

EAST RENFREWSHIRE COUNCIL
AUDIT AND SCRUTINY COMMITTEE

23 June 2022

Report by Clerk

NATIONAL EXTERNAL AUDIT REPORT – LOCAL GOVERNMENT IN SCOTLAND
FINANCIAL OVERVIEW 2020-21

PURPOSE OF REPORT

1. To provide information on the Audit Scotland report *Local Government in Scotland Financial Overview 2020-21*.

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 2020/21](#)), published on 10 March, has already been circulated to all Audit and Scrutiny Committee Members. Pending confirmation of the specialisation arrangements the committee wishes to establish for dealing with such reports, the Member of the committee who is leading the review of this particular report is Councillor Morrison in his capacity as Chair.

4. When national external audit reports of relevance to local government are published, the Clerk is notified and seeks comments from an appropriate senior officer or officers within the Council on the local position relative to the content of report and any recommendations made. On this occasion, the Head of Accountancy (Chief Financial Officer) has provided comments on the local position and a copy of those comments is attached (see Appendix A).

RECOMMENDATION

5. 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 2020-21.

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EAST RENFREWSHIRE COUNCILAUDIT and SCRUTINY COMMITTEE23 June 2022LOCAL GOVERNMENT IN SCOTLAND: FINANCIAL OVERVIEW 2020/21

INTRODUCTION

1. In March 2022 Audit Scotland published a financial overview report of local government in Scotland in relation to 2020/21. This report advises members on the Council's position in relation to the findings from the report.

COUNCILS' INCOME IN 2020/21

2. Part 1 of the report considered Councils' Income in 2020/21 and found that Councils' total income rose by £1.8bn over the previous year. £1.5bn of this related to Covid-19 funding. East Renfrewshire received £27.245m of Covid-19 funding during the year, much of this only being confirmed in March 2021 and, as such, £12.814m was carried forward for use in addressing Covid-19 pressures in 2021/22 and beyond.

3. Excluding Covid-19 funding, underlying Scottish Government funding to Councils rose by 1.1% in real terms between 2019/20 and 2020/21. More than half of this comprised specific grants (e.g. for the expansion of early learning and childcare). These grants made up 6.7% of recurring revenue funding in 2020/21, up from 4.9% in 2019/20. The report notes that such rises in ring fencing increasingly constrain a proportion of total funding, removing local discretion over how these funds can be used by Councils.

4. Over the longer term, underlying Scottish Government revenue funding for local government has fallen by 4.2% in real terms since 2013/14, whilst funding for other Scottish Government funded sectors has increased in real terms over the same period. This reflects the Scottish Government's prioritisation of other sectors, particularly health. Accordingly, 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 4.84% in 2020/21.

5. Taking account of the above factors, together with inflation, national pay settlements and demands from a rising population, in setting its budget for 2020/21 East Renfrewshire Council identified savings of £10.559m, agreed to draw down £3.500m from reserves and increased Council Tax by 4.84% (generating a further £2.722m). 19 other Scottish Councils applied the maximum 4.84% increase and East Renfrewshire remained below the average Band D Council Tax level.

6. Council Tax collection in East Renfrewshire fell by just over 1% during 2020/21. This was only slightly higher than the average reduction experienced across Scotland as a result of the pandemic. In East Renfrewshire, however, the reduction also reflected a significant project to implement a new Council Tax & Benefits ICT system during the year, which further impacted on the scheduled debt follow-up timetable. It is expected that these arrears will be collected over a longer period and that our target of 98% collection will still be achieved over time.

7. With relatively little income generated from cultural, community and car parking sources, East Renfrewshire was less badly affected by Covid-19 impacts on income streams

than many other Councils. Such local income losses for our Council services were generally covered by Covid-19 grant support. Similarly, ERCLT's income losses were partly offset by additional income from the NHS for the use of leisure facilities as vaccination centres.

8. 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 the past East Renfrewshire usually increased its annual share of the national grant funding as our population was rising faster than most other authorities. This pattern 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 Scottish Government's annual Green Book document to improve transparency.

9. 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, Scottish Government initiatives etc.) is effectively ring fenced or protected. This increases pressure for savings on other Council services.

10. 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 2020/21

11. Part 2 of the report considered the finances of Scottish Councils in 2020/21 and the following paragraphs comment on East Renfrewshire's position in relation to the key areas covered in the overview document.

12. The report states that Scottish Councils faced a 2020/21 funding gap of around 1.7%. East Renfrewshire's gap was higher at just over 6%. This reflects increasing demands coupled with a smaller share of grant and the planned use in previous years of reserves to address budget gaps. As in previous years, East Renfrewshire closed the funding gap using a combination of savings, reserves drawdown and Council Tax increases.

13. The Council planned to make some £10.559 million savings in 2020/21 and, unlike some other Councils, managed to achieve this target other than in some areas, such as cleaning, where Covid-19 prevented this. Where Covid-19 impacted on savings plans, this was covered by Covid-19 grant funding received. The £10.559m savings figure included £2m of savings arising from a planned change in the accounting treatment of loan charges.

14. The utilisation of £3.5m of reserves to support the 2020/21 budget was non-recurring and this pressure therefore recurred in the 2021/22 budget.

15. In common with all other Scottish Councils, our reserves increased substantially during 2020/21. This was due to two main factors

- In June 2020, recognising the financial pressures of the COVID-19 pandemic and that, at that early stage, there was no confirmation of Government funding to cover all of these, the Council instructed Directors to avoid all non-essential expenditure in case insufficient additional funding was received.
- Substantial Covid funding was allocated by the Government as the year progressed, with much of this only received by the Council in March 2021.

16. East Renfrewshire's usable reserves increased from £44.2m to £60.3m (increase of £16.1m, 36%), as a result of COVID grants, managed underspends and a slight net increase in various other reserves. This was less than the average Scottish increase of 46%, reflecting that the Council was also utilising some of its non-Covid reserves to support budgets and transformation initiatives. Much of the Covid funding was received very late in the year, with £12.814m not spent in 2020/21 but carried forward in a separate Covid-19 reserve to address Covid pressures in 2021/22 and beyond. This separate treatment is in line with Audit Scotland recommendations.

17. East Renfrewshire's usable reserves breakdown as at 31 March 2021 was:

General Fund (non-earmarked)	£11.6m
General Fund (Earmarked –incl COVID)	35.6
Housing Revenue Account	2.2
Capital Reserve	2.7
Unused Grants	1.9
Repairs & Renewals	4.3
Insurance Fund	<u>2.0</u>
	£60.3m

18. Covid-19 had a major impact on all Councils' capital programmes in 2020/21, with projects stalled due to lockdown restrictions and subsequent social distancing working arrangements. Whilst various local works were delayed and some cost increases encountered, the Council managed to deliver 5 new early years facilities during the year. The Council spent only £27.84m on general fund capital projects during the year against the originally planned £43.09m. On the Housing programme expenditure was £5.73m against an initial budget of £17.589m, with lockdown restrictions limiting access to residents' homes for most works, however 4 new units were still completed during the year.

19. Whilst much of the funding for capital projects comes from government grants, developers' contributions and capital receipts from selling assets, a sizeable element of capital expenditure in East Renfrewshire is funded by borrowing. This has to be carefully monitored as the debt repayments from increased borrowing impact on the revenue budget. The Council's capital programme is supported by a combination of funding, with the largest elements used in 2020/21 being Government Grants (56%) and Council borrowing (41%). In East Renfrewshire we have less scope for capital receipts and developers' contributions than in many other Councils and this, together with our ambitious capital plan, has produced a higher than average percentage of capital funded via government grants and borrowing. (Scottish totals for government grants and borrowing are 49% and 33% respectively for the same year). Historically however, the Council still has lower than average overall debt levels, although this will change as we progress major new schools, leisure, City Deal and carbon reduction projects.

20. Unlike most other Councils, the Council's net debt (total debt less cash and investments) rose slightly from £44.4m to £45.1m in 2020/21. Whilst the Council's gross debt reduced slightly in the year as a result of our repaying some debt but not incurring any new borrowing (due to delays in the capital programme), this was more than offset by a reduction in our cash and investments figure due to the timing of payments at year end. We expect our net debt to rise further in future years.

21. As a result of the Covid funding received in 2020/21 the Council did not have to utilise any of the fiscal flexibilities available to assist with Covid-19 pressures during the year. With the availability of future funding to support Covid-19 pressures unclear, however, the Council prudently agreed to set aside close to £2m of capital receipts in case there was a funding gap as a result of pandemic pressures during 2021/22 or 2022/23.

22. In addition to its impact on reserves and capital works, COVID-19 also increased financial workload pressures across all Councils in 2020/21. In East Renfrewshire our Council Economic Development and Revenues/Accounts Payables staff administered and disbursed £20.238m of grants to businesses and individuals during the year, with these having to be accounted for separately from the Council's normal expenditure. The additional workload of COVID grants and several types of hardship payments continued into 2021/22 with some extending further to the end of 2022. Covid expenditure on Council services, and related Government grants, also required additional monitoring by accountancy and departmental staff and this added to staff workload. Further, the implementations of our new HR/Payroll and Council Tax and Benefits systems were also rendered more difficult due to remote working and to Revenues staff being diverted to address pandemic related Scottish Welfare Fund/Council Tax Reduction and self-isolation support grants pressures, however both systems were still successfully adopted during the year.

23. In line with other areas, East Renfrewshire's Culture and Leisure Trust was also affected by Covid closures and the Council provided a letter of comfort as assurance that any financial shortfalls would be addressed. Although the Trust suffered significant loss of income from its operations in 2020/21, these were covered by Government staff furlough support, NHS rental payments for leisure facilities used as vaccination centres, and Covid grant support.

24. East Renfrewshire Council updates its 6 year long term financial plan every February. As the pandemic is expected to continue for some time, the long term plan has now been reviewed to ensure that any anticipated Covid impacts are factored in.

25. Despite all of these additional pressures, the Council submitted its draft accounts prior to the statutory 30 June deadline and received an unqualified audit certificate from our external auditors. No significant concerns were raised in relation to internal control and the auditors signed off our accounts before the 30 November target date. Not all Councils met these dates.

26. Local Government staff in East Renfrewshire Council are part of the Strathclyde Pension Fund. The Fund's investment returns were positive in 2020/21 and close to the average for Scottish Local Government and the Strathclyde Fund is more than 100% funded. Both employer and employee contribution rates for the scheme have been constant for a number of years.

27. Whilst the national overview notes that Covid contributed to some errors and control weaknesses in various Councils' accounts, our local auditors found that, in addition to demonstrating effective financial management, the Council had appropriate governance arrangements in place, had introduced appropriate emergency arrangements at the start of the pandemic and was committed to conducting its business in an open and transparent manner. Our staff are now working to further improve upon this by providing even more explanatory narrative on the Council's finances and performance in future years' Management Commentaries within the annual accounts document.

COUNCILS' FINANCIAL OUTLOOK

28. Part 3 of the overview report focusses on the uncertainties and challenges impacting on Councils' financial planning for the years ahead.

29. East Renfrewshire aims to follow 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 previous 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. Similarly, with the late announcement of UK 3 year settlement figures in autumn 2021 leading to the subsequent publication of only a single year Scottish budget, the Council again agreed to set a one year budget for 2022/23. With the publication on 31 May 2022 of the Scottish Government's Resource Spending Review it is expected that the Council will be able to resume its preferred 3 year budget setting approach from 2023/24 onwards.

30. In the meantime, departmental budget planning figures for Outcome Delivery Plan purposes have continued 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 major 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 plans take into account economic forecasts and any medium/long term plans published by the Scottish Government.

31. The overview report notes that during 2020/21 all Councils faced uncertainty over future Covid funding and that this made 2021/22 budget preparations difficult. In setting its 2021/22 revenue budget East Renfrewshire published two sets of figures, showing our plans both excluding and including Covid funded items. In addition, the Council agreed to earmark around £2m of capital receipts to assist in meeting Covid pressures, should this be required. So far, we have not had to call on these earmarked funds, as the late Covid funding received in March 2021, after we had set our 2021/22 budget, was sufficient to cover the unfunded pandemic pressures faced in 2021/22 as well as those anticipated when setting the 2022/23 budget.

32. The financial pressures faced by East Renfrewshire in 2021/22 were in line with those listed in the overview report, i.e. recovery costs, pay/inflation, public demand, capital budget pressures and leisure trust finances.

33. The report states that, excluding Covid funding, Scottish Government revenue funding for Councils in 2021/22 again increased by 1.1% in real terms. This again includes new funding ring-fenced for Scottish Government initiatives such as early learning and childcare. If the 2020/21 non-recurring Covid funding is also included however, the settlement fell by 7.4% in real terms between 2020/21 and 2021/22.

34. The overview recommends that Councils monitor the position in relation to Covid pressures and revise medium and long term plans as the outlook becomes clearer. All Councils have a medium term financial plan, but the report notes that not all have a long term plan (more than 5 years). East Renfrewshire has both medium and long term financial plans in place and revises both annually, taking account of grant forecasts, service pressures, pay, inflation etc. This approach will help us to adjust our figures to recognise both the changing pandemic and wider economic situations. During the course of 2022/23 we will also consider whether we need to utilise any further fiscal flexibilities – specifically in relation to service concession (PFI/PPP) debt - to assist in addressing the forecast financial challenges.

35. The report also recognises that capital resources will be constrained in the next few years. This will impact on Councils' ability to invest in transformation, pandemic recovery and carbon reduction initiatives and to deliver local community priorities and Government policy commitments. Since the report was published the capital outlook has worsened, with rising inflation and staff and material shortages impacting on projects. East Renfrewshire has recently conducted a review and reprioritisation of its planned 2022/23 capital projects in order to remain within its approved capital allocations.

36. Publication of the Scottish Government's Resource Spending Review will help us as we update our medium and long term revenue plans but uncertainties will persist longer term in relation to the funding of economic recovery measures, business transformation, ongoing Covid pressures, carbon reduction initiatives and the proposed national care service. After publication of the spending review in summer 2022 the Council will review its financial plans and strategies to transform and reprioritise services and to deliver recurring savings that will balance future budgets.

37. The overview report recognises that this will be a major challenge, particularly as much of local Councils' grant funding is effectively "ring-fenced", reducing local Councils' flexibility in adjusting their budget plans. Scottish Parliament Information Centre (SPICE) figures confirm that specific grants grew from 2.7% of Councils' total revenue in 2018/19 to 6.6% in 2022/23. COSLA also regards funds transferred to local government from other Government portfolios as effectively ring-fenced and this produces a movement from 4.0% in 2018/19 to 17.9% of Council revenue in 2022/23. If "protected" service budgets such as teachers, HSCP and PFI/PPP are also factored in, COSLA has estimated that the restricted portion of local Council funding is around 60%. This will remain a contentious issue for the foreseeable future.

38. Further national overview reports will continue to consider these issues. The latest Scottish overview report reviews Councils' situations for 2021/22 and was published on 25 May 2022. This focusses on general issues facing Councils in addition to the financial challenges set out in the report considered above and a report will be brought back to this committee on the 2021/22 overview after the summer recess.

CONCLUSION

39. The report outlines the main financial issues facing Scottish Councils in 2020/21. Whilst East Renfrewshire is not specifically mentioned in the report, the issues raised are almost all relevant to the Council and it is clear that we will continue to face substantial and increasing financial challenges in future.

RECOMMENDATION

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

Margaret McCrossan, Head of Accountancy, 24 May 2022