

EAST RENFREWSHIRE COUNCILAUDIT AND SCRUTINY COMMITTEE1 March 2018Report by ClerkNATIONAL EXTERNAL AUDIT REPORTLOCAL GOVERNMENT IN SCOTLAND: FINANCIAL OVERVIEW 2016/17

1. To provide information on the Audit Scotland report *Local Government in Scotland – Financial Overview 2016/17*.

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 2016/17*, published in November 2017, 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 2016/17*

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INTRODUCTION

1. In November 2017 Audit Scotland prepared a financial overview report of local government in Scotland. This report advises members on the Council's position in relation to the findings from the report.

INCOME AND BUDGETS

2. Part 1 of the report considered Income and Budgets and found that funding reductions were exacerbated by increasing demand, leading to the need for ambitious savings plans to be prepared. East Renfrewshire is experiencing rising demand in respect of school age children and the very elderly and had to find savings of £7.5m in 2016/17 and a further £7m in 2017/18. Savings plans for 2018/19 are now being finalised.

3. The report raised concerns that the continuing need for savings may impact on levels of service. This is a real risk which the Council acknowledges, however we strive to protect frontline services when determining our savings and we have focussed on the Modern Ambitious Programme of change and on preventative spend as means of reducing budget pressures in future years. In 2017/18, 70% of the Council's planned savings related to efficiency measures although this will be increasingly difficult to maintain in future.

4. In common with all other Councils, 2017/18 budget setting was rendered more complex by the provision of a settlement for one year only. This makes long term planning more difficult. The process was then further complicated by the late announcement of a change in Government grant funding shortly before Council budgets were due to be announced. These issues have been faced again in preparing the 2018/19 budget but, despite the challenges, the Council still intends to publish plans for a 3 year budget for the period 2018/2021.

5. With regard to capital expenditure, East Renfrewshire is similar to other Councils in having to increase borrowing to fund investment plans as capital grant levels do not match our requirements. To date, however, the Council has been able to minimise additional borrowing as we had built up a substantial capital reserve in anticipation of the need to provide new school facilities as a result of new house building in the area. As the Council's capital reserve will largely be applied in the next few years, future capital plans will have to rely more heavily on increased borrowing.

FINANCIAL PERFORMANCE

6. All Councils had unqualified accounts for 2016/17 and in East Renfrewshire's case we also had no unadjusted errors. The report stated that Councils could more clearly explain their financial performance and our external auditor has welcomed East Renfrewshire's efforts to make the Management Commentary within our annual accounts more user friendly.

7. As in 2015/16, some Councils had drawn on their reserves to address budget gaps in 2016/17, with some Councils now in danger of running out of reserves in the next few years.

In some cases, the draws on reserves were unplanned. Neither of these were the case in East Renfrewshire where we operated within budget for the year, increased our level of earmarked reserves and maintained our General Fund unallocated reserve at the planned level of 4% of budgeted revenue expenditure. The Council does expect to use £2.8m of General Fund reserves in 2017/18 but this will only be used to fund non-recurring expenditure so will not increase future budget pressures.

8. The report notes that budget setting could be more robust across the country and cites examples of significant over or underspends occurring during the year. In East Renfrewshire we have historically returned annual underspends and, whilst this has the benefit of increasing reserves at year end, this could also mean that budget savings applied are greater than necessary. The Council has addressed this issue over the last 18 months as detailed in the report considered by Council on 13 December 2017. <http://www.eastrenfrewshire.gov.uk/CHttpHandler.ashx?id=21595&p=0>

9. This section of the report also commented on the rising levels of debt reported by Councils. As mentioned above, East Renfrewshire has sought to minimise borrowing but did draw down £5m of planned new borrowing in 2016/17 and a further £15m in 2017/18. This trend will continue in future years but application of the CIPFA Code of Practice and the consideration of the Prudential Indicators prior to setting the annual budget will ensure that servicing the debt continues to be affordable.

10. The report noted that many Councils had experienced slippage in their capital programmes. This has also been the case in East Renfrewshire and efforts are being made to ensure that plans are more realistic, however much of the slippage often relates to items which the Council cannot control such as unexpected ground conditions or the actions of third parties/utility providers.

FINANCIAL OUTLOOK

11. Finally, the report reiterated the concerns reported above relating to savings and the reliance on reserves. To address the difficult decisions facing Councils as a result of future financial pressures, the implementation of medium to long term strategies and plans was required. East Renfrewshire has a long term Financial Plan which is updated annually, as is our Capital Investment Strategy which is founded on our Asset Management Plans and links to our Capital Plan. These, together with the Council's Reserves Policy and workforce plan feed in to the overall consideration of our 3 year budget and medium to long term planning.

12. Strong leadership will be required in taking the difficult decisions on savings and it was seen as important for Councils to engage with communities when planning these actions. The Council's recent public consultation on our 3 year budget plans (including our introduction of the Budget Simulator tool) has been acknowledged as good practice in this regard.

CONCLUSION

13. The report outlines the main issues facing Scottish Councils in 2016/17. Overall East Renfrewshire is well placed in terms of addressing these but will continue to face substantial financial challenges in future.

RECOMMENDATION

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