

EAST RENFREWSHIRE COUNCIL25 February 2021Report by Head of Accountancy (Chief Financial Officer)REVENUE ESTIMATES 2021/22**PURPOSE OF REPORT**

1. To submit for approval outline revenue estimates of income and expenditure as the basis for the Council Tax declaration for 2021/22.

RECOMMENDATIONS

2. It is recommended that the Council: -

- (i) approves the outline revenue estimates for 2021/22 (Annex A);
- (ii) agrees that the detailed budgets and savings to be applied should be determined by Council after the final confirmation of the Scottish Government grant settlement;
- (iii) agrees to hold a further meeting of the Council on 15 March 2021 to determine detailed budgets and savings to be applied for 2021/22;
- (iv) approves the recommended level and utilisation of reserves;
- (v) determines the Council Tax Band D level for 2021/22 at £1,289.96; and
- (vi) notes that management of the Council's finances and service plans will continue to be undertaken on a longer term basis.

REVENUE BUDGET PROCESS

3. In approving the revenue estimates in recent years the Council has recognised that the future financial position was likely to remain very difficult in terms of spending pressures, demand for services and level of government grant. Accordingly, the Council has adopted a long term financial planning policy which assumes a real terms reduction in available budgets. This position remains appropriate with the Scottish Government's Medium Term Financial Strategy, updated in January 2021, and recent economic forecasts anticipating ongoing financial challenges in the coming years.

4. Recognising these ongoing financial pressures, the Council has reviewed and updated its long term Financial Plan for 2021-27, also on today's agenda. As agreed at the Council meeting on 24 June 2020, revenue budgets to be considered today will cover 2021/22 only but it is expected that detailed 3 year budget setting will resume from 2022/23 when multi-year settlements should be provided by the UK and Scottish Governments. In keeping with our longer term financial approach, however, departmental modelling of the Council's financial position will also continue internally for the three years 2021/22 to 2023/24 in support of our Outcome Delivery Plan.

5. In summer 2017 savings proposals to address forecast funding shortfalls for the next three financial years were identified. These proposals were subject to extensive consultation and active engagement with the Council's communities, service users, employees and partners in autumn 2017, with consultees being invited to provide their views on the budget savings proposals set out. Feedback from that engagement exercise informed the development of the savings measures proposed by the Council covering the financial years 2018/19 to 2020/21. In view of COVID-19 delaying the confirmation of Council settlement figures as a result of the deferral of the UK and Scottish budgets until 3 and 9 March 2021 respectively, a new three year budget and associated savings proposals could not be compiled and the Council agreed to produce only a single year budget for 2021/22. Three year budget setting and public consultations will resume from 2022/23.

6. As a part of the process for constructing the budget proposals for the next financial year, departments compiled detailed budget information on the cost of services to be provided in 2021/22. In practice this represents the cost of maintaining existing service levels and in addition providing for: -

- The impact of inflationary pressures including pay awards
- Scottish and UK Government initiatives
- Cost of Council decisions and legal commitments
- Revenue implications of the Capital Programme
- Increased demand for services from growing population

7. Due to the COVID-19 pandemic, the normal budget timetable has been significantly altered for 2021/22. The Scottish Government circular announcing the Council's provisional 2021/22 grant figures would usually have been issued in mid December 2020 but was actually only issued on 28 January 2021. As Scottish Parliament final approval of the Scottish budget will not be confirmed until 9 March 2021 and the UK budget will not be published until 3 March 2021, there is the chance that the settlement figures could be further amended in the coming weeks. Nevertheless, the Council has kept to the planned budget setting date due to the necessity to set Council Tax and issue bills to residents prior to the start of the new financial year.

8. As there is a significant chance of late changes to the settlement, as was experienced last year, the Council proposes to set only an outline budget at present and to confirm detailed budgets and savings plans in the coming weeks once the full settlement is confirmed. The Council has identified sufficient savings options but will only implement those which are absolutely necessary.

9. The budget process has involved consultation with Trades Unions both at departmental and corporate levels and formally through the Joint Consultative Committee and this will continue.

SCOTTISH GOVERNMENT GRANT FUNDING 2021/22

10. Aggregate External Finance (AEF) is the mainstream grant support for the Council. It is determined by the Scottish Government and comprises: -

- General Resource Grant
- Specific Grants
- Income from Non Domestic Rates

11. For comparative purposes budgeted grant levels are as follows:-

	REVISED	
	AEF 2020/21	AEF 2021/22
	£000	£000
General Revenue Funding	168,622	178,464*
Specific Grants	7,791	8,505
Non Domestic Rates	<u>14,877</u>	<u>9,107*</u>
	<u>191,290</u>	<u>196,076</u>

*The 2021/22 General Revenue Funding above has been increased in part to compensate for the loss of NDR income due to COVID rating reliefs.

12. The grant figures above relate to normal Council operations only and do not include Scottish Government funding specifically to address COVID pressures. Such funding will be provided separately through government grants or through the power to apply fiscal flexibilities (effectively the ability to extend Council borrowing to cover COVID costs). As such, COVID pressures have not been reflected in the budget figures in this report and have not added directly to the 2021/22 budget shortfall addressed here. Any impact on future years' borrowing costs will be addressed as part of our longer term Treasury Management Strategy to be considered at the next meeting of the Council.

13. The 2021/22 general revenue grant allocation includes additional funding for IJB integration commitments (£1.4m) and additional support for Councils who choose to freeze Council Tax for the year (£1.8m). The specific grants for 2021/22 include an additional £0.7m for early learning & childcare extension. This gives a total of new monies of £3.9m.

14. The Specific Grant figure incorporates £1.327m ring fenced funding to support educational attainment. This is a similar level to 2020/21 and must be distributed to head teachers for them to determine utilisation and as such the expenditure cannot be directed by the Council.

15. After adjusting for new grant funding as set out in paras 12 and 13 above, the 2021/22 settlement equates to a cash increase of £0.9m (0.45%) on a like for like basis against the current year. In broad terms this figure consists of:

- A decrease of £0.3 m to reflect grant distribution changes between Councils
- An increase of £2.7m as our share of the overall funding increase to Councils
- A decrease of £0.1m to reflect an expected reduction in historical loans support
- A decrease of £0.4m to reflect an assumption of buoyancy in council tax collection
- A decrease of £1.0m to reflect an increased contribution to the floors arrangement

16. The Council's 2021/22 grant settlement therefore makes only limited provision for any inflationary or local demand pressures faced by the Council, so most of the pay and price increases, service demands and other pressures (such as consolidation of the Living Wage) are not funded through Scottish Government grant but need to be self-funded by the Council. These represent a total pressure of around £8.6m to be absorbed by the Council for 2021/22.

17. As a part of the grant settlement for 2021/22, the Scottish Government expects that:

- Nationally Councils will maintain teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher induction scheme;

- Councils who accept the additional grant amount will freeze Council Tax; and
- Council contributions to IJBs will be maintained at least at a flat cash level before the new funding commitments of £1.4m are added.

18. The budget proposals submitted for Council consideration assume delivery against the above points in 2021/22.

“FLOORS” ARRANGEMENT

19. In determining grant distribution the Scottish Government has again put in place a “floors” arrangement to ensure year-on-year stability in grant at individual Council level. The cost of bringing local authorities up to the “floor” is borne by the remaining Councils. Under this arrangement East Renfrewshire will contribute £1.799 million by way of deduction from AEF grants in 2021/22. This is £1.035m higher than in the current year despite the Council’s reducing proportion of the national grant allocation and reflects the high level of support distributed to a small number of other Councils. This contribution has been reflected in the above figures.

NON DOMESTIC RATES INCOME

20. Non-domestic rates income is paid into a central pool which is then distributed as part of AEF. The amount paid to Councils from the pool is fixed for each year with any surplus or shortfall in the overall pool being adjusted in the following year’s rate poundage or AEF settlement. The forecast for NDRI draws on Councils’ estimates of the amounts they will contribute to the pool. Included in the calculation are: gross income; expected losses from appeals; in-year cost of transitional relief; mandatory and other reliefs; write-offs and provisions for bad debts. For 2021/22 the amount of NDRI distributed is significantly reduced because of rates reliefs awarded to businesses to address COVID impacts and to stimulate the economy. General Revenue grant has been increased to compensate for this.

FINANCIAL OUTLOOK

21. 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. Given the ongoing challenging financial outlook it is proposed that the Council continues to adopt this longer term approach and this has been set out in the Council’s Financial Plan for 2021-27.

22. As multi-year Scottish and UK Government settlements are not available, it is proposed to agree budget plans only for 2021/22 at today’s meeting. Council officers will continue to model departmental figures for 2021/22 to 2023/24 and continue to update longer term figures (as set out in the Financial Planning 2021 – 2027 paper on today’s agenda) for longer term financial planning purposes. The Council anticipates approving a further 3 year budget in February 2022 once multi-year figures have been announced by the Scottish Government.

23. Further, to allow enough time for the production and issue of Council Tax notices to residents, the Council meeting to consider budget and Council Tax plans has been scheduled for the end of February. As our financial settlement will not be confirmed until 9 March, it is recommended that an outline budget only will be agreed today with detailed budgets to be agreed at a subsequent meeting in mid-March once the final level of savings required has been confirmed.

24. Taking account of the 2021/22 settlement announcement, the base assumption of a 3% uplift in Council Tax income, updated expenditure information and an expectation of some Council Tax buoyancy from new housebuilding, a total budget shortfall of £8.519m has been confirmed for the coming year. This is some £3m lower than the expected shortfall when the indicative budget for 2021/22 was estimated in February 2020 and is the result of the higher than forecast grant support being partly offset by a significant increase in social care contract costs.

25. As explained in the Financial Planning 2021-27 report, further cash reductions in grant are forecast for the years following 2021/22, producing ongoing shortfalls for the next five years. For 2022/23 a mid-range budget shortfall of £9.338m is forecast, after applying an assumed 3% Council Tax increase for that year. It is important that the Council continues to manage this scenario in line with its longer term financial management strategy.

COUNCIL TAX

26. The Council's settlement includes additional grant of £1.802m (equivalent to a 3% Council Tax increase) on condition that Council Tax is frozen for 2021/22. The Council's published forecasts had been based on a 3% assumed Council Tax increase and it is therefore proposed to accept this additional grant and avoid any increase for local Council Tax payers in the current challenging economic circumstances. It is assumed that this additional grant will be baselined for future years and the Council is seeking confirmation on this point to assist with longer term planning.

27. The Council implemented its new Council Tax system in December 2020 and will be using this for the first time to produce annual bills in March 2021.

RESERVES AND SAVINGS PROPOSALS

28. Budgets are closely monitored throughout the year and the latest 2020/21 monitoring forecasts a non COVID related underspend of £2.472m by the year end. This has been taken into account when considering the scope for a draw on reserves. It is therefore considered that a further £3 million of the outstanding 2021/22 savings requirement can be deferred on a short term basis by a drawdown from unallocated general reserve funds. As a result, the budget shortfall for 2021/22 can be reduced to £5.519m.

29. To permit the Integrated Joint Board and the East Renfrewshire Culture & Leisure Trust to proceed with their own scheduled budget setting plans, it is proposed to confirm the Council's contributions to these bodies today, as set out in Annex A. Since these bodies will determine the detail of their own share of the overall savings target, this leaves a savings figure to be addressed by Council departments of £3.503m.

30. Directors have compiled 2021/22 savings options totalling £9.434m for Council services, so these will be more than sufficient to cover the remaining gap.

31. As there is scope for further changes to the settlement as the UK and Scottish budget figures are confirmed on 3 and 9 March 2021 respectively, and with recent years' experience suggesting that grant could increase at a late stage, it is proposed that confirmation of detailed 2021/22 budgets and savings plans is deferred to a later Council meeting in mid March when final settlement figures are known.

32. Should a similar level of additional funding to that made available in recent years (around £1.8m) be confirmed, the outstanding gap would be further reduced and some of the most challenging savings could be deferred.

NET EXPENDITURE

33. The resulting revenue estimates for 2021/22 provide for net expenditure of £258.343 million, made up as follows:-

	BUDGET 2021/22 £m
<i>Education*</i>	148.556
Contribution to Leisure Trust	5.295
Contribution to IJB	54.319
<i>Environment*</i>	27.210
<i>Community Resources*</i>	12.873
<i>Chief Executive's - Non Support*</i>	0.065
<i>Chief Exec/Corp Servs – Support*</i>	0.317
Joint Boards	2.359
Contingency - Welfare	0.200
Capital Financing Costs	8.863
Other	1.789
<i>Savings yet to be applied*</i>	(3,503)
	258.343

34. Welfare reform continues to impact on council services. As these changes, particularly Universal Credit, are still being rolled out the budget for 2021/22 includes contingency provision to help the Council make the necessary investment to support the changes and to progress measures to mitigate their impact on the public. As the financial impact of the changes is clarified in coming years, the contingency provision will continue to be allocated to appropriate service areas.

COUNCIL TAX COLLECTION

35. On the basis of past performance the Council Tax collection rate for 2021/22 has been assumed at 98%. It is proposed that any COVID related impact on collection trends will be addressed by further Scottish Government general COVID support funding or via fiscal flexibilities.

RESERVES AND BALANCES

General Fund

36. Setting aside earmarked reserves, the balance on the unallocated General Fund as at 31 March 2020 stood at £9.643 million with £3.5m of that allocated to balance the 2020/21

budget. Recognising the latest reported projections of in year underspends and interest earned it is projected, that the closing balance on the General Fund at 31 March 2021 will be £8.615 million (3.33%), significantly higher than originally estimated. Factoring in the planned drawdown of £3 million in 2021/22 would reduce the reserve to £5.615 million (2.20%) at 31 March 2022. This is close to the limit of what is considered prudent by the Chief Financial Officer.

37. The Council's identified aim has been to hold a General Reserve of 4% of net revenue expenditure so as to provide against unforeseen expenditure which may arise and to accommodate the short and medium term financial plans of the Council. A 4% reserve is at the most prudent end of accepted reserve levels and, given Audit Scotland comments in recent years on the levels of reserves held by Councils and the unprecedented challenges at present, it is considered that the proposed drawdown in 2021/22 is reasonable. It should be noted that the General Reserve cannot be used to permanently finance recurrent expenditure and can only delay savings.

38. The current and forecast positions of the General Fund and other key Council reserves are set out in graphical form in Annex B.

Modernisation Fund

39. This earmarked funding has been identified to enable the upfront investment required for the Council's transformation activities. It is proposed to incur a total of £1.782m Spend to Save and Transformation expenditure in 2021/22 this being supported by robust business cases. A further report will be submitted to members should there be a need to increase the draw on this reserve during the year. Movements in the reserve are currently estimated as:

		£000
Estimated Balance	1/04/21	5,469
Interest Receivable	2021/22	24
Expenditure	2021/22	(1,782)
		<hr/>
Closing Balance	31/3/22	<u>3,711</u>

Insurance Fund

40. The Fund has been established to provide for insurance voluntary excess costs and there are no plans to use this fund during 2021/22. Movements in the fund are estimated as follows:

		£000
Estimated Balance	1/4/21	1,956
Interest Receivable	2021/22	11
Expenditure	2021/22	-
		<hr/>
Closing Balance	31/3/22	<u>1,967</u>

Equalisation Fund

41. The Fund has been established to equalise future PFI/PPP payments. It is anticipated that in closing this year's accounts no contribution will be made to the reserve. It is not proposed to utilise this Fund during 2021/22. Movements in the fund are estimated to be as follows:

		£000
Estimated Balance	1/4/21	2,851
Interest Receivable	2021/22	16
Expenditure	2021/22	-
		<hr/>
Closing Balance	31/3/22	<u>2,867</u>

Repairs and Renewals Fund

42. The Fund is established to enable a continuing programme of repairs and renewals to roads, properties and other infrastructure. Expenditure proposals for 2021/22 from the Fund include £600,000 for targeted property repairs to education premises; £500,000 for road repairs and £300,000 as a contingency that will be drawn down if next year's winter is more adverse than "average".

		£000
Estimated Balance	1/4/21	4,307
Interest Receivable	2021/22	16
Dept Contributions	2021/22	970
Expenditure	2021/22	(2,420)
		<hr/>
Closing Balance	31/3/22	<u>2,873</u>

Capital Reserve

43. It is anticipated that in closing this year's financial accounts no contribution will be made to the reserve. In the budget for 2021/22 it is not proposed to contribute further to the reserve. This reserve will assist in maintaining capital investment during the current economic challenges and it will be utilised in accordance with the Council's Capital Plan. The closing balance at 31/3/22 is estimated to be £2.686m.

Devolved School Management Reserve

44. In recent years Head Teachers have been permitted to set aside funding to assist schools in meeting future financial challenges and in managing budgets which span more than one financial year. Utilisation of this fund is at the discretion of Head Teachers and the balance on this fund at 31/3/22 is estimated to be £2.863m.

EFFICIENT GOVERNMENT

45. The Council places high reliance on its Modern Ambitious Programme to drive change and savings across all services. Key themes include designing services from the customer's perspective, improving the efficiency of our business systems and processes, enhancing productivity through Office 365, improving access to information and reducing numbers of buildings and staff. Due to the impact of COVID-19, however, progress on these items was restricted during 2020/21.

46. As a part of the annual estimates process savings measures are identified to assist towards the delivery of a balanced budget. Savings measures are progressed in a managed way with early action being taken where possible to prepare for future financial difficulties. Budget proposals endeavour to maximise efficiencies and protect frontline service, with a significant element of the Council's planned savings in recent years arising from efficiencies or relating to activities associated with the MAP programme or the Council's 5 capabilities focus.

EQUALITY IMPACT ASSESSMENT

47. Section 149 of the Equality Act 2010 (the public sector general equality duty), requires the Council, in the exercise of its functions, to have due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct that is prohibited by the Equality Act 2010;
- advance equality of opportunity between people who share a relevant protected characteristic and those who do not; and
- foster good relations between people who share a protected characteristic and those who do not.

48. The Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012 requires the Council, when proposing a new policy or practice, or revising an existing one, to:

- assess the impact of applying its proposals or changes against the three needs of the general equality duty, listed above;
- consider relevant evidence relating to different equality groups (including any evidence received from individuals from those groups);
- take account of the results of any assessment in respect of that policy or practice;
- publish, within a reasonable period, the results of any assessment where the Council decides to apply the policy or practice in question; and
- make arrangements to review and where necessary revise any policy or practice that the Council applies in the exercise of its functions.

49. Recognising this statutory duty, the Council has undertaken an equality impact assessment on each of the budget savings measures. Where appropriate, consultation and engagement is undertaken with relevant groups prior to implementing any savings measures assessed as possibly having an impact in equality terms with a view to minimising this impact.

COUNCIL TAX 2021/22

50. The outline revenue estimates in Annex A are based on a Band D Council Tax level of £1,289.96 being set for 2021/22. This proposed Council Tax level represents a Council Tax freeze when compared to the current year's level.

RECOMMENDATIONS

51. It is recommended that the Council: -

- (i) approves the revenue estimates for 2021/22 (Annex A);
- (ii) agrees that the detailed budgets and savings to be applied should be determined by Council after the final confirmation of the Scottish Government grant settlement;
- (iii) agrees to hold a further meeting of the Council on 15 March 2021 to determine detailed budgets and savings to be applied for 2021/22;
- (iv) approves the recommended level and utilisation of reserves;
- (v) determines the Council Tax Band D level for 2021/22 at £1,289.96; and
- (vi) notes that management of the Council's finances and service plans will continue to be undertaken on a longer term basis.

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

REVENUE ESTIMATES SUMMARY 2021/22

Annex A

NET EXPENDITURE

2020/21	2020/21	2020/21
Budget net of Central Support Allocation	Allocation of Central Support	Approved Budget

2021/22	2021/22	2021/22
Budget net of Central Support Allocation	Allocation of Central Support	Approved Budget

	£'000	£'000	£'000	£'000	£'000	£'000
Education	138,458	5,290	143,748	142,800	5,756	148,556 *
Contribution to East Renfrewshire Culture & Leisure Trust	5,064		5,064	5,295		5,295
Contribution to Integration Joint Board (including Ring Fenced Grant)	49,565	2,354	51,919	51,899	2,420	54,319
Environment	23,444	2,825	26,269	24,255	2,955	27,210 *
Community Resources	9,141	3,735	12,876	9,374	3,499	12,873 *
Chief Executive's Office - Non Support	2	53	55	9	56	65
Joint Boards	2,352	6	2,358	2,352	7	2,359
Miscellaneous Services	1,739	69	1,808	1,717	72	1,789
Contingency - Welfare	200		200	200		200
Capital Financing Costs	8,863		8,863	8,863		8,863
Central Support Recharge to the Housing Revenue Account	(1,019)	1,019	0	(1,002)	1,002	0
Environment - Support	2,291	(2,291)	0	2,353	(2,353)	0
Corporate & Community - Support	10,150	(10,150)	0	10,761	(10,570)	191 *
Chief Executive's Office - Support	2,910	(2,910)	0	2,970	(2,844)	126 *
Additional Expenditure / (Savings) to be confirmed	597		597	(3,503)		(3,503)
	253,757	0	253,757	258,343	0	258,343

FINANCED BY:-

Revenue Support Grant and Non Domestic Rates		183,499	187,571
Ring Fenced Grants		7,791	8,505
Contribution from Reserves		3,500	3,000
Council Tax		58,967	59,267
		253,757	258,343

* Savings still to be applied

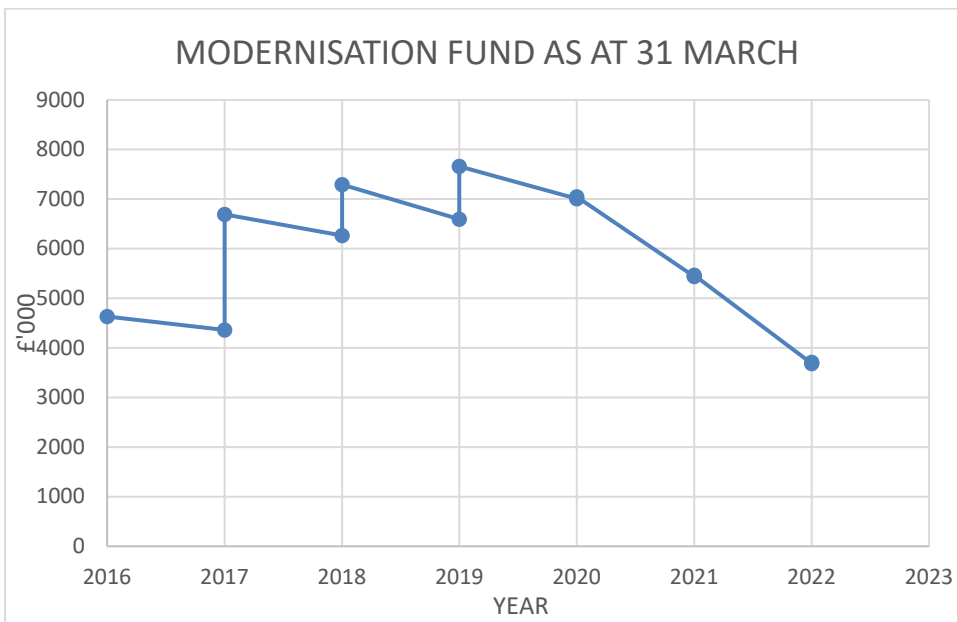
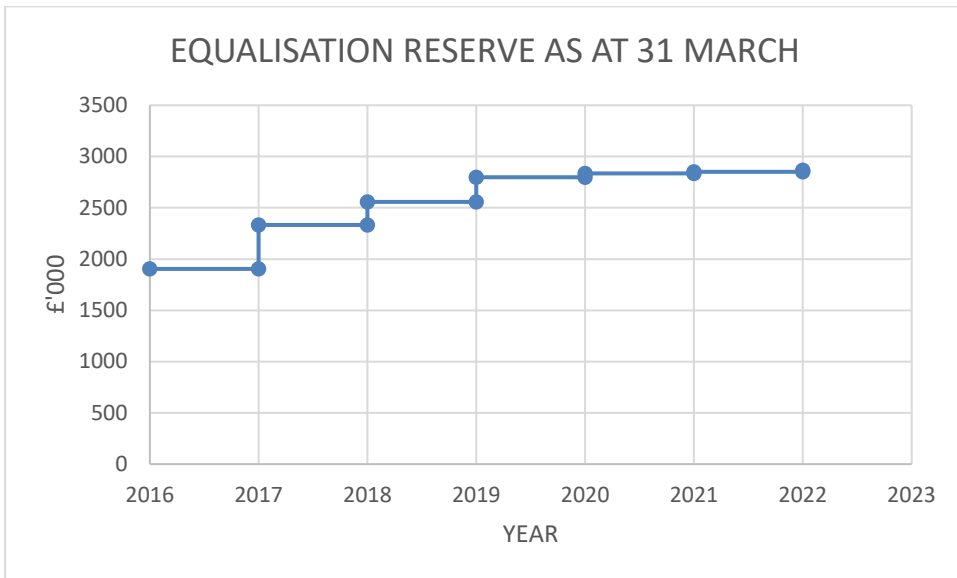
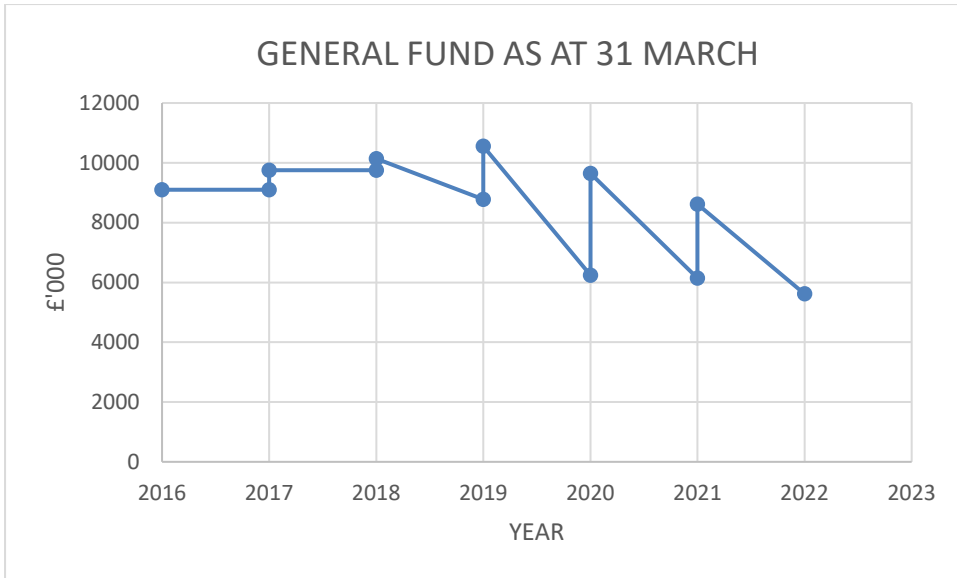
NOTE: FIGURES EXCLUDE COVID-19 COSTS WHICH ARE EXPECTED TO BE MET FROM GOVT GRANTS/FISCAL FLEXIBILITIES

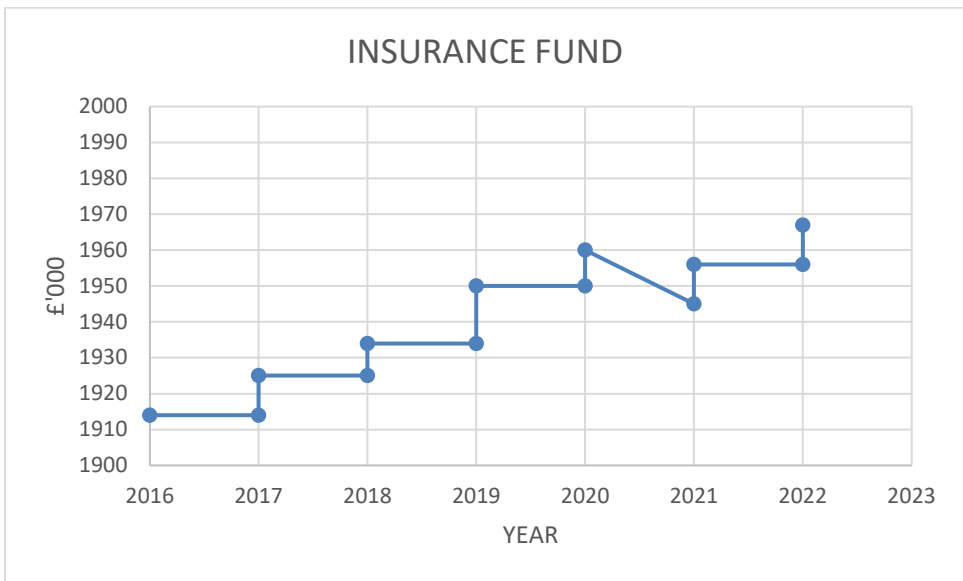
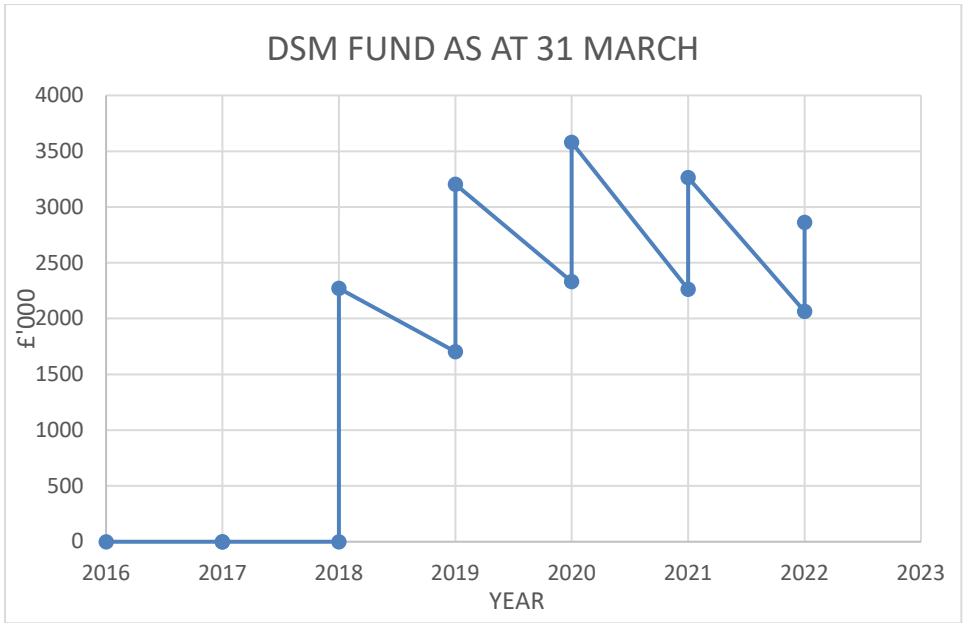
CALCULATION OF COUNCIL TAX BAND 'D'

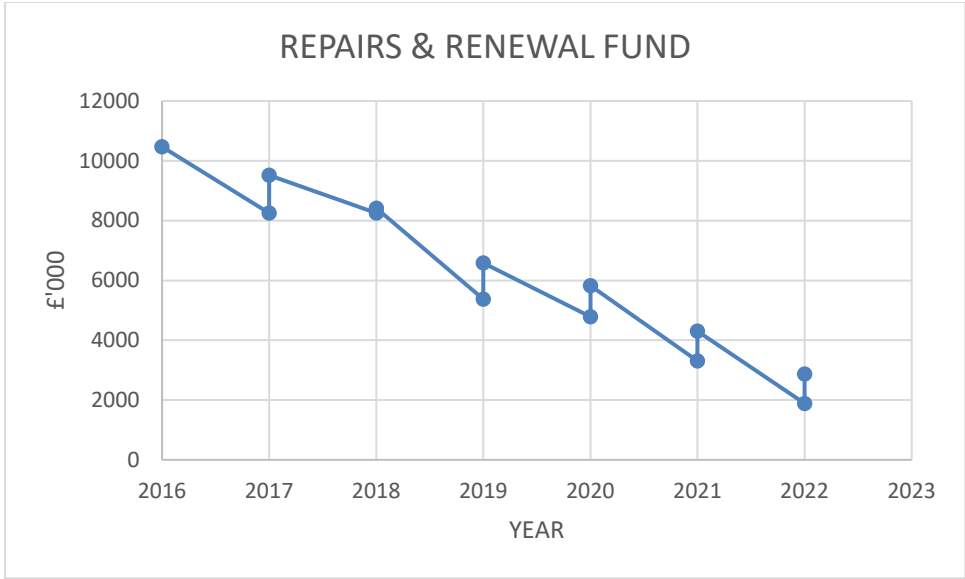
2020/21 £'000		2021/22 £'000
253,757	Net Expenditure	258,343
-	Contribution to Balances / Special Funds	-
253,757		258,343
(191,290)	Aggregate External Finance	(10,574)
(3,500)	Contribution from Reserves	(59,267)
58,967	Amount to be met from Council Tax	188,502
46,645	Number of Band 'D' Equivalents	46,883
933	Less Provision for Non Payment	938
45,712	Effective Tax Base	45,945
£1,289.96	Council Tax Band D	£1,289.96

COUNCIL TAX CHARGES 2021/22

<u>Valuation</u> <u>Band</u>	<u>Fraction of</u> <u>Band D</u>	<u>Upper</u> <u>Value</u> £	<u>Council</u> <u>Tax</u> £
A	240/360	27,000	859.97
B	280/360	35,000	1,003.30
C	320/360	45,000	1,146.63
D	1.00	58,000	1,289.96
E	473/360	80,000	1,694.87
F	585/360	106,000	2,096.19
G	705/360	212,000	2,526.18
H	882/360	over 212,000	3,160.41







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