

EAST RENFREWSHIRE COUNCIL
AUDIT AND SCRUTINY COMMITTEE

22 June 2023

Report by Clerk

NATIONAL EXTERNAL AUDIT – LOCAL GOVERNMENT IN SCOTLAND
FINANCIAL BULLETIN 2021/22

PURPOSE OF REPORT

1. To provide information on the Audit Scotland report, the *Local Government in Scotland - Financial Bulletin 2021/22*.

RECOMMENDATION

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

BACKGROUND

3. A copy of the Audit Scotland report, the [Local Government in Scotland - Financial Bulletin 2021/22](#) published in January 2023, has already been circulated to all Audit and Scrutiny Committee Members. Under the Committee's specialisation arrangements, the Member leading the review of this particular report is Councillor Morrison.
4. The Head of Accountancy (Chief Financial Officer) has provided comments on the report. A copy of that feedback 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 on [Local Government in Scotland - Financial Bulletin 2021/22](#)

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EAST RENFREWSHIRE COUNCILAUDIT and SCRUTINY COMMITTEE22 June 2023LOCAL GOVERNMENT IN SCOTLAND: FINANCIAL BULLETIN 2021/22**INTRODUCTION**

1. In January 2023 Audit Scotland published a financial bulletin on local government performance in Scotland in relation to 2021/22. This report advises members on the Council's position in relation to the findings from the report.
2. Audit Scotland will publish a more detailed report in May 2023 and a further report will be submitted to Committee once this has been received.

COUNCILS' FINANCES IN 2021/22

2. Part 1 of the bulletin considered Councils' finances in 2021/22 and found that, despite additional COVID funding, Councils still faced major challenges balancing budgets and determining spending priorities.
3. Whilst revenue funding to Councils rose by 5.3% in real terms (excluding COVID funding), an increase in ring-fencing meant that this represented a real terms reduction in resources that Councils themselves could prioritise. With pressures further increased by rising inflation, many Councils, including East Renfrewshire, therefore had to use reserves as a short term means of addressing budget gaps.
4. Although the 2021/22 Scottish Government settlement included additional grant funding to allow a Council Tax freeze, Councils' income collected from Council Tax also increased in year with the average Scottish collection rate rising to 95.7%. In East Renfrewshire collection improved from 96.8% in 2021/22 to 97.55% in 2022/23. It is important to remember that we continue to collect historic Council Tax debts after the end of the year, so the eventual collection rate will be higher.
5. In common with most other Councils, East Renfrewshire utilised a mixture of recurring and non-recurring savings and a drawdown of reserves to close the 2021/22 budget gap. Unlike the majority of Councils, however, we were successful in achieving our targeted savings during the year.
6. The bulletin notes that most Councils again increased their overall general fund reserves during 2021/22. Conversely, East Renfrewshire saw a slight reduction in such reserves as the Council utilised some of the grant funding received the previous year and also drew on the Modernisation Fund to help fund transformation activity across the Council. We expect our overall General Fund reserves to reduce in future as COVID funding is utilised to mitigate ongoing pandemic pressures. As at 31 March 2022, the Council held over £14m of COVID funding, representing around 30% of the overall General Fund balance.
7. Due to close control of expenditure, we did not require to draw down the full £3.750m of reserves as set out in the 2021/22 revenue budget plans and so the unallocated element of the General Fund reserve remained relatively unchanged in 2021/22. As at 31 March 2022 the unallocated General Fund balance remained at £11.7m (4.4% as against the Council's usual aim of 4%).

8. In line with most other Councils, East Renfrewshire increased capital expenditure in 2021/22 compared to the previous year, although there were still delays in many projects due to the impact of the pandemic. The Council incurred 89% of planned capital investment as against the latest revised capital plan for the year. We are also typical in that we expect an increasing proportion of capital projects to be funded via increases in borrowing in future as grant funding remains relatively static. This will result in the Council's net debt increasing in future.

9. East Renfrewshire is a member of the Strathclyde Pension Fund. The outcome of the 31 March 2023 triennial valuation is awaited and it is expected that this will result in the Council's contributions being, at worst, unchanged for the next three years.

COUNCILS' FINANCIAL OUTLOOK

10. The second half of the bulletin examined the challenging future prospects for Councils and identified key pressures including pay claims, COVID recovery costs, general inflation (especially on energy, contracts & construction), and sensitivity to increases in Council charges. All of these will require elected members to make increasingly difficult choices. East Renfrewshire can associate with all of these comments.

11. The bulletin notes that the May 2022 Scottish Government Resource Spending Review provided only high level information, indicating a flat cash position for Councils, for the three years from 2023/24 to 2025/26. It also recognises, however, that the Scottish Government could change this position during 2023/24.

12. The Council has used this flat cash forecast in its budget planning and this indicates the need for both staffing and service cuts in the coming years. In view of the uncertainty around planning figures, East Renfrewshire set only a single year budget for 2023/24, despite having consulted on potential savings for the next three years in autumn 2022. The lifting of the Council Tax freeze has helped to mitigate some of the pressures but is also a difficult option in the current cost of living crisis.

13. The Scottish Government settlement for 2023/24 is reported by the Scottish Parliament Information Centre (SPICe) as representing an increase of almost £640m for Councils in comparison to 2022/23, however COSLA estimate that this equates to an increase of only £71m once national policy commitments (such as free school meals and increased early learning and childcare hours) are taken into account and that a total increase of £1 billion was required in order to maintain services.

14. The bulletin reports that the 2022/23 local government settlement represented a 3.9% cash increase over 2021/22, excluding COVID funding. Councils faced budget gaps averaging 3% in 2022/23 and for East Renfrewshire the figure was around 5%, reflecting previous reliance on reserves, increasing demographic pressures and limited scope for income generation. In common with other Councils, we used a combination of service reductions, use of reserves and increased Council Tax to close the 2022/23 budget gap. It is recognised that use of reserves is not sustainable and that stakeholder engagement on service reforms will be required in future.

15. Scottish Government capital funding for Councils increased only marginally in 2022/23 after significant reductions in the preceding two years, however this was only enough to bring the real terms funding up to the equivalent of the 2016/17 level. In view of increasing interest rates and construction inflation, East Renfrewshire and most other Councils found it necessary to review and reprioritise capital projects in order to maintain the affordability of the capital

programme. This position will continue into the future as severe revenue budget constraints will limit Councils' ability to increase borrowing.

CONCLUSION

16. The bulletin provides a high level summary of the main financial issues facing Scottish Councils in 2021/22 and beyond. 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.

17. Audit Scotland plan to release a more detailed report on this later in May 2023.

RECOMMENDATION

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

Margaret McCrossan, Head of Accountancy, 3 May 2023

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