Renfrewshire Council

**To:** Council

**On:** 29 September 2022

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**Report by:** Director of Finance & Resources

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**Heading:** Financial Sustainability and General Fund Financial Outlook

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1. **Summary**

1.1 The Council is facing a financial and economic environment characterised by rapidly increasing levels of risk; placing the Council's financial stability and ongoing sustainability under much greater pressure than that experienced over the past decade.

1.2 Previous financial updates to Council outlined the requirement for the Council to restart transformation activity which would underpin a level of savings which would address sustainability concerns, along with a range of financial sustainability workstreams which would support the delivery of savings at the scale required.

1.3 This report provides an update with regards progress with these workstreams, and also provides an update with regards the current year financial position which has changed markedly since the previous report in June as cost pressures – largely driven by high levels of inflation – continue to build.

1.4 The report outlines a range of measures which the Council will require to consider in the short and medium term, and the use of financial flexibilities including the use of reserve balances to address a timing

disconnect between the Council's ability to generate savings at scale whilst maintaining stability within the organisation and the delivery of services, and the speed at which costs are increasing.

## 2. Recommendations

2.1 Note the update to the Council's financial outlook provided in the report

2.2 Note the update provided in relation to service concession accounting arrangements and agree the revised accounting policies outlined in paragraph 3.3

2.3 Note the update provided in section 4 in relation to the financial pressures being forecast in the current financial year and agree the mitigating actions outlined in paragraph 4.6

2.4 Note the capital investment update as outlined in section 6 and agree to delegate authority to the Director of Finance & Resources to implement the proposed amendments to the Council's capital planning and borrowing arrangements (noting that these may require to be adjusted should the current proposals for Scottish Government funding change).

## 3. Revenue Update

3.1 The financial update report to Council in June outlined a medium term financial position which was informed by the publication of the Scottish Government Resource Spending Review (RSR) and the likely level of the local government revenue grant settlement, along with the spending pressures the Council is likely to face over the medium term. This updated outlook forecast that over the next three year period the Council would require to deliver savings within a range of £29m – 61m, with a central forecast of a deficit of £44m over this period, before any decisions on council tax. Assuming a 3% council tax increase in each year, this central deficit forecast would reduce to £31m.

3.2 The June report also highlighted that this gap – while not significantly differing from previous forecasts – had a different context in that the main drivers related to increasing near-term spend pressures with grant levels being relatively more certain. The profile of the gap was also highlighted as being more immediate, and Council agreed a range of financial sustainability measures be developed with a savings level of £35m being targeted over the next three years. Updates are provided later in this report with regards the work progressed on the financial sustainability workstreams over the summer months. Since the June report however, and underlining the very volatile financial and economic environment within which the Council is operating, there have been further updates in the forecast spend pressures facing the Council. These are outlined in section 4 below.

3.3 The RSR had also committed to potentially greater financial flexibility for local government with a range of options being outlined, including further exploring discretionary revenue raising and alternative accounting proposals for service concession arrangements, contingent on a full review of capital accounting. Progress has been made since the June report on these issues in that an independent chair for the capital accounting review has been appointed and the terms of reference for the review have been consulted upon. In addition, a finance circular has been issued which will enable the flexibility in terms of accounting for service concessions arrangements to be put in place. It is proposed that the Council would seek to adopt the flexibility outlined in the 22/23 financial year, with Council agreeing to amend its accounting policy with regards service concessions; the flexibilities possible then being incorporated into the Council long term capital accounting, borrowing and debt management strategies which remain a key element of the Council's financial position over the medium term.

3.4 The Council's financial strategy remains dynamic and is constantly updated to reflect emerging new pressures or changing levels of existing pressure. Even in the short period since June, the medium term outlook has deteriorated somewhat, with the central forecast extending to a deficit of £35 million over three years from the £31 million outlined in the previous report. Section 4 below outlines the main reasons for this movement, relating to immediate financial pressures and now widely accepted forecast that UK inflation will remain higher for longer; and the possibility of an economic recession in 2023 now all but "baked-in" to the current economic environment.

3.5 This position underlines the necessity for the Council to take steps to address the immediate financial position, while also prioritising the development and implementation at pace of the financial sustainability measures outlined later in this report.

3.6 The pressures the Council is facing are mirrored in the Scottish Government financial position, with in-year savings requiring to be found to offset increased inflationary costs and additional costs of public sector pay awards. The Scottish Government has committed to an Emergency Budget within two weeks of any UK Government fiscal announcement – possibly to be expected later in September. The measures taken by the Scottish Government to date include securing savings from a range of public services, including resource set aside to support employability. The precise impact of this on resource the Council may have been anticipating is yet to be determined. In addition, the Scottish Government has outlined a capital reprioritisation programme across multiple portfolios.

## 4 Current Financial Position

4.1 Members will be aware of the current very high levels of inflation being experienced in the economy, driven in large part by the dramatic increase in energy costs. These costs increases are impacting on families and household finances, as well as the Council, community organisations and businesses. The Bank of England has forecast CPI inflation will hit 13% by the end of 2022, with other economic forecaster suggesting this could be an underestimate. Citigroup, EY, Goldman Sachs and other financial institutions forecast UK inflation in 2023 could range from 14% to 18% - driven predominantly by surging gas costs as supply constraints force prices higher. This is obviously manifesting itself in a cost of living crisis for many households with many already in or facing the prospect of fuel poverty.

4.2 The Council is equally facing a surge in supplies costs – energy costs obviously - but also food, transportation and diesel costs. Vehicle parts costs are increasingly an issue, while building and construction cost pressures are outlined in more detail in section 6 below. This volatile cost environment, while undoubtedly driven by soaring energy costs, is also affected by supply constraints. It is now increasingly impractical to discern and disentangle which cost increases are related to which driver – the Russian invasion of Ukraine and resulting impact on gas supplies, supply issues from China as Covid measures continue to constrain output, longer term pandemic-related issues within the UK and Europe, Brexit and potential impact on labour supply, or more pay-linked price increases as higher inflation understandably drives up wages.

4.3 In addition to cost increases, the council is also experiencing higher demand for some services – most pressingly in children and families' social care. During the pandemic period the stress on some families has increased significantly. The pressures for some families and children have been in relation to stress on family relationships and some young people experiencing serious mental health concerns. Children and families' social workers have readily provided support for families including intensive support. Despite the intensive social work intervention, there has been an increase in the level of risk for some children resulting in children being placed in kinship care, accommodated in foster care or residential accommodation. For some, this entails highly-intensive care packages which are increasingly expensive. This position has been building over the past 12-18 months with an overspend being incurred in 2021/22 which was offset to some degree by the availability of Covid-related resource. However, in 2022/23, the service is – based on current levels of demand – forecasting an overspend of £4-5 million. Council will require to consider the position moving forward given the spend pressure in this area, and the fact that increased social care funding has in recent years been passed in full to the HSCP as a specific condition of the local government settlement, as to whether this position is sustainable. Council will continue to work through COSLA to emphasise the restrictive financial impact of such conditions. There remain other Covid-related pressures, with parking income still well below pre-pandemic levels and household waste levels remaining high but beginning to reduce.

4.4 The Council Overview finance report to the recent Finance, Resources and Customer Services Policy Board outlined a 2022/23 projected overspend (removing the underspend projected in adult social care) of £7.7 million. This projection is exclusive of a number of other risks to the 2022/23 financial position:

- The 2022/23 pay award (at the time of writing) remains to be formally accepted by trades unions, although it is anticipated that in balloting their members, the trades unions will recommend acceptance of the offer. The offer tabled by COSLA is a combination of a core pay increase of 5% with further consolidated elements to support the lowest paid in the workforce who will receive a maximum £2,000 increase (equivalent to a 10.2% increase for the lowest paid), and a £3,000 cap for those on salaries in excess of £60,000. An additional day of annual leave was also offered to all staff. The Council agreed in setting the 2022/23 pay provision for this to be based on the Scottish public sector pay policy, which broadly equates to a 2% level of provision. While additional Scottish Government funding has been provided to support the current pay offer (this is explored in section 6 below), this will be insufficient to meet the expected total cost, requiring the Council to fund the differential in 22/23 from reserve balances, and to build this substantial deficit in to future base budgets.

- As outlined above, energy costs are surging and while the Council made some provision for increased costs in 2022/23, it is unlikely that this will now be sufficient to meet the anticipated costs given spiralling gas prices.
- The projection does not include any variance relating to the collection of Council Tax. Current forecasts suggest a slightly lower yield than 2021/22; however, it is recognised that the full impact of the cost-of-living crisis is yet to materialise which could have significant effect on yield.

4.5 Directors and management teams are closely monitoring their costs and are aiming to mitigate increases where possible, however further corporate action to limit spending will be required in the coming weeks and months. Even assuming these actions, given all the above pressures it is all but guaranteed that the Council will require to utilise reserve balances to fund the projected overspend and support a break even position at year end.

4.6 In order to try and mitigate the scale of required use of reserve balances in 2022/23 a number of actions are proposed including Directors and management teams being restricted to essential spend only and pausing recruitment to posts which are not essential. It is acknowledged these measures may impact on service responsiveness more widely. It is now of the utmost importance that the financial sustainability measures and workstreams outlined in the June report are progressed at pace to underpin both short term financial stability and financial sustainability over the medium term.

## 5 Financial Sustainability Workstreams

5.1 The Council's main transformation programme – branded Right for Renfrewshire (RFR) most recently – is the main route for the Council to transform services and release efficiencies, thereby supporting the delivery of recurring savings over the medium term. Members will however be aware that, at the onset of the coronavirus pandemic, a decision was taken to formally pause the programme, recognising the capacity of the Council was required to be fully diverted to support the emergency response. As has been outlined in previous update reports, the longer term impact of this decision is that the Council's pipeline of associated savings has now fallen behind the requirements to secure overall financial sustainability. Members agreed in June that a revised savings target of £15 million be set for the remaining phases of the existing medium term transformation programme, and that the programme be revised to clearly align with the financial sustainability portfolio.

5.2 Where management capacity has allowed, service reviews have taken place in discrete areas of the Council – corporate finance and ICT services have been reviewed utilising the RFR approach and recurring savings have been generated. In addition, reviews of the operations and infrastructure service within Environment and Infrastructure has also commenced with a view to savings being generated over the course of 22/23 to 24/25. Remaining areas of the Council where reviews will be undertaken include legal and committee services, events and communications, policy and commissioning and people and organisational development. Further consideration will also be required in terms of Children's Services; however it is acknowledged that the current pressures being faced by elements of this service and wider obligations in terms of specific funding streams will make the delivery of recurring savings particularly challenging.

5.3 The combined measures from accounting flexibilities outlined in section 3 and transformation are together insufficient to close the forecast financial gap the Council is facing, meaning a range of other financial sustainability measures require to be explored, and Council agreed in June to develop a portfolio of additional measures over the summer period. Updates on each of these workstreams is provided below:

a. <u>Strategic Property Review and new ways of working</u>

  - In the context of the financial outlook the Council can no longer support maintaining, servicing and sustaining the scale and breadth of the property estate it currently carries. Baseline data in relation to all Council owned and leased properties has been collated, including running costs, condition, occupancy and energy efficiency. This will be further assessed to determine opportunities for estate consolidation and rationalisation which will allow scarce resource to be better directed to key facilities in communities, support the Council's net zero ambitions and facilitate the sustainability and in some cases improvement in service availability within communities. A number of building management principles will be developed including a presumption against leasing buildings and exiting from currently leased properties. Plans for improved working environments and opportunities from new ways of working continue to be developed, with particular focus on new technology and ways this can be exploited to further enable efficient ways of working and employee wellbeing. Further work is ongoing in relation the management and maintenance of property assets, including charging proposals.

b. Charging, fees and commercialisation

- Work to assess and benchmark the current level of fees and charges relative to peer councils and cost of service delivery is progressing and options for member consideration are being developed. Early analysis suggests that in some areas the level of fees is not reflective of costs, resulting in increasing levels of subsidy being provided by the Council and which are out of step with the position in other local authorities. Members may consider whether this is a position they wish to continue in relation to supporting key Council priorities, however this decision should be based on sound evidence of the subsidy being offered. Internal charging levels and inter-company charges will progress at the same pace as the wider work on fees and charges, with the aim that revised levels will be incorporated into 2023/24 base budgets. It is likely that development of further commercialisation opportunities to generate new income streams for the Council will take longer to produce given the business case for each proposal will require to be tested before being presented to members.

c. Review of Council risk tolerance

- Early work across a range of areas including an examination of insurance arrangements would suggest this workstream will have limited opportunities to deliver recurring savings; however where opportunities arise these will be examined. It is suggested staff resource is re-prioritised to other reviews which have better savings generation potential.

d. Strategic review of procurement

- Initial work to progress the collation of baseline data regarding purchasing processes, preferences and compliance with preferred catalogues is underway. This is largely work which can be undertaken in house without the need for external support, but may involve some limited engagement and support from Scotland Excel, in particular with regards to exploring optimal use of national contracts. It is also proposed, linking with the digital strategy work, to implement the full purchase to pay (P2P) functionality within Business World - this work is currently being scoped.

e. Review of local policy position

- An assessment of current policy positions is ongoing with a view to collating a clear view of where local policy or service levels may be adapted to potentially deliver savings or increased income. Options for member consideration will be developed in the near future with a view to implementation where possible in the current or next financial year.

f. Review of management grades and structures

- Work carried out so far has focussed on the establishment and the development of principles based on industry best practice from which to assess existing management structures that are in place eg spans of control and differentials between management grades as well as considering the Council's future medium term strategic agenda. This work has highlighted a number of areas that merit further review which may result in some structure and team redesign. However, the work to date has confirmed that there is likely to be limited opportunities for significant savings to be generated with the Council's existing structure being broadly consistent with the key design principles, likely linked to recent or ongoing redesigns of many areas of the Council under the RFR programme. Nonetheless, and where appropriate, the targeted use of agreed VR/VER processes will continue to be used.

g. <u>Connected communities</u>

- Collation of data in relation to all grant streams currently in operation is nearing completion at which point consideration of options for future redesign in the context of the work the Council is progressing in relation to both Connected Communities as well as expanding the role of Participatory Budgeting with our communities will begin. Initial work suggests there are in excess of 25 varying grant streams currently operating and there may be opportunities to better coordinate how these are managed while still supporting the delivery of Council and community objectives. There is also work underway to examine the range of advice and support services offered to communities and families which are delivered from various council services in order to again assess and ensure these are appropriately coordinated, or whether there are alternative configurations which could better deliver services to individuals and communities.

h. <u>Digital strategy</u>

- The Digital Board has agreed a new operating methodology, with a focus and prioritisation of resource on digital projects which will deliver efficiencies over the medium to longer term, a focus on fully exploiting the functionality of systems already in operation within the Council as opposed to introducing further systems, and a requirement to ensure future investment decisions are underpinned by a sound business case. The prioritisation of current projects is ongoing; with timescales for developments and projects being clarified. While it is not expected that immediate savings will be delivered, some initial work has identified some early wins such as a revised print strategy for the Council which has the potential to both secure efficiencies and support the Council’s net zero agenda.

i. <u>Council tax and tax policy</u>

- Council tax base projections are being updated with a view to assessing whether further income could prudently be budgeted for in 2023/24; however the cost of living crisis has tempered increased yield prospects. While income levels held up well over the course of the pandemic the pressure on household finances in the coming months is potentially going to have a more significant impact and risks offsetting any financial benefit from better than planned completion of new build properties. In relation to other taxation options the requirement for secondary legislation to be laid is a restraining factor in the development of future proposals, however it should be noted that the recently published Programme for Government outlined a plan to introduce a bill in relation to the Local Visitor Levy.

5.4 From the above updates it can be seen that while work is well underway, it is not currently possible to determine whether the £20 million savings target for the above reviews (over and above the £15 million targeted from the transformation programme) will be fully achieved, or in what timescale. In many cases the potential for savings is realistic but may have practical limitations which will influence the speed at which savings may be realised. Members have been advised previously and in the sections above that spend pressures are emerging more immediately, therefore there is a timing disconnect between the speed at which the financial gap is expected to emerge and the ability to generate and secure recurring savings to sustainably close it. This context will require the Council to carefully utilise reserve balances in the near term to temporarily provide financial support to bridge this shortfall.

5.5 This position of increased financial risk reinforces the need for the Council to be decisive, and to make prioritisation decisions at a greater scale and pace than over recent years in order to fully commit to the delivery of the material change and transformation required over the medium term. As has been reported previously, this is likely to require the lower level of real terms resources and spending capacity at the Council's disposal to be focused on those areas of greatest need and priority.

**6 Capital investment and borrowing**

6.1 The effects of inflation on both service and supplies costs have been outlined earlier in this report, however inflationary concerns are particularly prevalent with regards construction materials. The financial outlook report from June highlighted cost pressures in relation to steel, timber and copper which is resulting in additional costs being experienced across capital projects, including lifecycle maintenance of existing council buildings.

6.2 The continuing surge in gas prices feeding in to higher levels of inflation will potentially result in a second wave of inflationary rises as higher inflation feeds through into higher wages, transportation costs and manufacturing costs of building materials. There is therefore an increasing likelihood that construction and refurbishment schemes in progress as part of the Council's current investment programme will come under increasing financial pressure, and this is indeed beginning to manifest itself in reducing levels of contingency funds being available on some projects. Equally, tender prices being received for planned projects are in some cases significantly higher than what had been anticipated – even based on relatively recent plans and incorporating inflationary indexation in to projected costs.

6.3 Council previously agreed to set aside £10 million of reserve balances to support the capital programme, with £4 million of this balance being specifically held in relation to the Clyde Waterfront and Renfrew Riverside project. This total reserve has been set aside from revenue resources as at the end of the 2021/22 financial year. There remains a risk that this additional funding coverage may not be sufficient to relieve inflationary pressures on the capital programme which may necessitate further decision at a later date and which could involve reconsidering the deliverability and or deferring elements of the existing programme.

6.4 In an effort to support COSLA and councils reach agreement with trades unions in relation to the 2022/23 pay settlement, the Scottish Government has agreed that additional resource will be contributed through the local government settlement. The structure of this additional resource is understood to be £140 million in recurring revenue resource, with a further £120 million in 2022/23 (and £120 million in 2023/24) funded from capital resources; which councils would then use to substitute for planned revenue funding to capital programmes, thereby releasing one-off revenue resource to contribute to the funding of pay settlement costs in year. It is proposed to amend the capital plan and associated funding accordingly to facilitate this approach.

6.5 Given the acute revenue pressure in 2022/23 outlined elsewhere in this report, it is further proposed that any remaining balance of the construction recovery fund be substituted within the council's revenue and capital financial plans for borrowing in order to release these revenue resources to address revenue costs. While this approach will incur higher borrowing costs over the very long term, it will provide greater short to medium term flexibility and will be appropriately reflected in the Council's capital investment and borrowing plans; with the consequential impact being incorporated into the Council's longer term debt management strategy.

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**Implications of the Report**

1. **Financial** - the report highlights the scale and shape of the short and medium term financial challenge facing the Council. The development and implementation of the transformation programme and other financial sustainability workstreams as outlined in the report are critical to ultimately supporting the Council secure a financially sustainable position.

2. **HR & Organisational Development** - the medium term financial position and associated plans require to align with workforce and service plans to ensure the size and composition of the Council workforce remains appropriate and affordable.

3. **Community/Council Planning –** the Council requires to remain financially sustainable in order to deliver on its priorities as outlined in the Council and Community Plans; and these revised Plans will in turn require to inform the financial strategy.

4. **Legal** - none

5. **Property/Assets** - the report outlines a proposal to undertake a strategic review of property which will aim to ensure the Council's asset base remain effective and efficient

6. **Information Technology** - the report outlines the need to ensure the Council Digital strategy support ongoing financial sustainability; with any digital developments being underpinned by a robust business case

7. **Equality & Human Rights** - The recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.

8. **Health & Safety** - *none*

9. **Procurement** – the report outlines a proposal for a strategic review of procurement practice in order to support the Council's ongoing financial sustainability.

10. **Risk** - as outlined in the report, the Council's financial risk exposure is increasing in the immediate term and over the medium term remains high. The report outlines increasing financial risks as well as a range of key measures to be implemented as part of the medium term financial planning arrangements to protect the Council's immediate financial stability and resilience but also continue to progress toward medium term financial sustainability.

11. **Privacy Impact** - none.

12. **Cosla Policy Position** – none

13. **Climate Risk** – none

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