

EAST RENFREWSHIRE COUNCILAUDIT AND SCRUTINY COMMITTEE2 March 2017Report by ClerkNATIONAL EXTERNAL AUDIT REPORTLOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW 2015/16**PURPOSE OF REPORT**

1. To provide information on the Audit Scotland report *Local Government in Scotland – Financial Overview 2015/16*.

RECOMMENDATION

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

BACKGROUND

3. Copies of the Audit Scotland report *Local Government in Scotland – Financial Overview 2015/16*, published in November 2016, have already been circulated to all Audit and Scrutiny Committee Members. Under the Committee's specialisation arrangements, the Members who are leading the review of the report are Councillor Wallace and Councillor O'Kane. In accordance with arrangements established by the Committee for dealing with such reports, the Head of Accountancy has provided comments on it. A copy of the feedback is attached (see Appendix 1).

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 2015/16*

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INTRODUCTION

1. In November 2016 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 SPENDING

2. Part 1 of the report considered Income and Spending and found that the long term decline in grant funding was expected to continue, with Councils facing even greater budget pressures in future. Some Councils had already drawn on their reserves to address budget gaps in 2015/16 but this was not the case in East Renfrewshire where we increased our level of earmarked reserves and maintained our General Fund unallocated reserve at the planned level of 4% of budgeted revenue expenditure.

3. Some Councils had overspent departmental budgets in 2015/16 – particularly in Social Work services due to the demands arising from an ageing population. Again, this was not the case in East Renfrewshire Council where all departments operated within budget for the year. Regular budget monitoring reports are submitted to Cabinet during the year and all of these include projected outturn forecasts.

4. The report also stressed the need for Councils to ensure that budgets reflect true spending patterns to assist in effective financial planning. East Renfrewshire Council has already addressed this in a number of ways:-

- i. Future service pressures are identified as far in advance as possible and built into budgets for the coming year as part of the annual estimates exercise.
- ii. Departmental budgets are broken down into service, sub service and cost centre levels as appropriate to assist with monitoring and the position is reviewed annually during the budget exercise. For example, the HSCP have recently been reviewing how their budgets are split down to ensure that these align with anticipated demand.
- iii. In year budget movements are reported in regular revenue monitoring Cabinet reports.

5. The need for long term financial strategies and plans that align with Council priorities and are supported by medium term financial plans and budget forecasts was emphasised. Whilst East Renfrewshire Council's Financial Policy has historically been to take a long term view of financial planning this position has been formalised in recent months with the approval of the Financial Plan 2017-2022 and the Reserves Policy. This will be further discussed later in this report.

6. The report also references the format of published annual accounts, particularly the Management Commentary where the aim is "to present the financial story" of a council in an understandable format for a wide audience." Members will note that for 2015/16 East Renfrewshire Council modernised its Management Commentary, introducing a range of infographic information to make the content more transparent and accessible to readers.

7. Another area examined was the level of Council Tax collected in year (i.e. by 31 March 2016) for 2015/16. Overall, Councils collected 95.7% of billed Council Tax by 31 March 2016. In East Renfrewshire 97% of billed Council Tax was collected in year with the expectation that this would rise

to just over 98% in total as recoveries continue to be pursued after year end. The Council also benefits from some buoyancy in Council Tax income as new housebuilding continues across the area.

8. Income from fees, charges and specific grants was another area examined. East Renfrewshire continues to adopt good practice in considering local competition, impact on residents, service uptake and other local authorities' charges when reviewing our charges in the annual Charging for Services exercise reported to Cabinet each year. Overall income from fees and charges reported in the accounts fell for 2015/16 but this is explained by the transfer of services to the East Renfrewshire Culture and Leisure Trust during the year. The Council is now participating with other authorities in a joint initiative to identify and explore new income generation opportunities.

9. Capital expenditure and funding were also reviewed in the report. Given ongoing constrained capital grant levels, combined with a need to provide facilities for our rising population, the Council has built up substantial capital reserves so we can deliver the required infrastructure – especially schools. Nevertheless, some additional borrowing will also be required to support the capital plan, including City Deal projects. So as to closely monitor its large capital programme, the Council has increased the level of narrative detail in its regular capital reports to Cabinet on the financial and physical progress of schemes and has increased the Capital Asset Management Group role in challenging projects and performance.

10. Finally, the report considered councils' payments in relation to staff reductions and equal pay claims. The Council follows good practice in our arrangements for one-off payments to staff whose posts are no longer required, with voluntary redundancy or early retirement business cases required to demonstrate payback within 3 years before approval is granted. Further, the Council has made excellent progress in settling its equal pay claims and there are no significant amounts outstanding.

FINANCIAL OUTLOOK

11. Part 2 of the report addressed the financial outlook facing Councils and recognised that there is likely to be pressure to utilise reserves that have been built up over many years. It stresses that any use of reserves should be in line with an annually reviewed reserves policy, linked to future financial plans and not to support recurring spend. In previous years the Council has reviewed its reserves as part of reporting on the annual budget and accounts exercises, however in February 2017 the Council agreed a formal Reserves Policy report which increases transparency on the purpose and governance of reserves. The utilisation of reserves agreed in the recent 2017/18 revenue estimates exercise is in accordance with good practice guidance.

12. It was noted that Councils' net debt has fallen slightly in recent years, largely due to Councils holding higher levels of cash reserves which they can invest or use to fund capital spend and delay the need for borrowing. As reported in the recent Treasury Management Strategy report this is true of East Renfrewshire Council, although an increase in borrowing will be required in the coming years as capital reserves are utilised and City Deal projects require to be funded.

13. The different elements of Councils' debt were also considered. These include traditional fixed rate borrowing, variable rate borrowing and PFI/PPP/NPD type schemes. Again, these areas are considered in the Council's annual Treasury Management Strategy report. Members can also be assured that the PFI/PPP affordability gap, arising from revenue grant support for such schemes being cash limited, is being addressed through contributions made to the PFI/PPP Equalisation Reserve.

14. Debt can also be split between General Fund and HRA. Whilst we are not required to report this split in the annual accounts, consideration will be given to including this information in the 2016/17 Management Commentary. Overall, however, East Renfrewshire Council is shown to have the lowest proportion of debt to annual income of Scottish mainland Councils.

15. The final area addressed in the report is long term financial planning. In this regard medium term is seen as 2 to 5 years and long term 5 to 10 years.

16. Whilst we have a Financial Policy that is updated each year as part of our revenue estimates exercise and officers in East Renfrewshire normally have financial plans for the current plus at least two years with financial modelling done for several years beyond this, we had not published a formal financial strategy specifically linking these to our strategic priorities or included financial information beyond 2017/18 in our Outcome Delivery Plan. We have therefore been regarded in the report as one of three Councils who did not have a medium or long term financial strategy. The report does, however, recognise that we have medium to long term financial plans in place.

17. A report has since been agreed by Council on 9 February 2017 setting out the Council's long term financial plans for 2017-2022 and linking these to the Council's strategic aims <http://www.eastrenfrewshire.gov.uk/CHttpHandler.ashx?id=19437&p=0>. This also sets out the Council's approach to identifying savings and addressing future budget pressures as far as possible through efficiencies generated from our Modern Ambitious Programme.

18. In addition, the Outcome Delivery Plan now being developed will include outline financial information up to 2020. And as 2017/18 is the final year of the Council's current three year revenue budget and we are hopeful that multi year settlements for local authorities will resume from 2018/19, it is proposed to develop a three year revenue budget plan for the period 2018/19 to 2020/21.

CONCLUSION

19. The report outlines the main issues facing Scottish Councils in 2015/16. Overall East Renfrewshire is well placed in terms of having already addressed these but will seek to further improve our position in future by providing a split of General Fund/HRA debt in the 2016/17 Management Commentary and in setting out indicative departmental budget figures for 2018-2020 in the current updating of our Outcome Delivery Plan.

RECOMMENDATION

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

Margaret McCrossan, Head of Accountancy
10 February 2017

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