average population growth. However it is expected that the Council will take an increasing share of Government grant over the next few years as the population grows at a faster rate than the population of Scotland as a whole and the GAE formula used to distribute Government grant is heavily influenced by population.

CAPITAL INFRASTRUCTURE

55. In terms of the capital infrastructure required to service our population's demands, the council has through its 8 year capital plan and its significant Capital reserve provision, taken steps to provide for the investment required in relation to population growth in the coming years.

56. Provision of new early learning and childcare facilities to deliver the statutory increase in entitlement to 1140 hours per year, additional school facilities to meet demands from new house building, and the need to replace assets nearing the end of their lives, will all require an increase in borrowing with a resultant impact on future years' revenue budgets for loan charge repayments.

57. More details of the Council's plans to address future capital needs are set out in the Capital Investment Strategy report, also on today's agenda.

CITY DEAL

58. Work continues to progress on the Council's £44 million of City Deal investment. In Newton Mearns, this will in the near future lead to opportunities for business startups and networking at the new facility at Greenlaw. At Barrhead North the remediation of the former Nestle site will provide exciting opportunities for retail and business and will create employment opportunities. The City Deal investment also includes significant projects which will improve the transport infrastructure to regenerate areas, link the communities of Barrhead and Eastwood and create access to employment. Proposed projects at this stage include a new railway station at Barrhead South, improvements to Balgraystone Road, improved road links from around junction 5 of the M 77 to Barrhead, the straightening of Aurs Road and the establishment of a Dams to Darnley Country Park visitor centre with appropriate infrastructure.

59. Whilst the majority of the funding of City Deal investment will be provided by both the UK and Scottish Governments, the Council will be required to contribute £6.2m as well as fund the cash flow over an extended period as most of the grant support will not be received until well into the future. This will require an increase in loans charges of £1.6m per annum by 2020/21.

LEGISLATIVE CHANGE

Entitlement to 1140 hours of Early Learning and Childcare provision

60. There is a new statutory duty to increase the entitlement to free early learning and childcare from 600 hours to 1140 hours per year for all 3 and 4 year olds and eligible 2 year olds by 2020. An overview of the capital consequences of this are contained in the separate paper concerning the Capital Investment Strategy at today's Council meeting.

61. To meet anticipated demand and provide flexibility for families the Council has a preferred delivery model which includes building new and extending some existing early years' provision alongside increasing ELC places provided by the private, voluntary and independent sectors and childminders.

62. Expansion to 1140 hours by 2020 requires a transformational increase in the early years workforce, which presents a significant challenge over a short period of time in addition to significant revenue resources to take forward an acceptable model to locally address the principles of quality, flexibility, accessibility and affordability.

63. Whilst additional capital and revenue funding will be available from the Scottish Government towards the costs of this new burden for the 2020 delivery date, this does not fully cover the Council's plans. East Renfrewshire Council nurseries and family centres have always been very popular with parents and at present there is a reasonable level of flexibility and accessibility to full day provision for families within their own geographical community. This level of flexibility and accessibility is at risk if the Council's resources continue to be restricted.

64. The Children and Young People (Scotland) Act 2014 requires local authorities to consult on early learning and childcare every 2 years. This will include seeking to address the changing needs of families with regards flexibility and choice and changes in provider status, reflecting available resources.

Potential changes to school governance and teacher number ratios

65. The governance of Education in Scotland is under a period of change. In June 2018 the Education Reform - Joint Agreement between the Scottish Government and Local Government was published. The Joint Agreement is based on the key principles that schools are empowered to make the decisions that most affect outcomes for their children and young people. We await further details on what is the potential impact for the council budget.

Educational Attainment

66. The 2019/20 provisional settlement included £120m for the Attainment Scotland Fund. This is ring fenced funding to support the delivery of equity and is to be distributed directly to schools on the basis of deprivation with a specific purpose to raise attainment for children and young people living with poverty. East Renfrewshire schools are expected to benefit by £1.386m. This spending must be additional and spend determined by head teachers in consultation with their school community including staff, parents and pupils; accordingly the Council is not at liberty to control any of this funding.

Participatory budgeting

67. In October 2017 COSLA Leaders endorsed the Community Choices Budgeting framework, which commits Councils to a target of 1% of our budget (just over £1.7m) to be subject to participatory budgeting by the end of financial year 2020/21.

68. During 2017/18, the Council linked a successful participatory budgeting (PB) process to the locality planning areas of Auchenback and ADD2 Barrhead. £100,000 was distributed to 33 community organisations delivering a range of projects within both localities. The locality PB process is being further developed in 2018/19. In partnership with the newly formed Linking Communities steering group, PB will extend to two more locality areas, Neilston and Thornliebank. Linking Communities will have responsibility for the allocation of £100,000 across the four localities using a PB approach.

69. A recent mainstream pilot of PB was undertaken by the Environment department, whereby the community of Neilston was allocated the parks budget for Neilston of £80,000 and, through community engagement by the local community council, the monies were invested in parks equipment and upgrades chosen by the community. Over the last few years East Renfrewshire Council and the HSCP have been increasing working with communities and community organisations to prioritise spend including the Balgray Reservoir Boardwalk community design project and the "Your Voice" group of HSCP service users. Building on learning from these projects, we continue to work with national and local partners as we develop our local framework to achieve this target.

Welfare reform

70. The reform of the Welfare System has led to changes in the responsibilities of councils and the levels of financial support available to residents. The Council has allocated a contingency fund to cope with these changes.

WIDER POLITICAL, SOCIETAL AND ECONOMIC CHANGEBrexit

71. The full impact of the decision to leave the European Union is still not known and will require to be monitored carefully as we approach the deadline of 29 March 2019. The most obvious local impact will be the loss of European funds to the council which account for an average annual income of £100,000 over the last few years, although the UK and Scottish Governments may well offer some degree of equivalent funding in future. In the shorter term, however, the nature of the UK's departure (i.e. hard or soft) will also impact upon many aspects of Council activities including procurement, workforce and legislative frameworks. Contingency planning is well advanced for the range of scenarios.

Economic uncertainty

72. Brexit and political changes around the world have led to uncertainty on world markets. Growth projections for GDP remain low and inflation is still above target levels. As previously stated, lower public spending settlements may be supported by short term fiscal stimulus efforts to avoid recession, together with longer term tax increases but longer term impacts will remain more difficult to forecast until the shape of the UK exit plan becomes clearer. Any economic detriment and related poverty would increase the demand on council services.

OUTLINE REVENUE FINANCIAL PLAN

73. 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.*" Over the last number of years the Council has considered and set multi-year budgets. This has assisted in managing extremely difficult financial circumstances and is a demonstration of the value of adopting a longer term approach to financial planning. It is proposed that the Council continues to adopt this longer term approach.

74. Following publication of the UK Autumn Budget on 29 October 2018, the 2019/20 provisional Scottish Council settlement figures were announced on 12 December 2018 and were subsequently updated during January 2019.

75. The latest local government settlement figures are slightly more favourable than originally forecast with a like for like cash reduction of 1.6% for East Renfrewshire. The position has, however, been exacerbated by increased spending pressures, particularly in relation to pay offers and teachers' superannuation contributions.

76. The impact of the settlement on the Council results in a shortfall for 2019/20 of £1.886m. This is after applying both the detailed savings and the 3% Council Tax increase agreed for 2019/20 following the budget consultation exercise in autumn 2017.

77. Detailed proposals to address this shortfall will be presented to Council later on today's agenda.

78. Looking further ahead and taking account of future expenditure pressures currently foreseen, Table 1 below illustrates how varying grant levels could require savings of £4.788m to £18.924m per year from 2020/21 until 2024/25. From 2020/21 onwards the estimated savings requirements have been calculated on the basis that a 3% Council Tax increase is applied each year. It should also be noted that £7.036m of the 2020/21 savings requirement has already been identified and agreed by Council on 2 March 2018. Assuming annual grant reductions of 1% in cash terms, an average savings gap of £11.407m per year is forecast over the next 5 years. As such, officers must continue to update and develop long term financial plans and options for consideration within our multi-year budgeting approach to ensure that these can be factored into business/service planning, together with workforce and asset plans. The move to multi-year settlements at a national level will assist with this.

Table 1

CASH MOVEMENT 2020/21 ONWARDS					
FORECAST ANNUAL BUDGET GAP	+1%	0% (FLAT CASH)	-1%	-2%	-3%
	£M	£M	£M	£M	£M
2020/21	9.338	11.134	12.930	14.726	16.522
2021/22	12.030	13.807	15.548	17.254	18.924
2022/23	7.395	9.208	10.950	12.622	14.225
2023/24	4.788	6.619	8.344	9.965	11.486
2024/25	5.704	7.553	9.261	10.832	12.274

79. Whilst the outlook for the 5 years beyond 2020/21 is illustrated in Table 1, our planning will also flag up and take account of any other major longer term issues impacting on financial forecasts over an even longer time horizon. Such items might include future expiry of PFI contracts, repayments of major tranches of loan charge debt or significant planned legislative change. This will be updated to take account of any proposed changes to

local government funding arrangements once the alternative to the current Council Tax system is determined.

MITIGATING ACTIONS

80. The Council has always taken a long term approach to financial planning. Whilst the scale of the budget cuts and the time period over which they would be implemented could not have been foreseen in 2008, the principles behind the approach to long term financial planning have stood the test of time. The focus has been on developing a very clear strategy to allow priorities to be identified and a very ambitious long term transformation programme to maximise all possible efficiencies in the Council.

STRATEGY FOR THE FUTURE

81. In light of the changes to community empowerment legislation East Renfrewshire Council and its community planning partners have developed a revised approach to the outcomes in our key strategic plans:

- East Renfrewshire's Community Plan covers our 5 overarching strategic outcomes:-
 - **Early Years & Vulnerable Young People**- All children in East Renfrewshire experience a stable and secure childhood and succeed.
 - **Learning, Life and Work**- East Renfrewshire residents are healthy and active and have the skills for learning, life and work
 - **Environment & Economy** - East Renfrewshire is a thriving, attractive and sustainable place for residents and businesses
 - **Safer, Supportive Communities**- East Renfrewshire residents are safe and live in supportive communities
 - **Older People & People with Long Term Conditions** - Older people and people with long term conditions in East Renfrewshire are valued; their voices are heard and they enjoy full and positive lives.
- Fairer East Ren, our Local Outcomes Improvement Plan, is focused on tackling inequality and closing the gap between communities of place and interest, Fairer East Ren will be the main way in which all our Community Planning partners will work together to reduce the embedded inequalities in East Renfrewshire.
- Additionally we have two Locality Plans which have been co-produced with communities within localities who are experiencing poorer outcomes than Scotland or the rest of East Renfrewshire.

82. Changes to the legislation surrounding Community Planning have required that the Community Planning partners develop Local Outcome Improvement Plans as well as locality plans for areas with high levels of deprivation. Such changes are a natural progression of the way we have been working with partners and these changes have not led to a significant change in direction or the 5 outcomes.

83. Our clearly stated vision is to be a “Modern, Ambitious Council creating a Fairer Future with all”. As part of our strategy, we focus on developing our 5 capabilities. i.e. prevention, empowering communities, data, modernisation of how we work and digital. We aim to be excellent in each of these capabilities and then use them to redesign our services to make them more effective and more efficient

84. These capabilities have formed the basis of our transformation programme over the last 4 years. The many service improvements and savings that the council has achieved have been enabled by the 5 capabilities and these capabilities will continue to drive improvement in the future.

MODERN AMBITIOUS COUNCIL PROGRAMME (MAP)

85. Whilst significant savings have already been achieved, the very difficult financial circumstances facing councils are expected to continue for the foreseeable future so the scale of change will need to be maintained. MAP is working towards creating and implementing the modern, digitally enabled organisation that we want to be, based on an evolving picture of what our future council might look like. It is building on the 5 capabilities, particularly focusing on the areas of digital, data and modernising the way we work, whilst enabling future savings contributions.

86. Under the banner of our MAP programme we are implementing a range of “enabler” projects and service redesigns which will help us achieve significant savings in future years. A total of £9.6m (70%) of the 2018-21 agreed savings (including £4.2m (67%) for 2019/20) arise from efficiencies, through the Council’s MAP programme or as a result of our focus on the Council’s 5 capabilities.

87. Savings plans up to at least 2020/2021 have already been drafted under the leadership of the Corporate Management Team and are currently being reviewed to take account of our latest forecasts. Each department in the Council, through its own change programme to modernise and digitise services, contributes to the delivery of the overall MAP programme. Whilst it is recognised that it will become progressively more difficult to identify efficiencies in future, it is the Council’s aim to identify at least £3m of savings per year through efficiencies or change projects. This target will be reassessed on an annual basis.

88. East Renfrewshire Council has a policy of always taking a prudent approach to the calculation of savings. Savings are only included in formal budgets once we have a high degree of confidence that they can be achieved (and in many cases are already in place through work in previous years).

89. The key principles behind the programme that will lead to budget savings are:

- Continue implementing our ambitious Digital Strategy to become a fully digital Council, with more digital transactional services which are easy for the customer to use and which will reduce administration costs considerably
- More community empowerment and self-directed support in the design of services to provide services which meet the needs of individuals and communities better and potentially at lower costs
- A long term direction to invest in prevention activity to reduce the cost of services in the longer term
- Improving the sharing and management of data across the organisation.

90. There are significant programmes of work underway moving at a considerable pace right across the Council and HSCP and there are cross-cutting programmes for digital and core systems, with a further programme around data now emerging. These are covering some complex and challenging areas which challenge the most fundamental building blocks of how we operate (e.g. our financial systems and core business platforms). These are resource intensive areas of work but, given the right input and commitment, have real opportunity to transform the way we work and deliver efficiencies for the future.

PARTNERSHIP WORKING

91. The Council has already benefitted from joint working with other bodies in providing services and has delivered savings through the early adoption of integrated management of health and social care services in 2006, the establishment of the Integration Joint Board in June 2015 and through initiatives such as sharing Renfrewshire Council's Non Domestic Rates system. We anticipate further savings from this approach in future, e.g. through participation in the Clyde Valley Waste project, and we will continue to seek further opportunities to maximise efficiencies in this way.

SERVICE REDUCTIONS

92. Given the likely continuing constraints in cash terms on the Local Government budget over the foreseeable future and the increase in demand for services, it is very unlikely that the MAP programme will be able to deliver the full scale of budget savings required. It is likely that a reduction in service levels will be required to ensure a balanced budget. The strategy for service reductions will be heavily influenced by the policy and manifesto commitments of the administration of the Council. The present policy can be summarised as follows:

- Service cuts will only be taken once all possible efficiency savings have been taken, with an expectation that officers will deliver an ambitious programme of savings based on the 5 capabilities.

- Services will be maintained at statutory levels
- Any conditions of Scottish Government grant will be met e.g. teacher numbers, IJB funding
- Outcomes for our most vulnerable residents will be protected where possible
- Staff will be treated fairly and compulsory redundancies avoided where possible

93. To date, even where there have been significant changes to service provision the outcomes achieved for residents have, in the main, been protected and key performance measures have continued to increase. However if future budget cuts are as high as predicted, this will not continue and a more radical programme of future service cuts will be required.

INCOME GENERATION

Council Tax

94. In 2019/20 Councils are free to increase Council Tax by up to 4.79% (3% in real terms) without a penalty to the Grant settlement. The Council has already committed to increasing Council Tax by 3% in 2019/20 and 2020/21 in setting out its 3 year budget plans on 2 March 2019. A further increase to 4.79% in 2019/20 would provide additional income of around £0.970m for the Council in that year. A similar increase in 2020/21 would produce a cumulative increase of almost £2m. At present it is unknown whether future grant settlements will continue to impose a cap on increases.

Charging For Services

95. Each year the Council reviews charging for services. In general an inflationary rise is applied but market conditions are also taken into account, especially when there is alternative provision available to residents. During 2015 Sports and Leisure services were transferred to a Culture and Leisure Trust, allowing the management team to take a more commercial approach, to access additional sources of funding whilst still working as a charity for the residents of East Renfrewshire. Other sources of income generation will also be explored by the Council for future years, including new options set out in the 2019/20 settlement.

USE OF RESERVES

96. The Audit Scotland Financial Overview 2017/18 paper noted the level of usable reserves had fallen in more than half of Scottish councils by the end of the year as financial pressures continue to build. Forecast levels of this Council's usable reserves, including graphical illustrations of trends, are considered as part of the Revenue Estimates report later on this agenda.

97. 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.

98. The Local Authority Accounting Panel (LAAP) Bulletin 99 on Reserves and Balances provides guidance to Chief Financial Officers in the area of using reserves to fund recurrent expenditure as follows:

“It is not normally prudent for reserves to be deployed to finance recurrent expenditure. CIPFA has commented that Councils should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is taken, this should be made explicit, and an explanation given as to how such expenditure will be funded in the medium to long term. Advice should be given on the adequacy of reserves over the lifetime of the medium term financial plan, and should also take account of the expected need for reserves in the longer term”

99. It is important that members understand that any use of Reserves is a short term, one off measure and is only justifiable to address non-recurring pressures or on the basis that there will be a fundamental review of Council budgets over the next year.

100. As at 31 March 2019 the Council forecasts holding unallocated General Reserves of £9.635m. This represents our stated policy of holding 4% of our revenue budget as a general reserve. Auditors broadly consider reserves of between 2 and 4% to be prudent. Should it be decided to meet any of the gap from reserves in 2019/20, these would have to apply only to one off items or the savings would simply be deferred to future years. Should members wish to utilise reserves to help balance the budget in the short term, it is recommended that this should be kept to a minimum and used as far as possible only to cover one off or short term spending pressures or where recurrent savings are expected to be identified in the near future.

Future Workplan

101. Accountancy staff have been reviewing financial pressures and funding levels for the coming year and finalised budget proposals for 2019/20, together with indicative budgets for 2020/21 are contained later on today's agenda for approval. Work will continue in updating budget scenarios for the period to 2025 with a view to continuing with multi-year budget planning in future.

102. The timescales for submission of the Council's financial plans are listed below:

Plan	Approval
Financial Plan 2019/2025	Council, February 2019
Capital Investment Strategy	Council, February 2019
8 year Capital Plan 2019/2027	Council, February 2019
2 Year Revenue Budget 2019/21	Council, February 2019
Financial Plan 2020/2026	Council, February 2020
Updated Revenue Budget 2020/21	Council, February 2020

CONCLUSIONS

103. In view of the significant financial and demand pressures facing the Council over the current and next five years it is essential that the Council's financial plans are 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 term needs and consequences.

RECOMMENDATIONS

104. It is recommended that the Council: -

- (i) notes the continuing budget pressures anticipated in the next 5 years and the mitigating actions proposed; and
- (ii) approves the draft Outline Revenue Financial Plan 2019 – 2025

Further information is available from M. McCrossan, Head of Accountancy, telephone 0141 577 3035.

KEY WORDS Revenue Estimates, Council Tax, Reserves and Balances, Financial Planning