

EAST RENFREWSHIRE COUNCILCABINET18 November 2021Report by Head of Accountancy (Chief Financial Officer)UPDATE ON FINANCIAL PLANNING**PURPOSE OF REPORT**

1. This report updates Cabinet on the revenue budget position for the current year and the financial outlook for 2022/23 and beyond.

RECOMMENDATION

2. Cabinet is asked to:
- (a) note the financial position for 2021/22;
 - (b) note that the existing COVID grants and fiscal flexibilities currently appear to be sufficient to cover 2021/22 forecast COVID pressures;
 - (c) note the challenging financial position for 2022/23 and that the position will be clarified as more information becomes available; and
 - (d) agree that the Council should prepare a detailed budget for the single year 2022/23 only in the coming months.

BACKGROUND

3. Whilst many services are starting to recover from the disruption caused by the pandemic over the last 18 months, COVID continues to impact across the Council.

4. Various Government grants were made available to Councils for use in addressing COVID pressures in 2020/21 and 2021/22, together with the ability to apply fiscal flexibilities over the same two years.

5. The latest Cabinet report forecasts a small overspend of £0.175m for 2021/22. This is made up of £1.464m of COVID pressures offset by £1.289m of operational underspends. The current COVID funding available to the Council should be ample to cover the COVID pressures identified for the year.

6. Although it is expected that any COVID grant sums unused at 31 March 2022 can be carried forward to help meet ongoing pandemic pressures in the next financial year, there has been no indication yet as to whether fiscal flexibility permissions or further COVID grant funding will be extended into 2022/23. As various COVID pressures are expected to continue into 2022/23, COSLA are monitoring the position and lobbying for continuation of financial support next year.

7. The next UK budget and Spending Review will be announced on 27 October 2021. Following this, the Scottish Government's budget is scheduled to be announced on 9 December, with detailed Council figures expected to be made public shortly before Christmas. The Scottish settlement will address 2022/23 only and a Scottish Government Spending Review covering subsequent years will take place in the spring.

8. In view of the confirmation of a further single year settlement for 2022/23 with longer term planning information not available until after the Scottish Spending Review in spring 2022, it is recommended that the Council again prepare only a detailed single year budget for 2022/23, rather than embark on a full new 3 year budget exercise. Indicative figures for departmental planning purposes will, however, continue to be produced as part of the Council's Outcome Delivery Plan and 6 year projections will continue to be incorporated into the annual refresh of our long term Financial Planning document.

KEY RESERVES FORECASTS

9. In setting the budget for 2021/22 Members noted that the forecast General Reserve balance at 31 March 2022 was £5.615m (2.2% of budget). As a result of close control of expenditure in 2020/21 an improved year end position was delivered and the forecast General Reserve balance at 31 March 2022 has been revised to £7.857m (3% of budget). This will assist the Council in addressing future budget challenges. The recommended target range for this reserve is 2% to 4%.

10. Should the forecast operational underspend in the current year be maintained, this would also be available to bolster reserves at 31 March 2022 and assist budget planning.

11. The Modernisation Fund balance at 31 March 2021 is £5.771m, with typical annual drawdown of around £1m each year to support ongoing transformation projects. The balance on the fund has been reducing for many years. The impact of the pandemic has particularly heightened the need for increased digital services across the Council and the balance in the fund will have to be carefully monitored.

FUNDING POSITION 2022/23 AND BEYOND

12. In advance of the settlement announcement in December, work on the Council's 2022/23 budget has been progressing. **Assuming a flat cash grant settlement, together with a 3% Council Tax increase, typical non-pay spending pressures, and the HSCP and Trust also managing their 2022/23 budgets on a flat cash basis, an initial forecast shortfall of £7.337m was estimated to remain for the service budgets controlled by the Council.** This estimate does not include COVID pressures as it is expected that these will be covered by COVID grants and/or fiscal flexibilities next year.

13. An alternative scenario assuming a 1% cash reduction in the grant settlement would require savings of £9.518m for Council controlled services.

14. These shortfall figures will change significantly as more detailed information on the 2022/23 settlement and spending pressures becomes available and is factored in. This will continue to be closely monitored in the next few months. Should the grant settlement position worsen and/or the level of pay award increase, the budget shortfall would further increase.

15. Given the level of uncertainty around the 2022/23 financial position and any ongoing financial support for COVID related pressures, it is expected that a flexible approach to addressing the shortfall will again be needed, taking cognisance of the emerging picture on pay and other spending pressures, the new NI levy, COVID funding support and fiscal flexibilities and considering a range of options:-

- (a) Utilisation of reserves, recognising whilst this cannot be regarded as an ongoing solution, there is still some potential to use reserves in the next financial year;
- (b) Application of fiscal flexibilities. The flexibilities which are not restricted to addressing COVID related pressures may be useful in addressing the future budget challenges, however the final guidance on how such flexibilities might be applied has not yet been issued. This option may therefore be more suitable for use in subsequent years;
- (c) Consideration of a Council Tax increase above the modelled 3% level, if this is permitted in the settlement (a 1% increase generates roughly £0.6m);
- (d) The application of departmental savings. Directors of Council services have been asked to identify potential savings to address the majority of the shortfall. HSCP and ERCLT have been advised to plan to operate on a flat cash position (i.e. to identify savings to cover their operational pressures), or in the case of a worse scenario to work to a 1% reduction.

16. Last year officers produced updated information on How We Spend Our Money, to help stakeholders understand the Council's spending patterns and the scope for savings. As the past 18 months have been far from typical, Appendix 1 contains the previous graphical illustration of the Council's normal spending patterns to assist elected members assess the scope for action.

17. The graphs are based on the planned expenditure for 2020/21 as approved by Council in February 2020 and do not reflect the impact of COVID-19 on spending plans.

18. From 2022/23 the outlook continues to be challenging. The Council has already been made aware of the significant rise in loan charge repayments in the coming years due to our ambitious Capital Plan. This position may be exacerbated in future with current price rises and shortages affecting capital projects and the potential impact of the current national review of capital accounting arrangements.

19. The Council's capital plans and loan charge position are currently being updated and will be submitted for approval in February 2022.

CONCLUSIONS

20. Finalisation of the 2020/21 accounts (subject to audit) has improved the scope for the use of reserves to help address the budget challenges ahead. Any operational underspend in the current year could also assist.

21. Although the pandemic has brought significant additional financial burdens, it is expected that COVID grant funding and the previously announced fiscal flexibilities should be sufficient to cover these in 2021/22. The position for 2022/23 and beyond is less certain but will be clarified in the coming months.

22. Preparation of the Council's 2022/23 budget is underway. The Council's grant settlement should be known by Christmas but there are many spending pressures which cannot yet be finalised. Given the continuing uncertainty in relation to the financial outlook, a single year budget should be set for 2022/23 and a flexible approach adopted to closing next year's budget shortfall.

23. The outlook for 2022/23 and beyond remains challenging, however the potential introduction of multi-year settlements in future will help with longer term planning.

RECOMMENDATIONS

24. Cabinet is asked to:

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- (b) note that the existing COVID grants and fiscal flexibilities currently appear to be sufficient to cover 2021/22 forecast COVID pressures;
- (c) note the challenging financial position for 2022/23 and that the position will be clarified as more information becomes available; and
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Margaret McCrossan
Head of Accountancy (Chief Financial Officer)
12 October 2021

East Renfrewshire Council

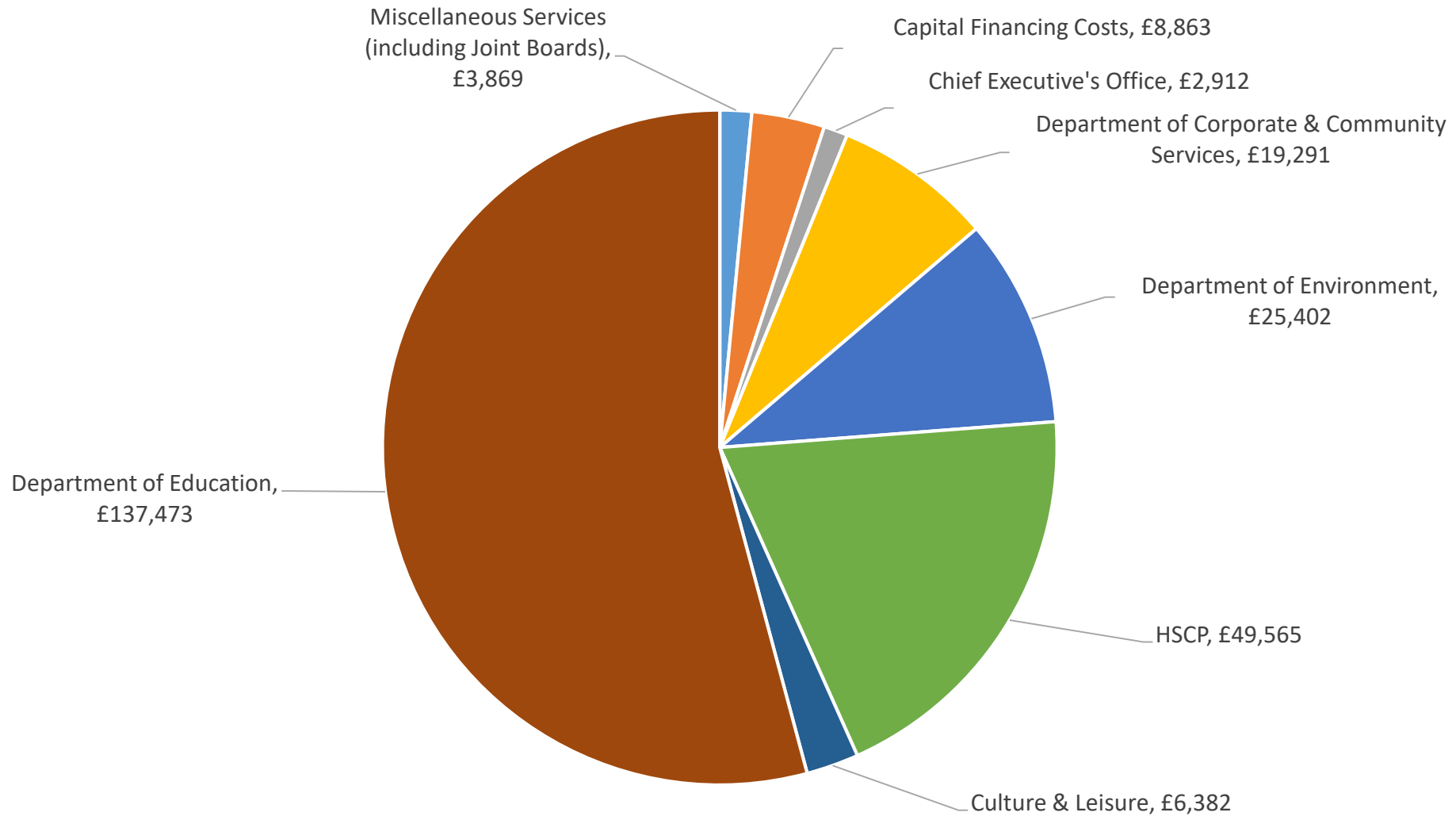
28th October 2020

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How we spend money

- In 2014 we prepared a brochure for residents on how we spend our money
- The pie charts which follow are an updated version of the figures in the brochure, based on our planned net expenditure for 20/21 (pre Covid-19)
- The first pie chart breaks down the spend by department
- The following charts break down departmental spend
- Because of the size and complexity of the education spend an appendix is included which breaks down education spend in more detail
- Appendix 2 contains additional HSCP information
- This information provides background for council to support decision making for budget setting for 21/22

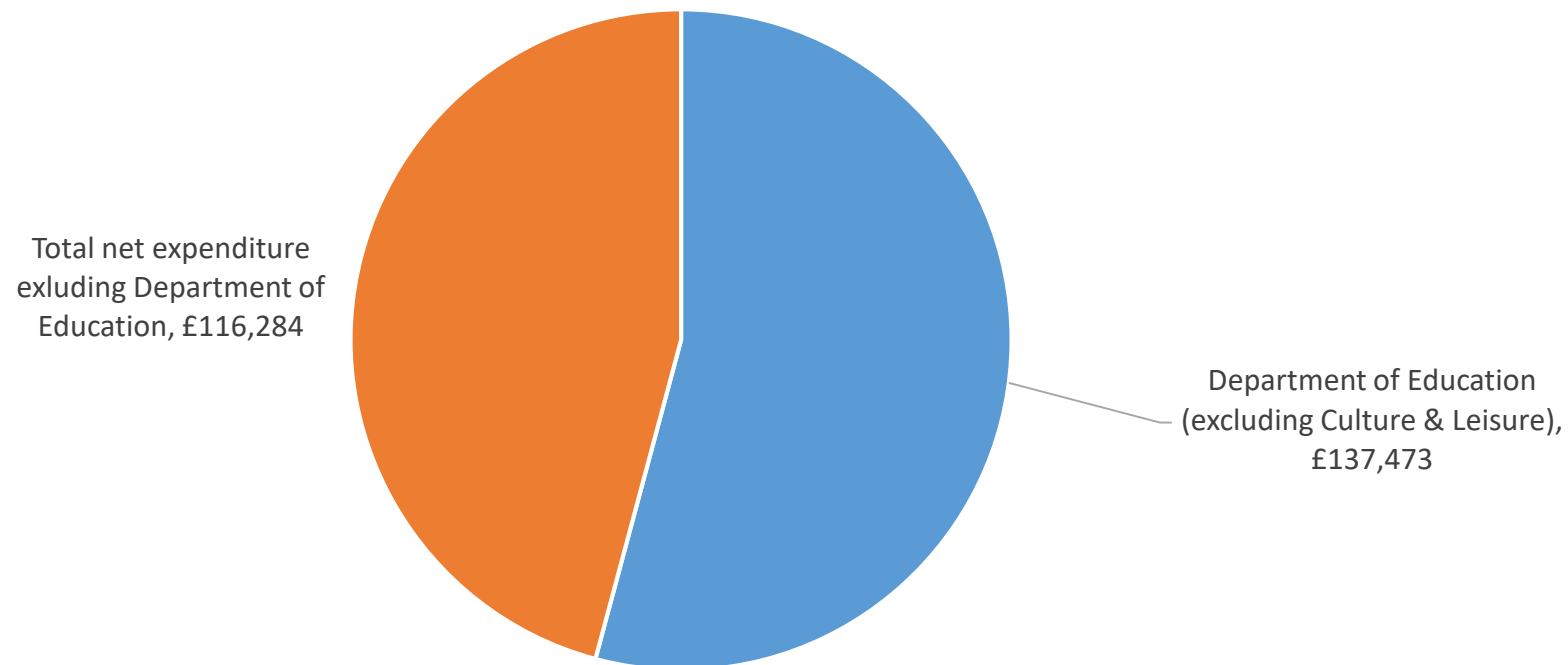
East Renfrewshire Council Total Net Expenditure 2020/2021 (£k)



Total East Renfrewshire Council Net Expenditure 2020/2021 (£k) - £253,757

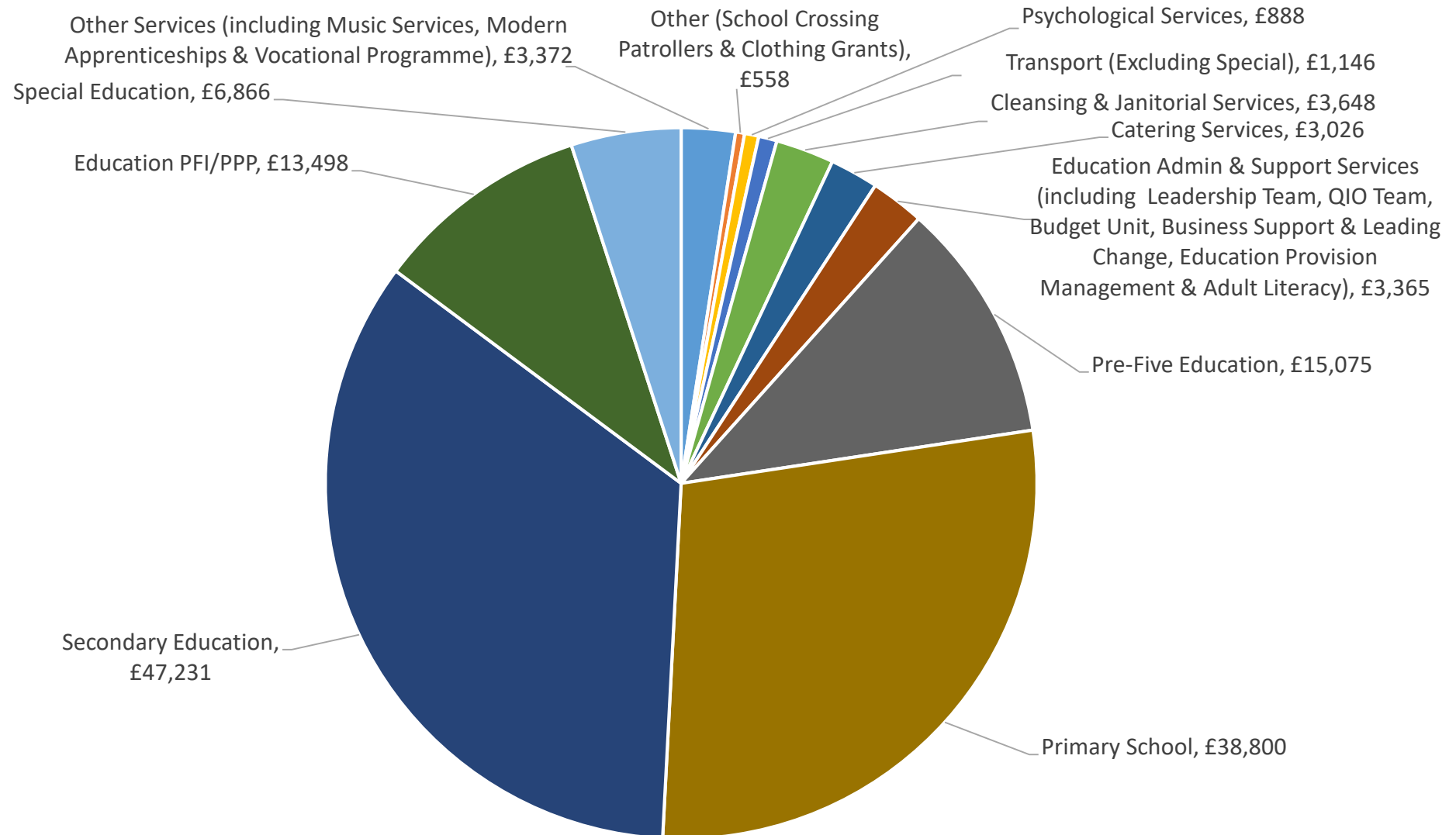
Education and Culture and Leisure

Department of Education (Excluding Culture & Leisure) Net Expenditure vs Total Net Expenditure excluding Education (£k)

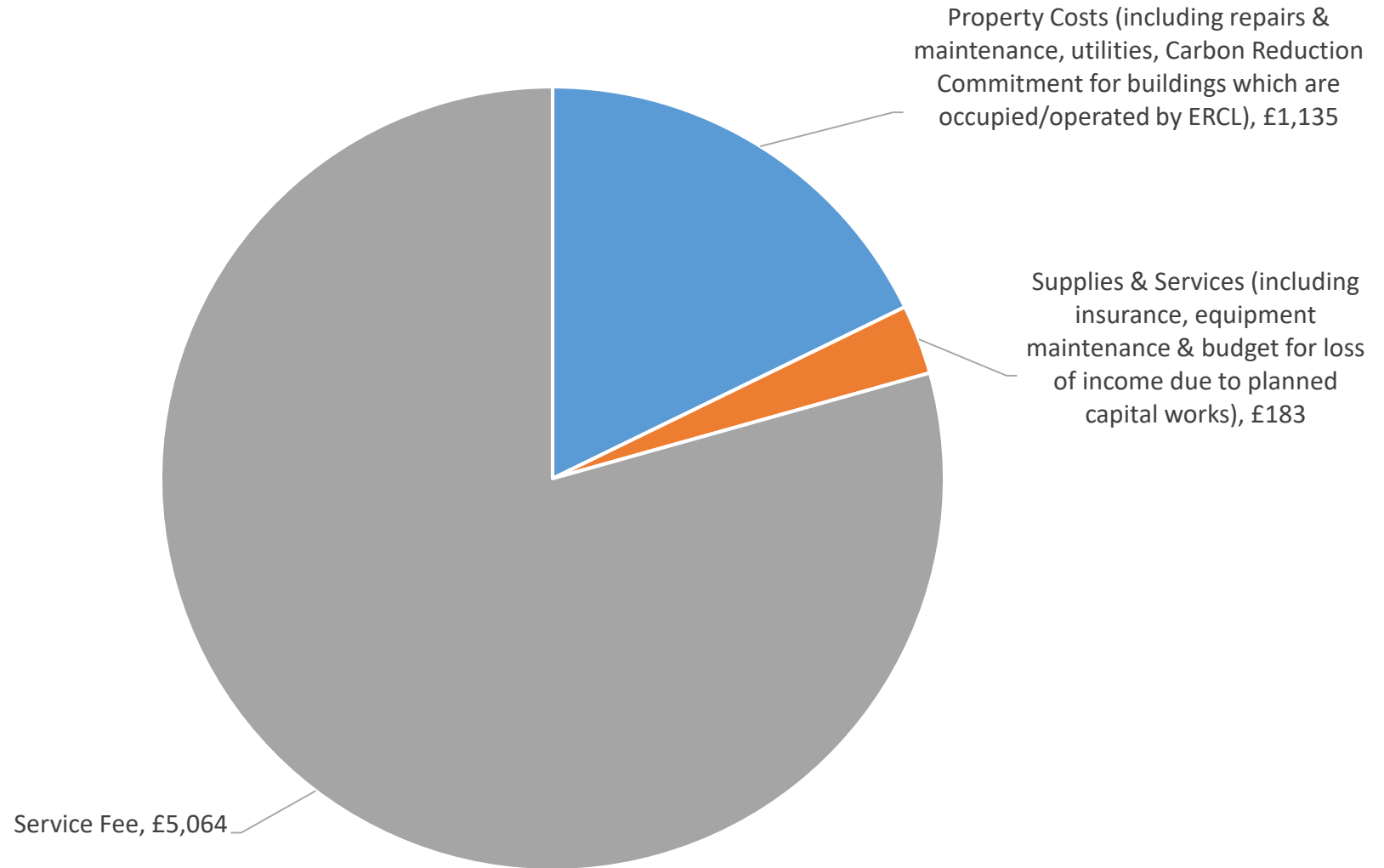


Department of Education	
Total Net Expenditure (£k)	£137,473 (54.2%)
Total FTE	1,969.9

Department of Education (Excluding Culture & Leisure) Net Expenditure 2020/2021 (£k)

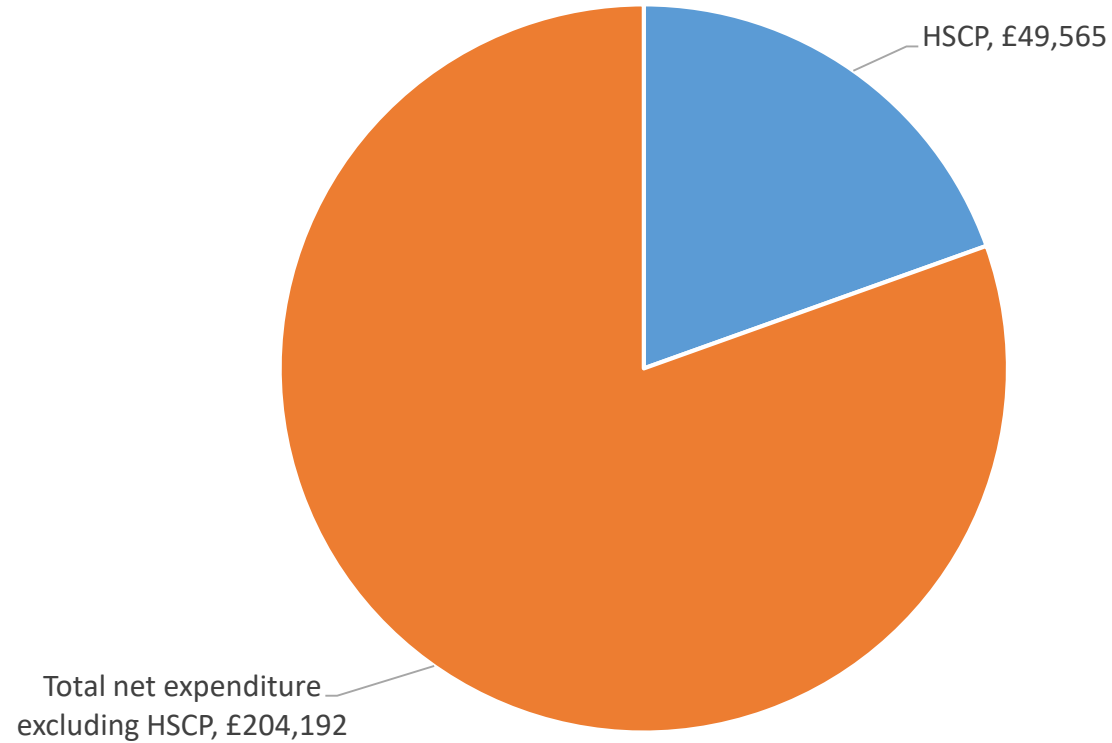


East Renfrewshire Council – Culture and Leisure Net Expenditure 2020/2021 (£ 6.382k, 2.5%)



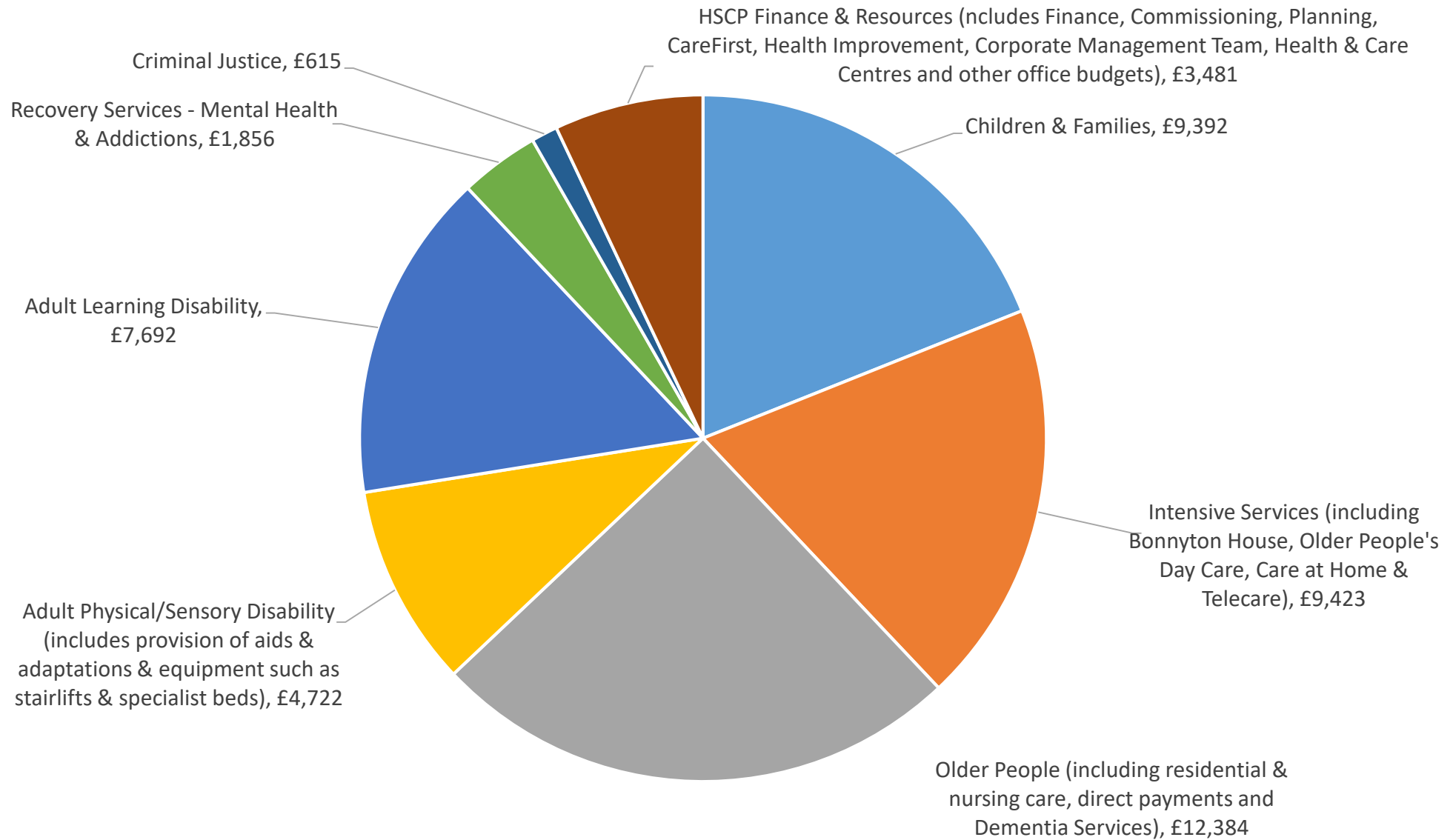
IJB contribution/HSCP

HSCP Net Expenditure vs Total Net Expenditure excluding HSCP (£k)



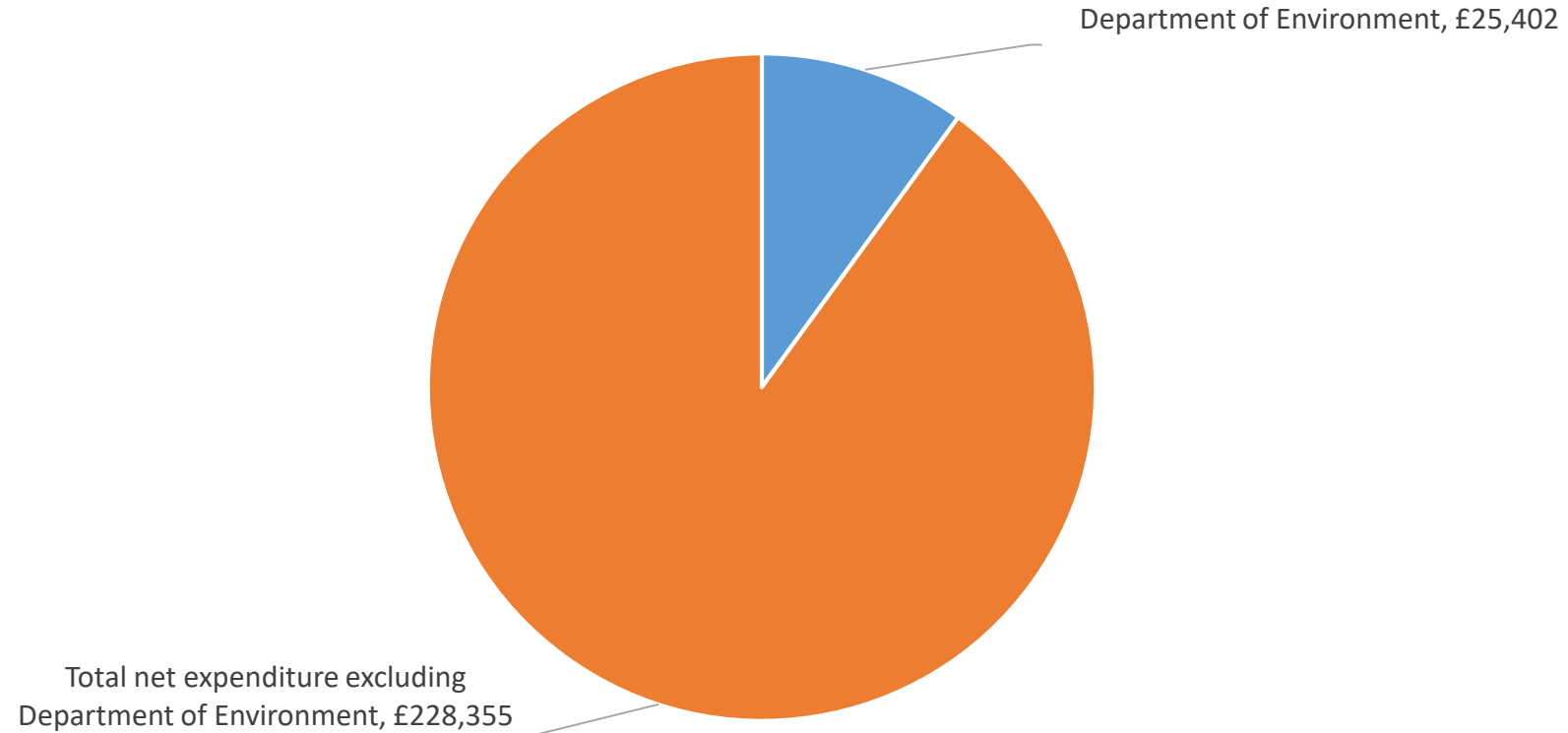
HSCP	
Total Net Expenditure (£k)	£49,565 (19.5%)
Total FTE	582.1

HSCP Net Expenditure 2020/2021 (€49,565k)



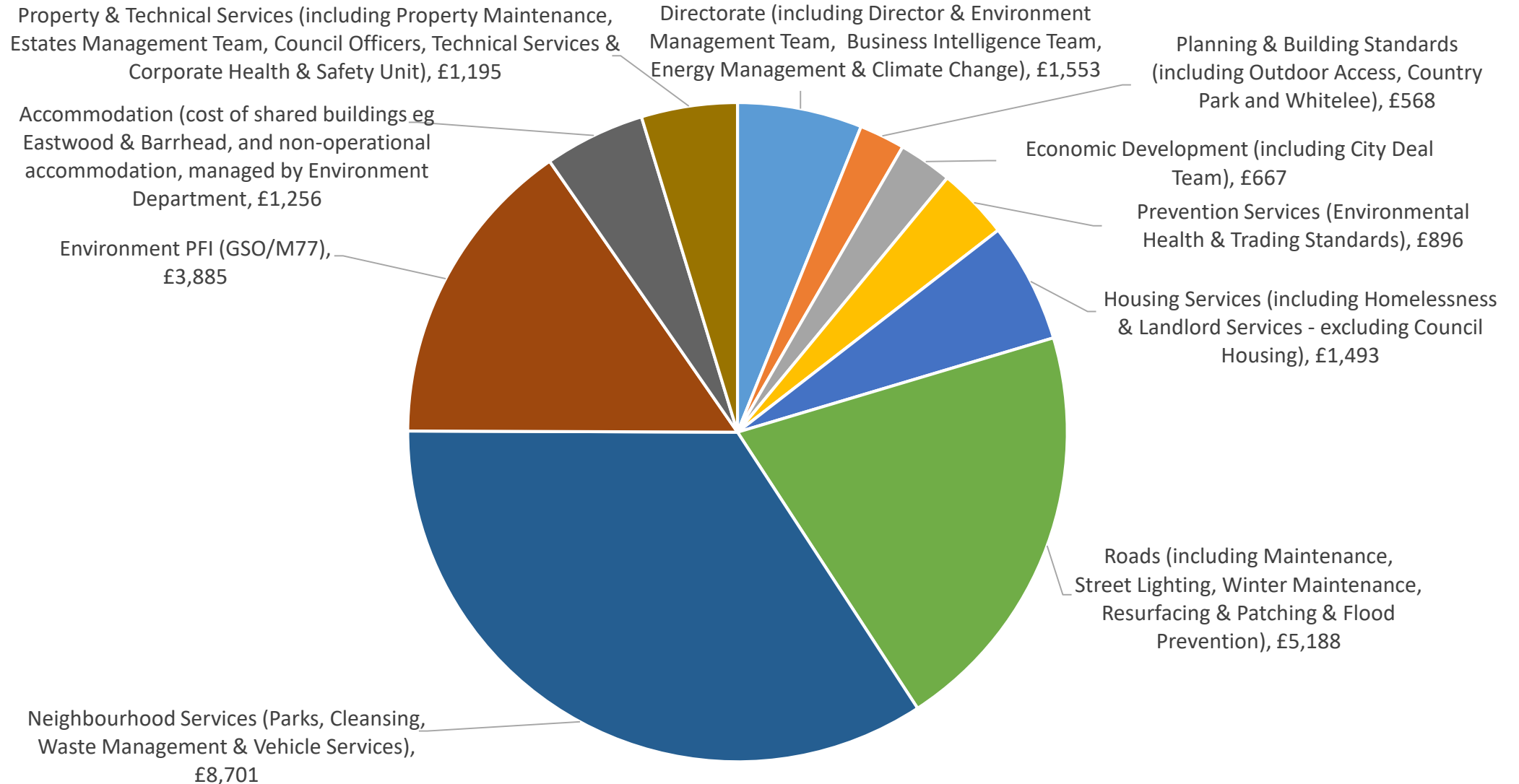
Environment

Department of Environment Net Expenditure vs Total Net Expenditure (£k)²³

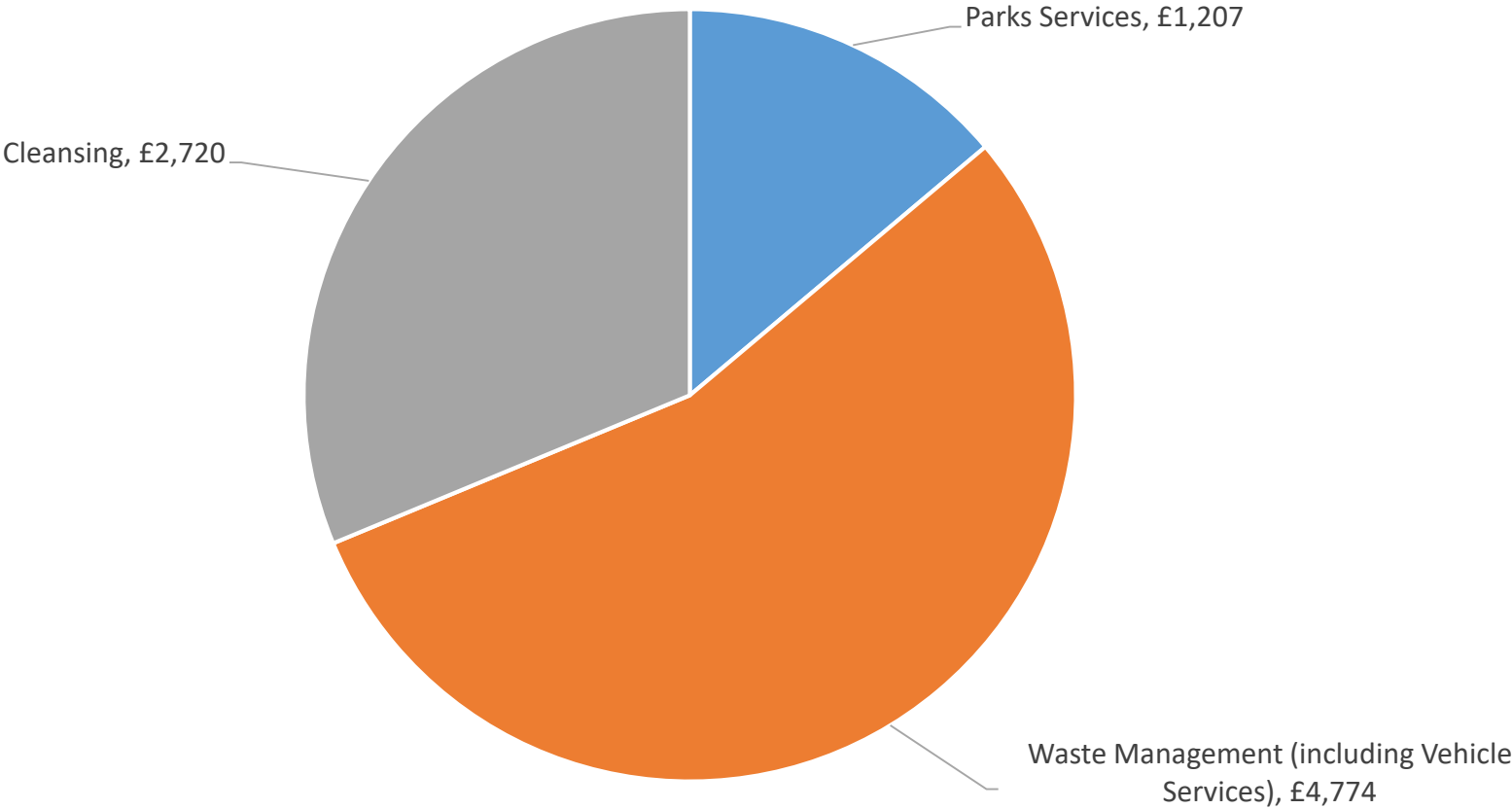


Department of Environment	
Total Net Expenditure (£k)	£25,402 (10%)
Total FTE	392.8

Department of Environment Net Expenditure 2020/2021 (£25,402k)

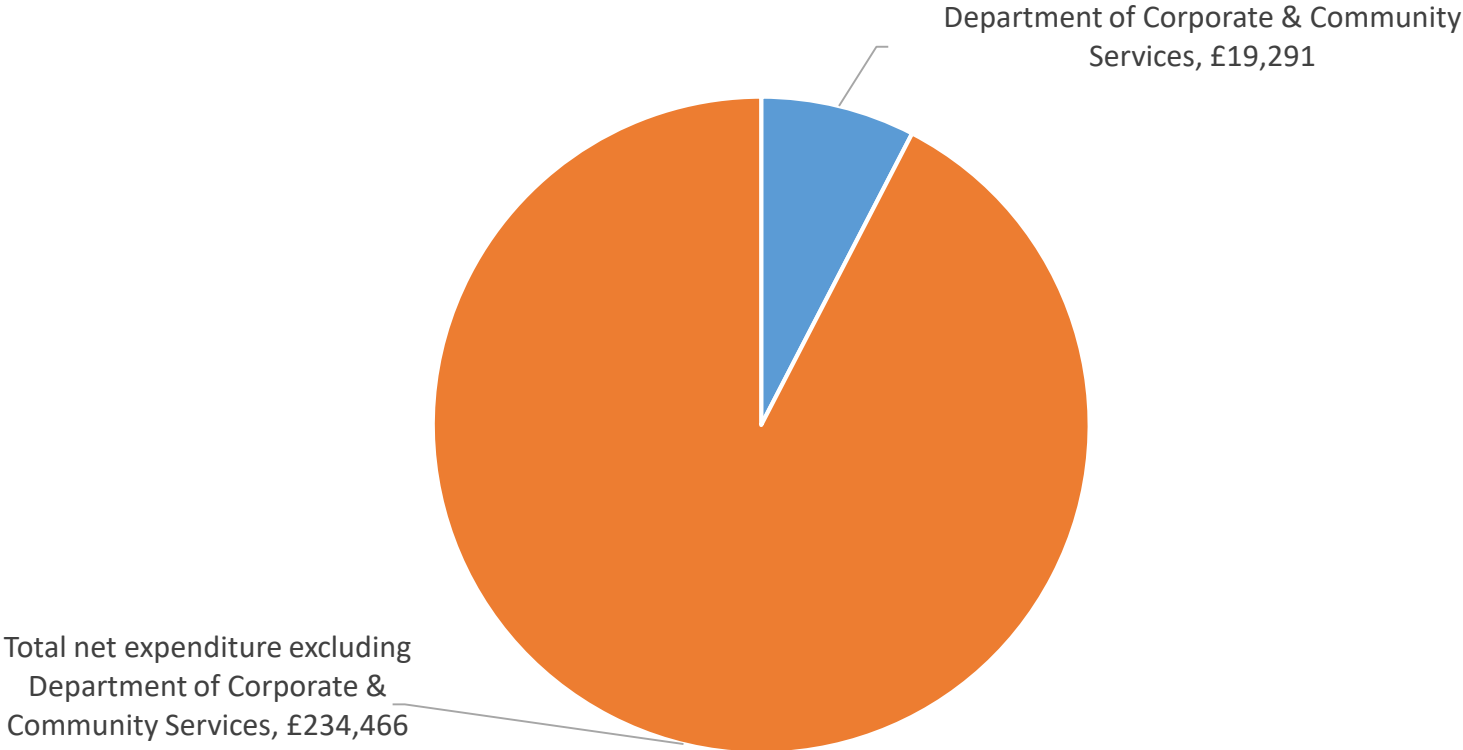


Neighbourhood Services Net²⁵ Expenditure 2020/2021 (£k)



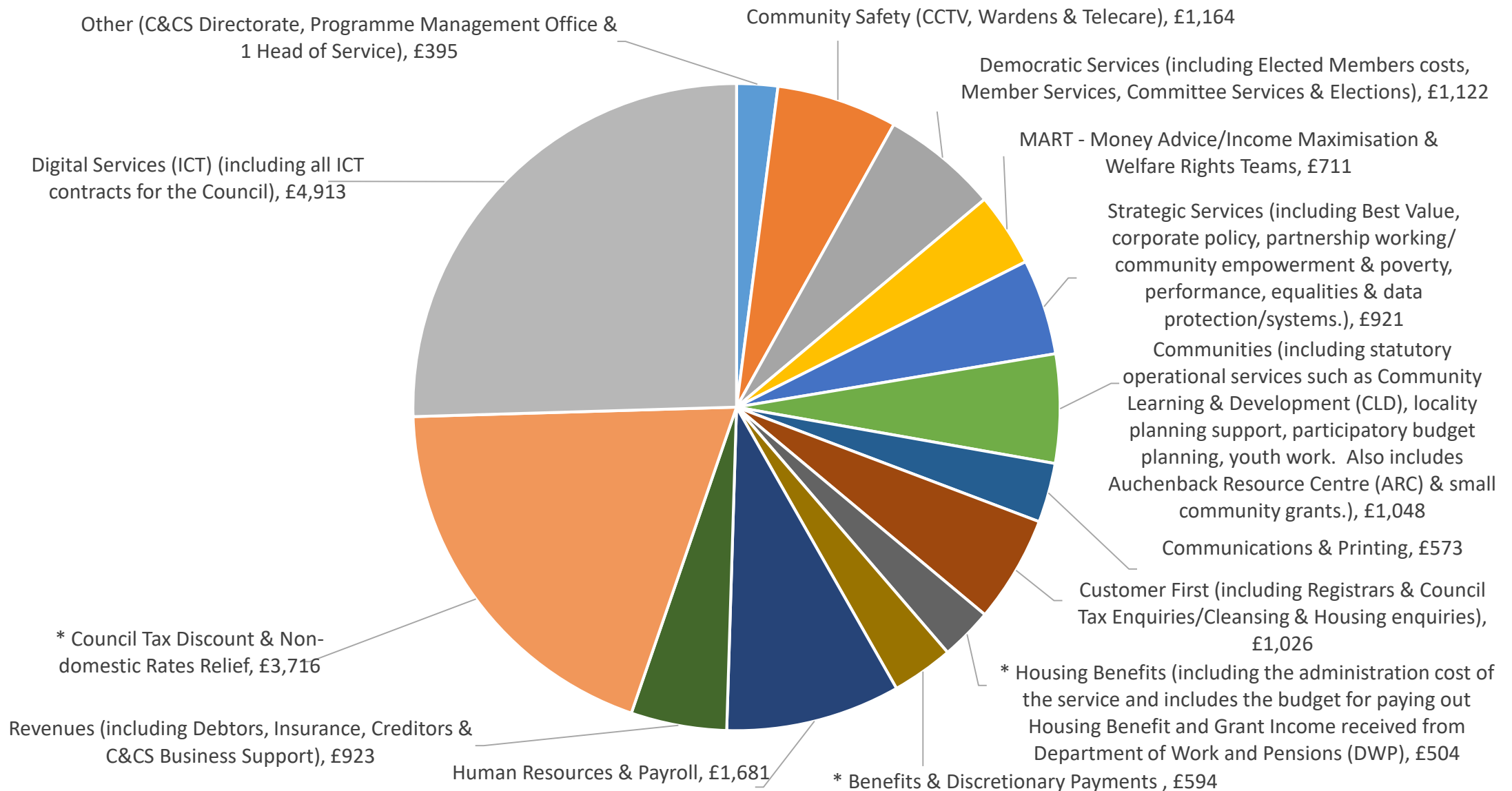
Corporate and Community

Department of Corporate & Community Services Net Expenditure vs Total Net Expenditure excluding C&CS (£k)



Department of Corporate & Community Services	
Total Net Expenditure (£k)	£19,290 (7.6%)
Total FTE	308

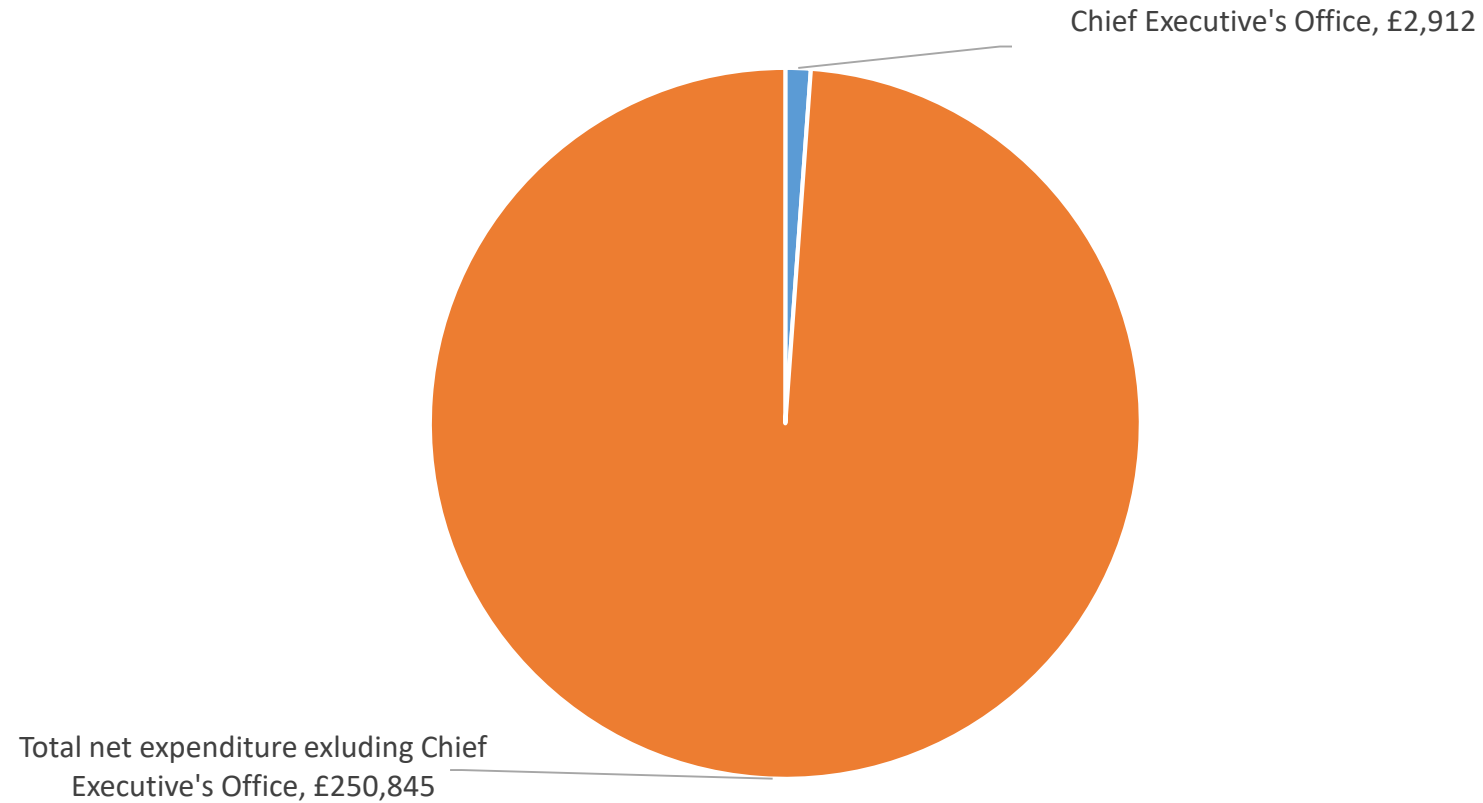
Department of Corporate & Community Services Net Expenditure 2020/2021 (£19,291k)



* Unable to influence

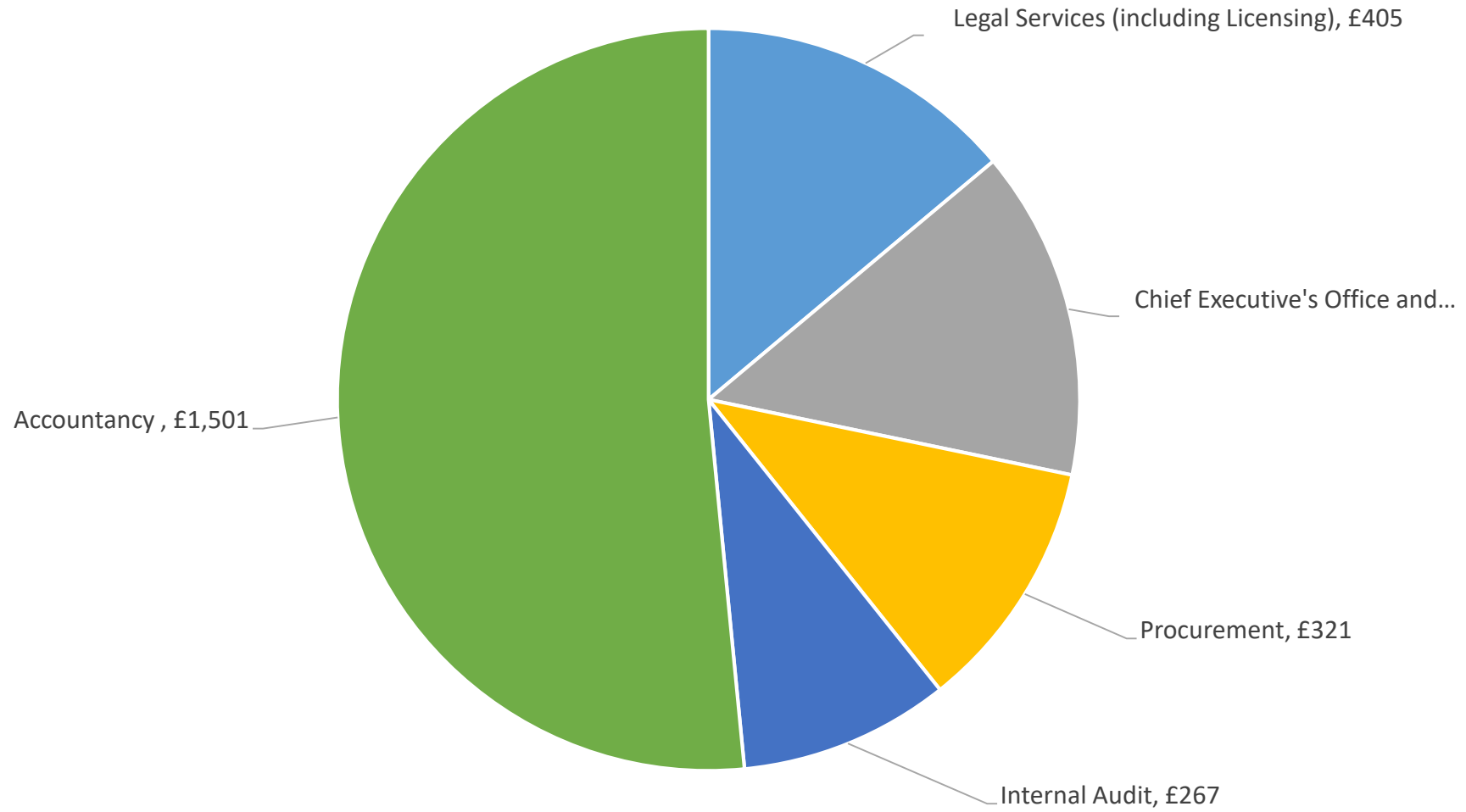
Chief Executive's Office and Miscellaneous Services

Chief Executive's Office Net Expenditure vs Total Net Expenditure excluding CEO (£k)



Chief Executive's Office	
Total Net Expenditure (£k)	£2,912 (1.1%)
Total FTE	53.2

Chief Executive's Office Net Expenditure 2020/2021 (£2,912k)

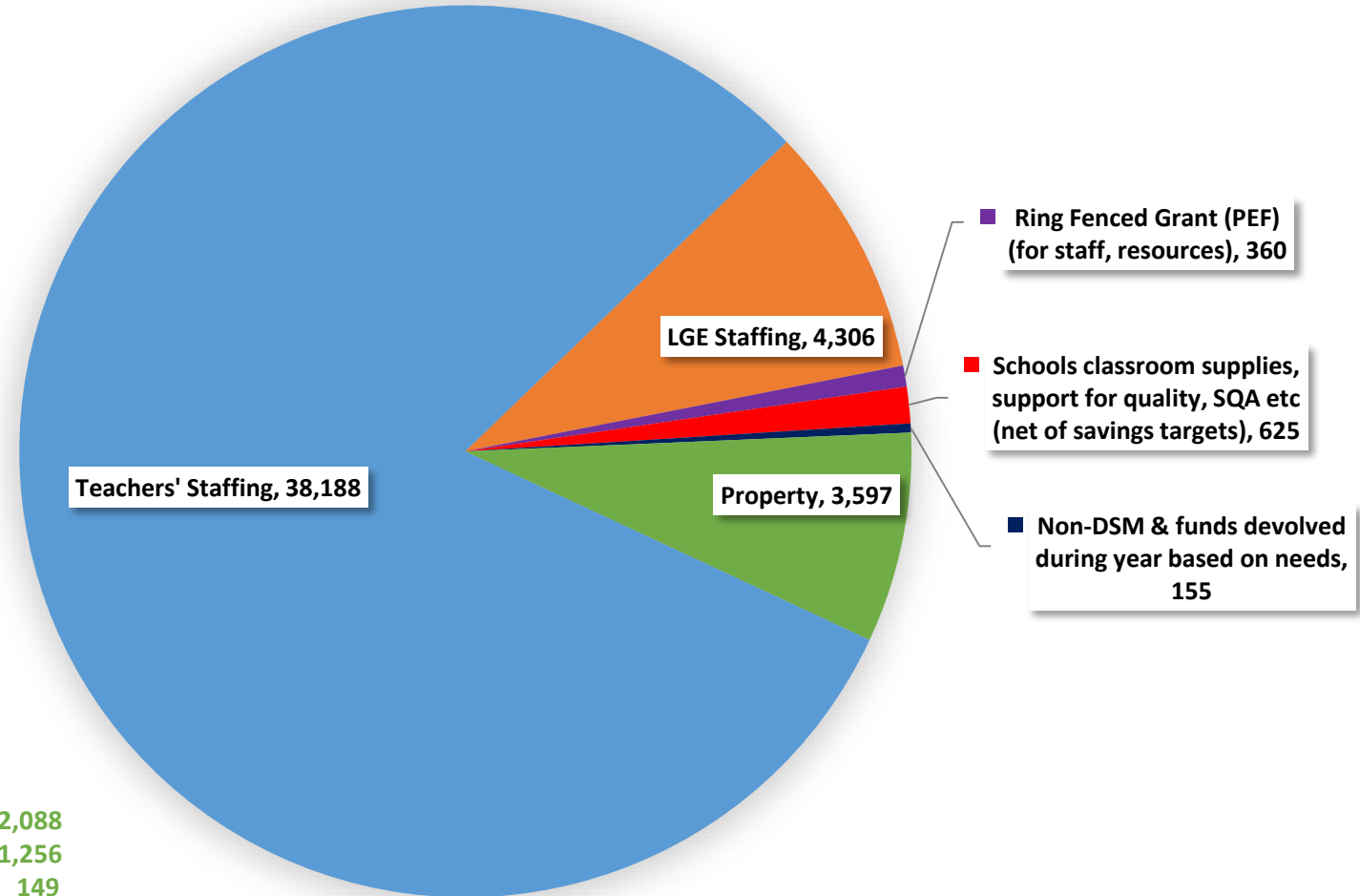


Miscellaneous services £3,869K (1.5%)

- Joint boards £2,352K
- Welfare contingency £200K
- Superannuation costs £1,036K
- Restructuring costs £343K
- Miscellaneous £360K
- Late grant unapplied £597k
- Adjustment for Central Support recharged to HRA (£1,019k)

Appendix 1 – Education details

Secondary Schools: Revised Net Expenditure 2020/21 £47,231 (£'000)

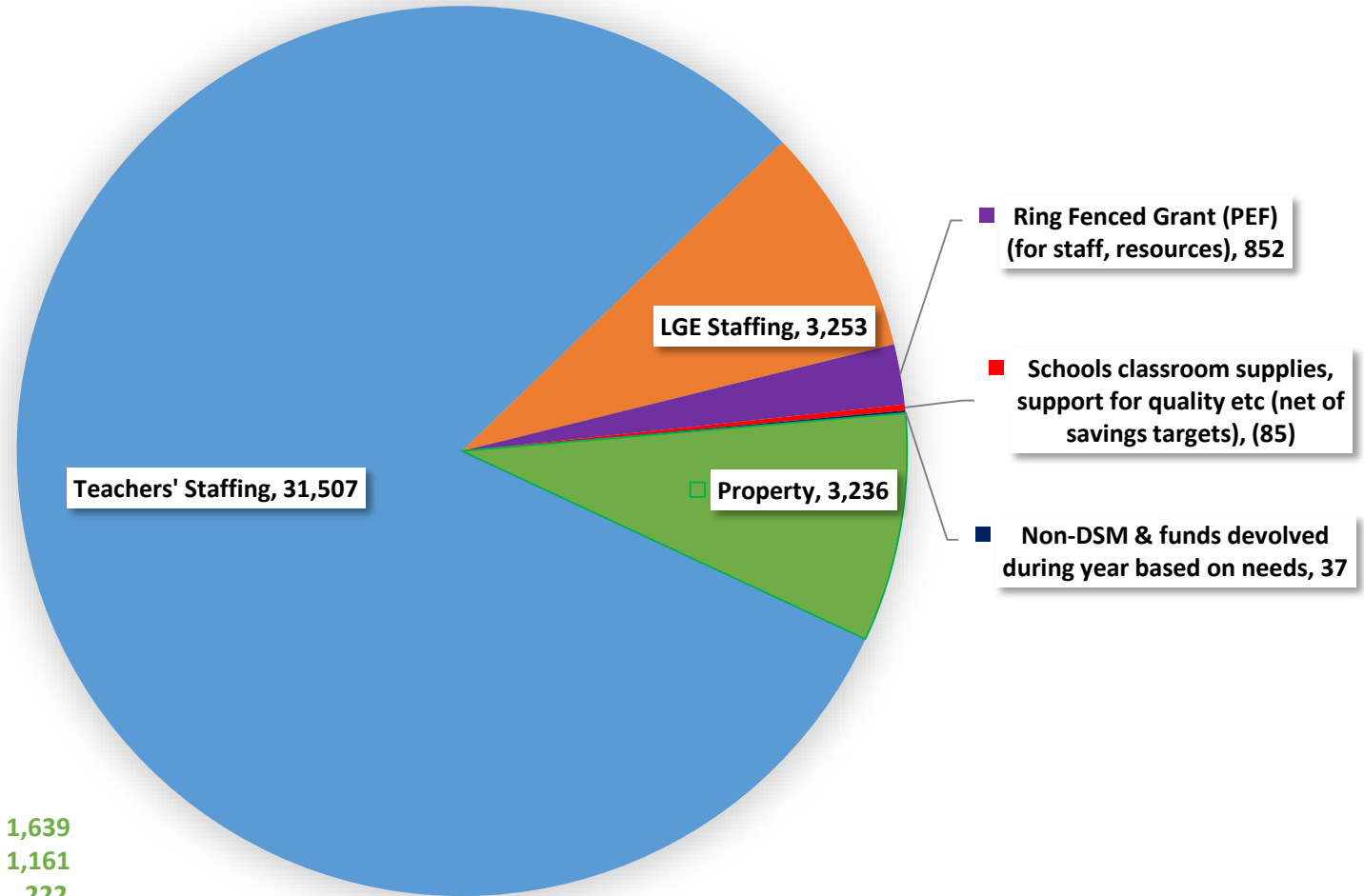


Property:

Rates	2,088
Utilities & Carbon Reduction	1,256
Grounds Maintenance & Waste	149
Repairs and maint (managed by PATS) & CEEF. (Net of cont repairs & renewals)	104
Subtotal	3,597

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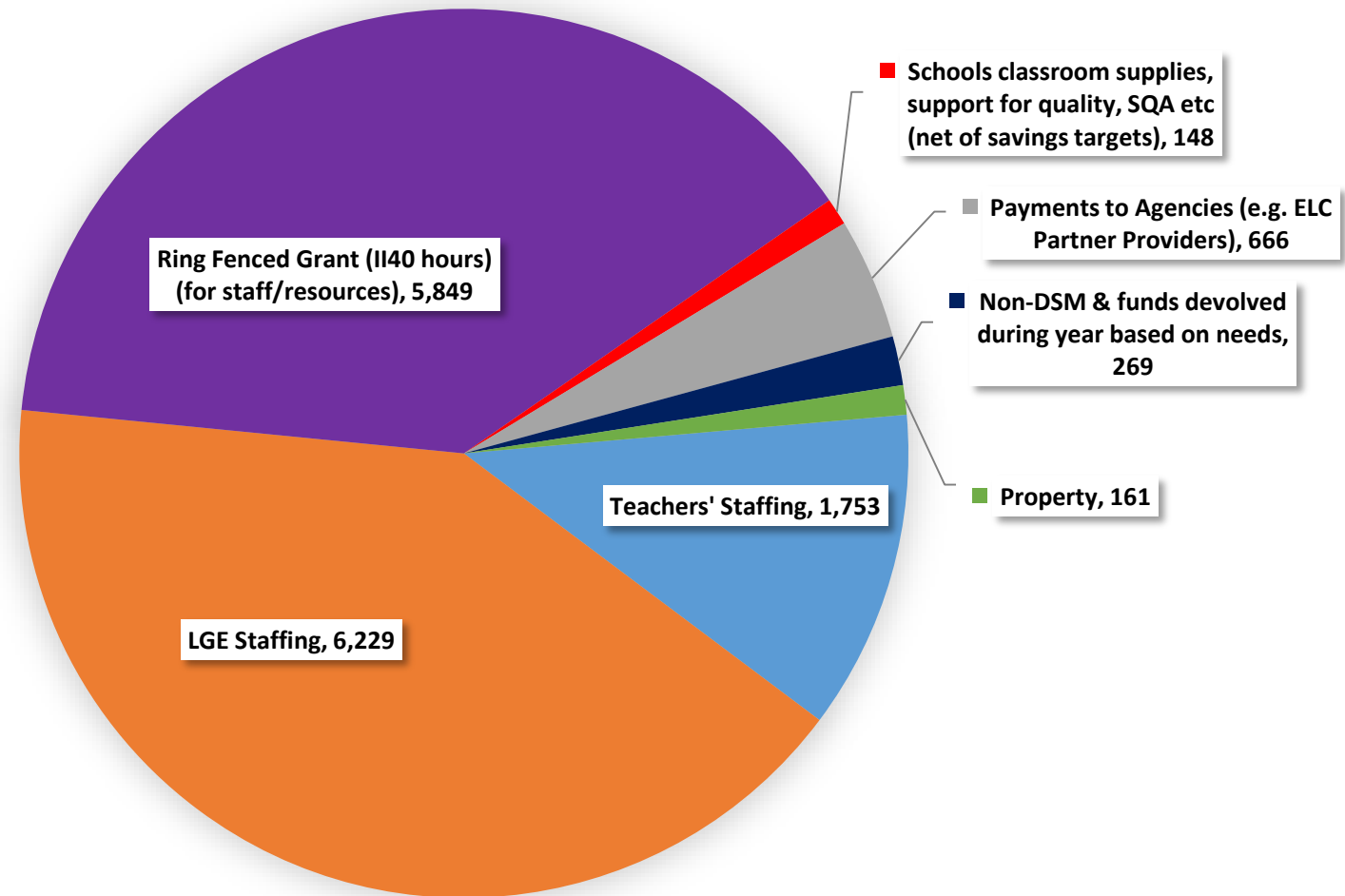
Primary Schools: Revised Net Expenditure 2020/21 £38,800 (£'000)



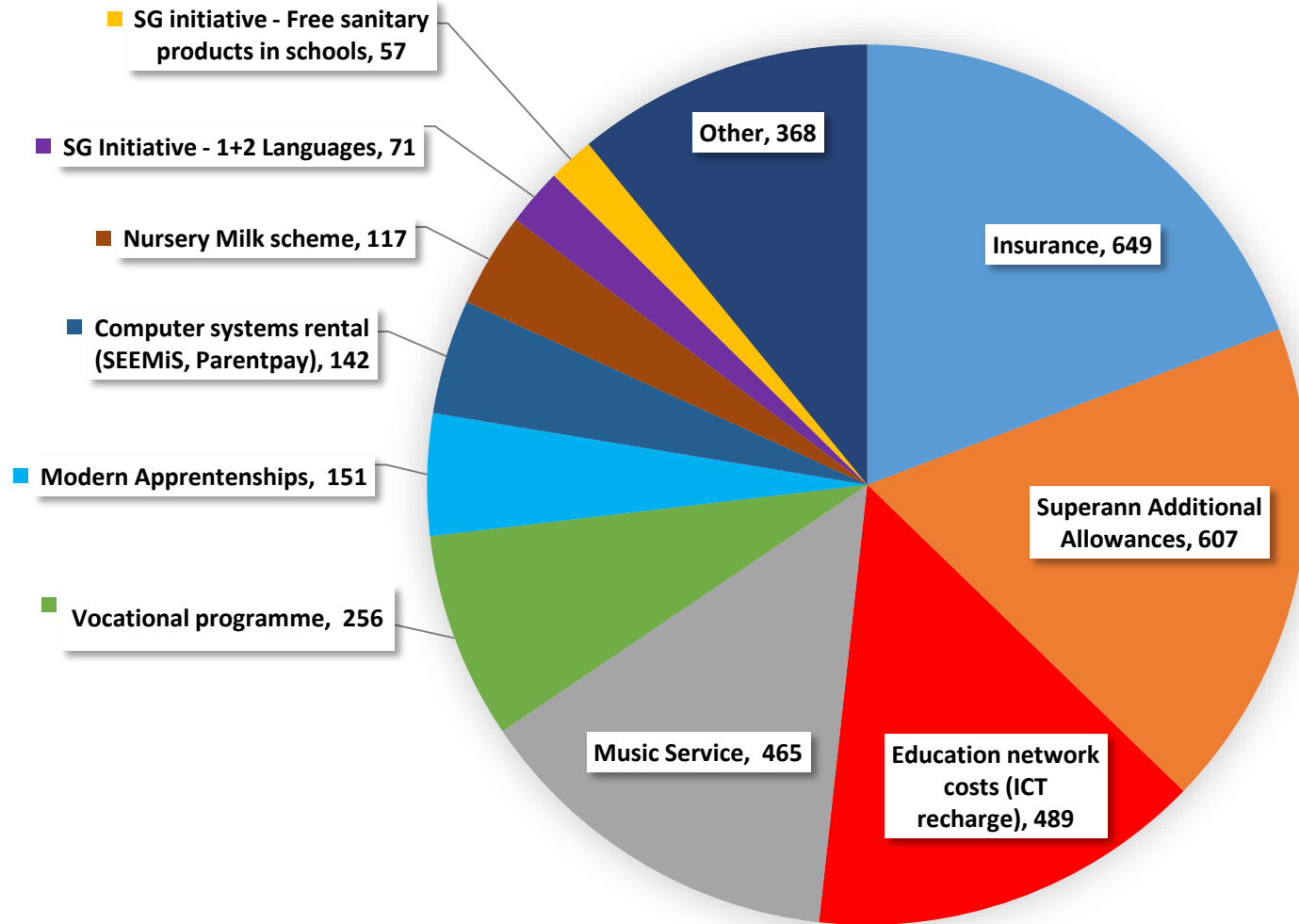
Property:

Rates	1,639
Utilities & Carbon Reduction	1,161
Grounds Maintenance & Waste	222
Repairs and maint (managed by PATS) & CEEF. (Net of cont repairs & renewals)	214
Subtotal	3,236

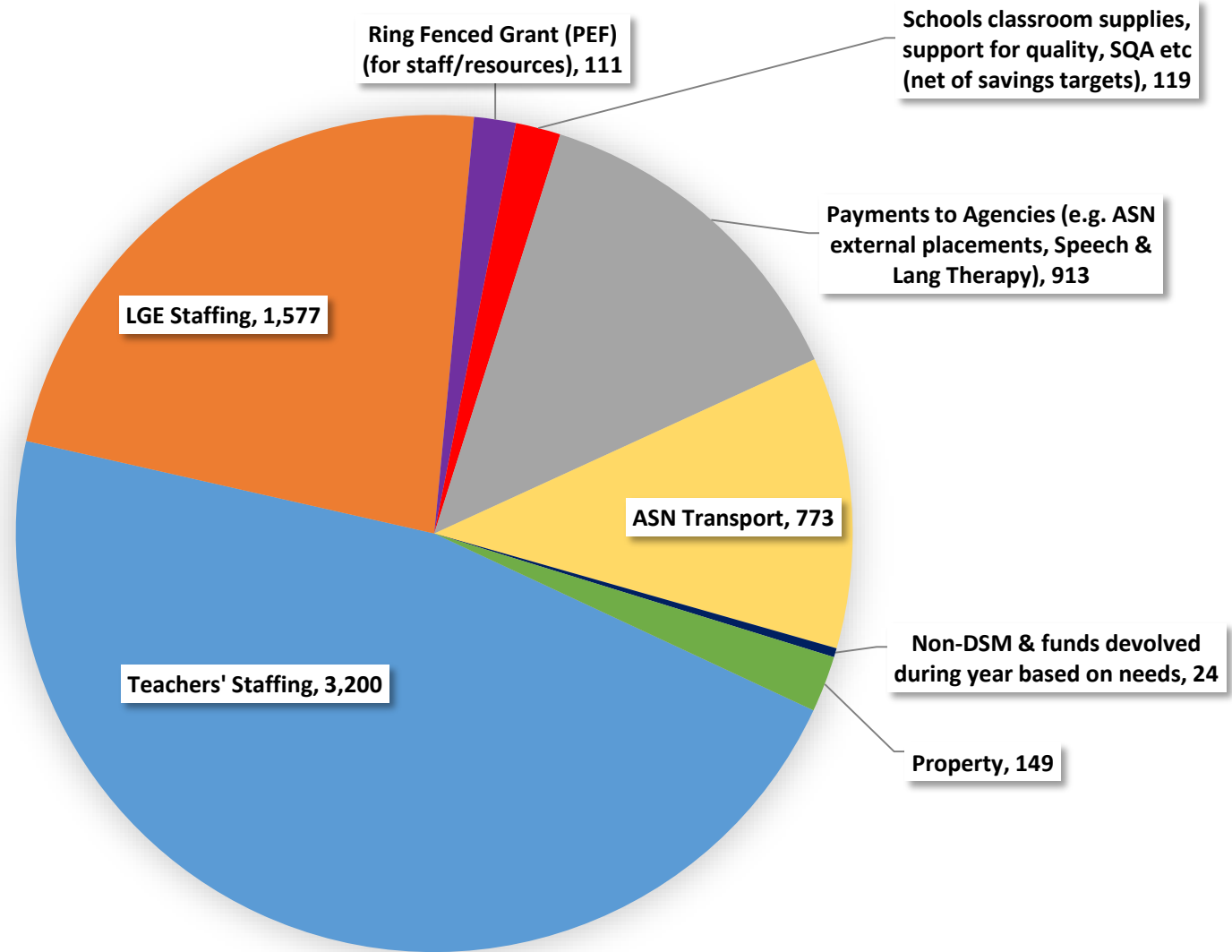
**Early Learning & Childcare: Revised Net Expenditure 2020/21 £15,075
(£'000)**



Other: Revised Net Expenditure 2020/21 £3,372 (£'000)

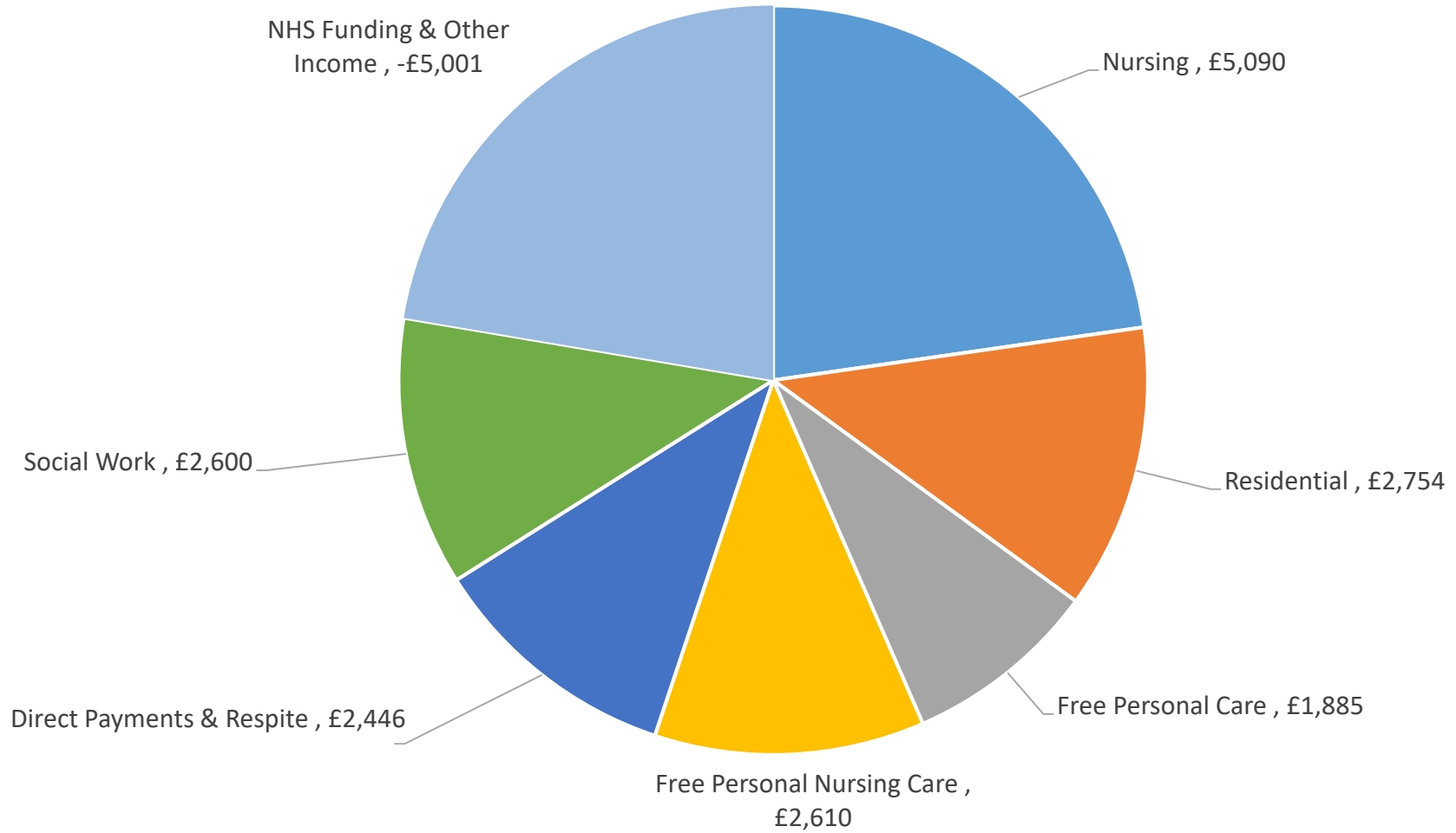


Special Education: Revised Net Expenditure 2020/21 £6,866 (£'000)

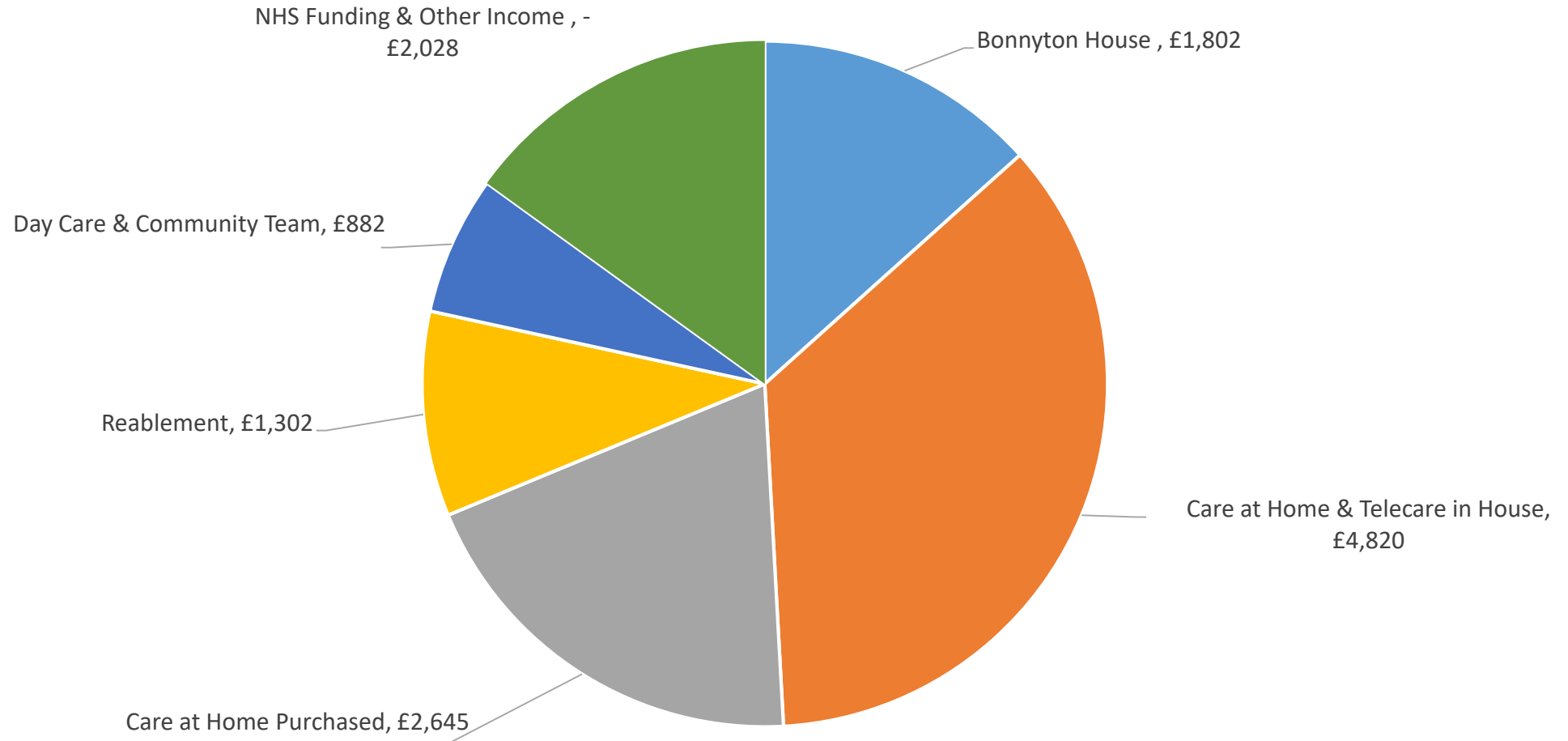


Appendix 2 – HSCP details

Older People Expenditure £12,384 (£k)

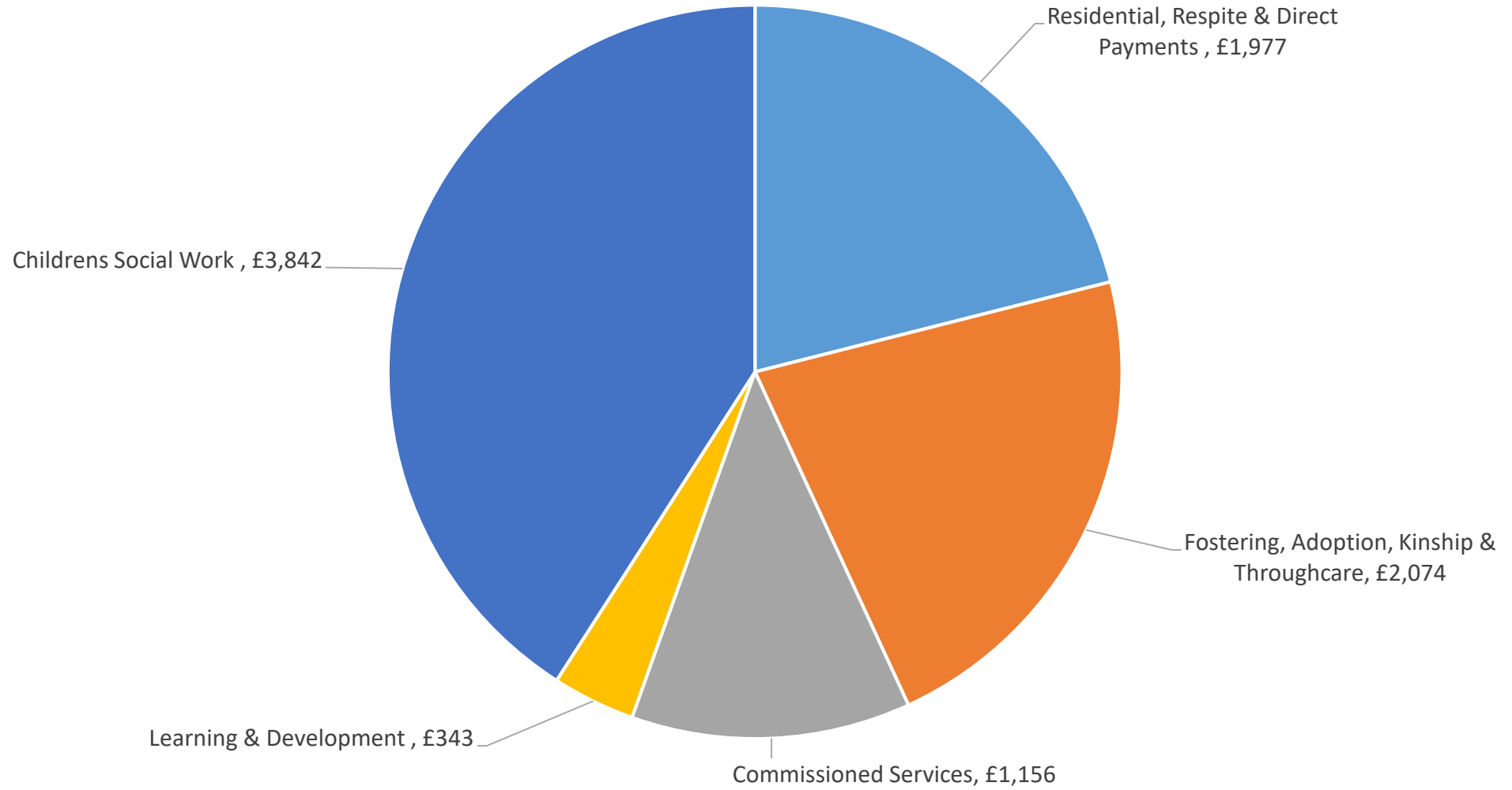


Intensive Services Expenditure £9,423 (£k)



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Children & Families and Public Protection £9,392 (£k)



East Renfrewshire Council

28th October 2020

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