

EAST RENFREWSHIRE COUNCIL
AUDIT AND SCRUTINY COMMITTEE

29 April 2021

Report by Clerk

NATIONAL EXTERNAL AUDIT REPORT – LOCAL GOVERNMENT IN SCOTLAND
FINANCIAL OVERVIEW 2019-20

PURPOSE OF REPORT

1. To provide information on the Audit Scotland report *Local Government in Scotland Financial Overview 2019-20*.

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 2019-20](#), published in January 2021, 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 Councillor Convery and Councillor Ireland. The Head of Accountancy (Chief Financial Officer) has provided comments on that report and a copy of those comments 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 2019-20.

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EAST RENFREWSHIRE COUNCILAUDIT and SCRUTINY COMMITTEE29 April 2021LOCAL GOVERNMENT IN SCOTLAND: FINANCIAL OVERVIEW 2019/20

INTRODUCTION

1. In January 2021 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.

COUNCILS' INCOME IN 2019/20

2. Part 1 of the report considered Councils' Income in 2019/20 and found that total revenue income rose by 5% in cash terms between 2018/19 and 2019/20. The largest element of this income is Scottish Government revenue funding, which increased by 5.4% (3.4% in real terms) in 2019/20. As in recent years, a growing proportion of this funding was committed to national policy initiatives and almost half of the increase in 2019/20 related to the introduction of 1140 hours of early learning and childcare.

3. Scottish Government revenue funding for local government has fallen by 4.7% in real terms since 2013/14, whilst funding for other Scottish Government funded sectors fell by only 0.8% over the same period. This has resulted in Councils having to raise more funding themselves through Council Tax and charges or to identify additional savings. The maximum permissible Council Tax increase for Scottish Councils was set at 4.8% in 2019/20.

4. Taking account of the above factors, together with the national local government pay settlement of 3%, in setting its budget for 2019/20 East Renfrewshire Council identified savings of £9.332m, agreed to draw down £4.312m from reserves and increased Council Tax by 3%. 12 Scottish Councils applied the maximum 4.8% increase.

5. The Scottish Government distributes around 2/3 of its funding to Councils using the Grant Aided Expenditure methodology, which takes account of factors such as population, deprivation, crime and rurality. In recent years East Renfrewshire has increased its share of the national grant funding as our population was rising faster than most other authorities. This trend has now changed as Council areas in the east are experiencing significant increases in house building at the same time as grant allocations are taking more cognisance of deprivation, crime and rurality factors which are not prevalent in East Renfrewshire. The remainder of funding is distributed using a variety of other methodologies agreed by the Scottish Government and COSLA. These are now published in the annual Green Book document to improve transparency.

6. The increasing commitment of funding to national policy initiatives is reducing local flexibility for Councils. COSLA estimates that around 60% of Council operations (e.g. teachers, adult social care, PFI/PPP etc.) is effectively ring fenced or protected in 2019/20. This increases pressure for savings on other Council services.

7. In comparison to other Councils, East Renfrewshire receives a relatively low level of income from grants and NHS funding. This is likely to reflect the relatively low levels of deprivation in this area.

COUNCILS' FINANCIAL POSITION IN 2019/20

8. Overall, Scottish Councils faced a 2019/20 funding gap of over 3%. East Renfrewshire's gap was higher at just over 6%. This reflects increasing demands coupled with a smaller share of grant and the use in previous years of reserves to address budget gaps.

9. The Council planned to make some £9.332 million savings in 2019/20 and managed to achieve this target. We expect £3m of savings each year to be achieved from efficiencies or as a result of our transformation programmes which modernise processes, systems and structures across all Council services.

10. COVID-19 did not have a material impact on the Council in 2019/20 but significant financial impacts are being felt during 2020/21. These largely relate to lost income, mobilising support and protective services for the area and being unable to implement some planned savings, particularly in IJB and in facilities management. Capital works were also temporarily suspended during 2020/21. This is a similar position to other Councils.

11. We expect the 2020/21 COVID financial pressures to be covered by Government grants and the use of fiscal flexibilities, although the latter will have a longer term impact on revenue budgets as higher loan repayments are incurred in future. Details of the impact on 2021/22 are still emerging and will be carefully monitored.

12. In common with many other Councils, East Renfrewshire also drew on reserves to balance the budget in 2019/20. As our unallocated general reserve was at a healthy level (4% of revenue budget) we agreed to utilise £4.3 million to assist with the budget gap in 2019/20. This represented 28% of the budget gap. In 2020/21 utilisation of £3.5 million of reserves was also budgeted (21% of the budget gap, with a further £3.465m agreed for 2021/22). It is estimated that this would still leave an unallocated general reserve level at 31 March 2022 of at least 2.2%, so still within the acceptable 2-4% range.

13. In closing the 2019/20 accounts most Scottish Councils reported an increase in their overall level of usable reserves. East Renfrewshire slightly increased the level of these reserves during the year, but expects to reduce them in the coming years. In addition to the planned draw on the unallocated general reserve, the Council also utilises over £1m each year from the Modernisation Fund.

14. East Renfrewshire Council sets out its plans for each reserve in its Revenue Estimates report to Council each year at the Council Tax setting meeting. In addition, the Council's Reserve Policy is reviewed every three years.

15. Reserves cannot be used indefinitely to avoid taking savings. The Council recognises that permanent savings plans must be identified to address savings gaps in the long term.

16. In terms of capital expenditure, the report notes that in 2019/20 Councils recorded the highest level of capital expenditure over the last five years. In East Renfrewshire new investment focussed mainly on early learning and childcare, City Deal, roads and new housing stock.

17. In recent years the Council has reviewed our capital programme and project management arrangements so as to minimise slippage and improve forecasting. Some slippage is, however, outwith Council control as some schemes can only proceed once utility company or Scottish government processes are complete. In 2020/21 the position has been further impacted by COVID-19 lockdown requirements.

18. Whilst some funding for capital projects comes from government grants, developers' contributions and capital receipts from selling assets, the majority of capital expenditure in East Renfrewshire is funded by borrowing. In East Renfrewshire we have less scope for capital receipts and developers' contributions than in many other Councils. This has to be carefully monitored as the debt repayments from increased borrowing impact on the revenue budget.

19. Audit Scotland report that net debt is typically rising across Councils by over 4%. In 2019/20 the Council is shown to be second lowest in Scotland in terms of debt as a percentage of annual revenue budget, however the increase for East Renfrewshire for 2019/20 was 14% and this will continue to rise in future, given our ambitious capital plans. Debt repayment charges are reviewed annually and action taken to ensure these are kept as low as possible. Interest rates are currently at historically low levels and are expected to remain so for the next year or two.

20. The report comments on Glasgow City Council's plans to address its outstanding equal pay claims. East Renfrewshire has settled all such claims and has no outstanding liabilities in this respect.

21. The auditors drew attention to the impact of COVID in terms of causing material uncertainty in the valuations of properties. In common with most other Councils, this was flagged in our auditors' comments on the East Renfrewshire Council accounts for 2019/20.

22. COVID-19 also impacted negatively on pension fund valuations. The Strathclyde fund recorded a 4.5% reduction in returns, which was close to average for the Scottish Council funds. This is not expected to result in any increase in contributions in the next 3 years.

COUNCILS' FINANCIAL OUTLOOK

23. Prior to COVID-19, total revenue funding to Councils in 2020/21 increased by 1.4% in real terms (3.4% cash terms), however the increase was largely ringfenced for national education and IJB commitments. Councils therefore once again faced an average funding gap of 3% and had to identify significant savings to balance their budgets.

24. In setting budgets for 2020/21 the average 3% budget gap facing Councils reflected the impact of the above inflation pay award and the continuing demographic pressures, largely related to an ageing population. In East Renfrewshire the position was more severe with a 6% funding gap. This higher gap reflects a number of factors including our reducing share of government grant, the decision to use reserves rather than identify savings to address the full gap the previous year and costs associated with opening new school and nursery facilities.

25. The report notes how Councils use a mix of different means to close their funding gaps. Nationally Councils addressed 55% of their 2020/21 funding gap through savings, 22% from use of reserves and 23% by increasing Council Tax. For East Renfrewshire the respective proportions were 63%, 21% and 16%. East Renfrewshire was one of 18 Councils who increased Council Tax by the maximum permissible 4.84%.

26. East Renfrewshire follows good practice in planning its detailed revenue budgets on a 3 year cycle, with the first year fixed and the following years set on an indicative basis. 2020/21 was the final year in the current three year cycle. In recent years multi-year budget setting has been rendered more difficult as UK and Scottish Government settlement figures have been provided only on a single year basis and the position has been exacerbated by the impact of COVID-19 on national budget planning. Accordingly, in June 2020 the council

agreed to set only a single year budget for 2021/22. It is hoped that national multi-year settlements will be published from 2022/23 onwards, allowing the Council to resume its preferred 3 year budget setting approach.

27. Departmental planning figures for Outcome Delivery Plan purposes continue to be produced by the Council on a 3 yearly rolling basis to enable medium term planning. These include forecasts of government grant levels, loan charges, inflation and any departmental expenditure pressures. The Council also publishes its updated higher level financial plans, including consideration of possible scenarios for the coming 6 years, as part of the Council budget process each year. These plan takes into account economic forecasts and any medium/long term plans published by the Scottish Government.

28. During 2020/21 all Councils' finances have been heavily affected by the COVID-19 pandemic. The report notes that in July 2020 net additional pressures of £767m were forecast, excluding impact on IJB services, and estimates that up to 70% of this sum would be covered by Government funding announced by November 2020. These pressures mainly relate to loss of income from Council and leisure trust services and to additional costs for service adaptation and recovery. East Renfrewshire has been closely monitoring the position as information on both pressures and funding streams has emerged throughout the year. Latest estimates are that these pressures amount to close to £9m excluding IJB services. Further funding has been announced in recent months and the Council now believes that we will have enough funding to cover COVID pressures in 2020/21.

29. In addition to financial pressures faced by the Council itself, our staff have been heavily involved in passing over £13m of government grant support to local businesses.

30. The report recognises that COVID-19 will continue to have financial impacts in the medium to long term and that Councils will have to review their financial plans accordingly. Whilst additional fiscal flexibilities have been granted to Councils for 2020/21 and 2021/22, these may increase costs in the longer term through higher loan charge payments. Councils may also face ongoing financial pressures as the economic and social impacts of the pandemic unwind, producing increased hardship and inequalities and prolonging the detrimental impact on income recovery in many services. East Renfrewshire has already earmarked £2m of capital receipts to help address COVID pressures and will keep the position under review in developing our next 3 year revenue and 10 year capital budget plans.

31. In terms of capital funding, the report flags up that capital grant has fallen by 30% in real terms between 2013/14 and 2020/21. In addition, the Council's capital grant has not increased for 2021/22. Together with the COVID pressures outlined above, this will constrain our ability to further invest in local infrastructure. However interest rates remain at a historic low and we continue to work with regional partners to maximise the impact of our capital projects. Details are also starting to emerge of several new government infrastructure funding sources, so these too will be factored into the Council's capital planning wherever relevant.

INTEGRATION JOINT BOARDS OVERVIEW 2019/20

32. The report also provides an overview of Integration Joint Boards for 2019/20 and the key messages along with East Renfrewshire's Health and Social Care Integration Joint Board (IJB) position are set out below:

33. The report shows that 22 IJBs struggled to break even in 2019/20 and our IJB is one of the 16 who reported a deficit. The IJB ended the year with a modest deficit of £0.065m however this was after utilising £0.519m reserves to meet unachieved savings. The total

savings challenge in 2019/20 was £3.686m (£3.097m within social care and £0.585m within health).

34. In line with the national position our IJB reserves balance decreased at the end of 2019/20 by £0.611m as a result of £1.643m planned use, including phasing in of savings, supporting the Bonnyton House decant and care at home. We also added £1.032m from a combination of Scottish Government ring-fenced funds as well as earmarked reserves for specific initiatives such as school counselling, health visitors and augmentative and alternative communication.

35. The IJB set its budget for 2020/21 on 18 March 2020 at the beginning of the pandemic and the unachieved savings from 2020/21 were addressed within the budget with a savings target in 2020/21 of £2.522m (£2.394m social care and £0.128m health). At that stage the implications from the Covid-19 pandemic were unclear and as the year progressed the costs to East Renfrewshire IJB are c£9m and will be fully funded and the main costs are summarised; additional services £2.7m, infrastructure and PPE £0.4m, social care sustainability £3.5m and unachieved savings of £2.4m.

36. The report states that overall funding to IJBs in 2019/20 increased by 6% and that most of the increase is in the health board contributions to the IJB. This is reflected in the IJB accounts for 2019/20 where the health revenue funding increased by £4.2m or 6%, the council funding increased £0.97m or 2%. The funding for large hospital services was restated during 2019/20 to £31.2m for actual activity from the previous notional funding of £16.6m.

37. The IJB set its budget for 2021/22 on 17 March 2021 taking into account the many unknowns we are still facing as part of the pandemic response, the post Covid landscape and understanding the implications to our population's health, the demand for services and how this informs our recovery. This will be an iterative process throughout 2021/22 and will support and inform our transformation and strategic plans as the year progresses. We will revise our medium term financial planning and there will be more of a focus on the short to medium term.

38. The Chief Officer and Chief Financial Officer remain unchanged since the IJB was established and this puts us in a stronger leadership and governance position than some other IJBs as outlined in the report.

39. Significant work was undertaken pre the pandemic to review our Integration Scheme in line with the legislative requirement for a five year review. Like others this was paused due to Covid and this work will recommence in 2021/22.

CONCLUSION

40. The report outlines the main issues facing Scottish Councils in 2019/20. Overall East Renfrewshire is well placed in terms of addressing these but will continue to face substantial financial challenges in future.

RECOMMENDATION

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

Margaret McCrossan, Head of Accountancy, 24 March 2021

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