Renfrewshire Council

To: Council

On: 27 September 2018

Report by: Director of Finance and Resources

Heading: Financial Outlook 2019 - 2021

1. Overview and Key Messages

1.1 This report provides an update to the Financial Outlook previously outlined to the Leadership Board in December 2017, and the updated financial position as presented to Council on 2 March 2018.

1.2 The Council's financial outlook continues to be characterised by considerable and ongoing uncertainty, is fluid and subject to material change over even a short-term time horizon. In the context of the wider economic and public spending environment across both the UK and Scotland and in particular the increasing uncertainty developing around the impact of the outcome of the UK's negotiations to withdraw from the European Union in March 2019, the Council's financial outlook over the short to medium term has the potential to move into a period of heightened uncertainty and change.

1.3 Key influential areas continue to relate predominantly to future levels of government grant support, future pay awards and a range of demand related service pressures. Current forecasts in relation to the future financial impact of each of these areas are at high risk of being subject to ongoing change and material movement.

1.4 As a consequence, the Council's financial planning arrangements remain subject to active review and increasingly are founded upon a scenario-based approach, in recognition of the scale of variability in the potential financial outcomes for the Council as uncertainties resolve and greater certainty is established.

Key Messages

1.5 The Council's current financial position remains stable and within the financial planning parameters established when the Council set its budget for 2018/19. Audit Scotland has recently completed their audit of the 2017/18 accounts and the audited financial position remains in line with that reported to Council in June 2018.

In setting the 2018/19 budget, the Council committed to approximately £15.6m of non-recurring spending, reflecting the temporary spending capacity that was available, predominantly due to the more positive outcome on grant confirmed as part of the Scottish Government's budget for 2018/19.

Notwithstanding this positive outcome for 2018/19, it represents only temporary respite and it is recognised that the Council will continue to face significant medium term financial challenges to maintain its financial stability, sustainability and capacity to redirect a reducing resource base to invest in key priorities.

At this stage it is forecast with a reasonable degree of certainty that the Council will face significant new gross budget pressures in each of the following two years. What is less certain is the overall scale and this is currently estimated to fall within a relatively wide range of £26 million - £70 million over the two year period.

Taking account of the of the non-recurring spending committed to in 2018/19 and other positive benefits identified in Table 3, this provides a net forecast funding gap estimated to be between £4 million - £48 million over the two year period 2019 – 21, with the central forecast estimated at approximately £27 million. This is prior to any further mitigating action that may be taken by the Council to reduce the impact of these new budget pressures.

As outlined in the main body of the report, it is anticipated that moving forward, scope to reduce the overall forecast budget deficit is likely to emerge over coming months through ongoing work with all Service Directors to identify existing resources that can be released and redirected to offset new emerging pressures, savings that will emerge from both existing and new workstreams that will be progressed through the Better Council Change Programme, as well as opportunities to refine the Council's long-term debt smoothing strategy to release funding to support ongoing service delivery over the medium term.

There is uncertainty over the extent to which this year on year financial challenge will persist moving into 2021/22 and beyond. The Scottish Government's recent five-year Fiscal Outlook would suggest that the Local Government core grant will potentially face sustained year on year cash cuts from 2018/19 through to 2022/23. In such circumstances, addressing an ongoing financial challenge at scale is likely to remain a recurring feature of the Council's key strategic challenges and risks over the medium term.

In these circumstances and as in previous years, it is critical that the Council continues to adopt a sustainable medium-term perspective in developing the budget planning for 2019/20. It will also be important that the budget planning secures sufficient financial flexibility to ensure the final position that emerges over the coming months can be adequately and sustainably addressed, recognising there may be limited time between announcement of government grant and statutory dates by which the Council may set its budget and council tax.

Strategically the Council should continue to plan services, the delivery of key outcomes and its finances over the medium term on the basis of: -

- reducing access to resources with uncertainty over when and at what level sustained growth may return,
- rising cost and demand pressures expected to be a long-term and recurring feature of the Council's financial outlook,
- an increasingly challenging need for the Council to prioritise spend to focus on the delivery of strategic priority outcomes, including potentially beginning to re-balance what level of services can sustainably be delivered directly by the Council for the communities across Renfrewshire, and
- that a focus on delivering change, transformation and savings will continue to be a necessary feature of the Council's strategic planning arrangements.

In the financial and strategic context outlined in this report, the Corporate Management team remain available to advise and work with political groups and elected members to assist in the development of budget strategies for 2019/20 which remain flexible, sustainable and focused on the delivery of key priorities detailed in the Council Plan.

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2. Recommendations

2.1 Note the update regarding the Council's current financial position.

2.2 Note the updated financial forecasts for the medium term, the range of potential funding issues facing the Council and the requirement to continue to plan for further significant budget reductions in the period through to 2021 and potentially beyond.

2.3 Approve the Councils ongoing commitment to the financial planning principles outlined in section 9 of the report.

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3. Current Financial position

3.1 The Council's current financial position remains within the financial planning parameters established in the setting of the 2018/19 budget. Audit Scotland have completed their audit of the 2017/18 annual accounts which has confirmed that the audited financial position remains in line with that reported to Council in June. Unallocated reserves remain at approximately £7 million and there is currently no dependence on these reserves as part of the 2018/19 budget strategy approved in March 2018, where it was also agreed that unallocated reserves be retained at a minimum of £7 million during 2018/19. Budget monitoring for 2018/19 to date confirms spending across all services remains broadly within existing budgets, excepting a relatively minor overspend currently reported within Environment & Infrastructure services which is forecast to be recovered by the financial year end. The Council's immediate financial position remains stable and consistent with existing financial and service plans notwithstanding the significant financial challenges which the Council will face in future years.

4 Update on Previous Financial Outlook 2018 – 2020

4.1 The Financial Outlook report to the Leadership Board in December 2017 outlined the key financial challenges facing the Council. The report forecast gross budget pressures of £17 million in 2018/19 and a further £24 million in 2019/20. This gross pressure had been mitigated to £0.5 million in 2018/19 and £21 million in 2019/20 through accelerated growth in the council tax base, a range of workstreams progressed by Directors through the Better Council Change Programme accompanied by a refinement of the Council's debt smoothing strategy.

4.2 At that time, the outlook necessarily remained fluid and was subject to significant uncertainty and movement even within a relatively short period. The report to Council on 1 March 2018 "Revenue Budget and Council Tax 2018/19" provided the most recent update and outlined a more favourable revenue grant settlement following the Scottish Parliamentary budget scrutiny process, generating a temporary revenue surplus after decisions taken by the Council of £15.750 million of which Council agreed to commit approximately £15.6 million on a non-recurring basis to a range of priority services. The report also highlighted that a residual funding gap of £12 million remained forecast for 2019/20 (reduced to £10 million following decisions taken by the council) based on existing assumptions, and that further annual funding gaps of significant scale were expected to continue over the medium term.

4.3 This forecasts, and the assumptions underpinning it, were subject to continuing uncertainty and could move both positively and adversely over a relatively short period. The central assumptions which impact most significantly are:

- Revenue grant settlement – the Scottish Government has provided little indication of the local government settlement beyond the current financial year, however the down side risks became more apparent as outlined in the Scottish Government medium term Financial Plan as reported to Council in June 2018. The risks to the level of grant remain as outlined in the previous Financial Outlook, with the impact of the Fiscal Framework under which the Scottish Government receive their funding from the UK Government increasing potentially the volatility of Scottish Government funding given its intrinsic link to the performance of the Scottish economy. Further information with regards future government grant prospects is provided later in this report.

- Pay settlements – The current budget for 2018/19 includes an estimate of pay increases for 2018/19 in line with the Scottish Government public sector pay policy. Negotiations with regards the final 18/19 pay award remain ongoing and as yet there is no agreement with regards the pay award for either teaching or non-teaching staff. Members will be aware of the diversion of pay awards for teachers from the rest of the local government workforce in 2017/18, where a further 1% pay uplift was agreed from 1 January 2018 in addition to the 1% agreed for the full 17/18 financial year for both teachers and non-teaching staff. In relation to negotiations for 2018/19, offers from the employers' side have been increased beyond that of the budgeted public sector pay policy. For teachers this will be funded by the Scottish Government, however for the non-teaching workforce this is unfunded and if accepted will create an additional recurring budget pressure of approximately £0.4 million.

- Demand pressures – a feature of previous financial outlook reports has been the increasing demand for adult social care and children's services linked to demographic and socio-economic changes. The Council has worked closely with the Renfrewshire Health and Social Care Partnership (HSCP) to manage and mitigate these demands while continuing to invest in services. As indicated in the budget report to Council in March 2018, funding set aside in previous years by the Council has not been fully utilised in the timescales anticipated, providing some capacity to direct these agreed resources to meet emerging pressures in the current financial year. However, demand levels and principally the degree to which this can fluctuate remains a key area of uncertainty moving forward for the Council's financial planning.

5 Financial Outlook 2019 -2021

5.1 The Council's medium term financial outlook continues to be characterised by considerable and ongoing uncertainty, is fluid and subject to material change over even a short-term time horizon. In the context of the wider economic and public spending environment across both the UK and Scotland and in particular the increasing uncertainty developing around the impact of the outcome of the UK's negotiations to withdraw from the European Union in March 2019, the Council's financial outlook over the short to medium term has the potential to move into a period of heightened uncertainty and change.

5.2 Key influential areas continue to relate predominantly to future levels of government grant support, future pay awards and a range of demand related service pressures. Current forecasts in relation to the future financial impact of each of these areas are at high risk of being subject to ongoing change and material movement.

5.3 As a consequence, the Council's financial planning arrangements remain subject to active review and increasingly are based upon a scenario-based approach, in recognition of the scale of variability in the potential financial outcomes for the Council as uncertainties resolve and certainty is established, but also to ensure the Council remains pro-active in managing this key strategic challenge and that decisions are anticipated well in advance of required actions. It is important therefore that the Council continues to plan for a range of potential outcomes across the key financial risks and challenges as they are currently understood. The information in the following sections of the report outlines these key risks and the potential impact these could have on the financial sustainability of the Council, and any requirement to budget for savings.

5.4 The current range of forecast outcomes across key variables is summarised in Appendix 1. Given the current scale of uncertainty, a scenario based approach has been adopted where potential outcomes have been categorised into a lower, central and upper forecast position; where the lower forecast outlines a more optimistic outlook, while the higher forecast indicates the outcome should pressures transpire to be at the upper end of current forecasts. Table 1 below summarises this <u>central forecast position before any mitigating action has been taken</u>, however members should recognise the significant range possible as outlined in Appendix 1.

Table 1 – Gross budget pressures (Central forecast)

	2019/20	2020/21
General inflationary and contract pressures	£4.5m	£4.5m
Planned impact of Agreed Investment commitments	£2.5m	£2.5m
Adult services	£3.0m	£3.0m
Strategic waste	£2.5m	£0m
Pay pressures	£6.25m	£6.25m
Revenue grant loss	£6.0m	£6.0m
Total budget pressure	**£24.75m**	**£22.25m**
Range of Total Budget pressures	**£14m - £36m**	**£12m - £34m**

6 Government Grant prospects

6.1 Previous financial outlook reports have outlined the increased risks to both the Scottish Government block grant position and consequential risks to the local government settlement from the overall level of budget available to the Scottish Government, and their policy choices.

6.2 The level of funding available to the Scottish Government is influenced by the Fiscal Framework which came into place following the Scotland Act 2016, the associated enhanced borrowing and tax raising powers available; and importantly, the performance of the Scottish economy relative to that of the UK as a whole.

6.3 Revised GDP figures for both the UK and Scotland were published in August which highlighted real terms growth (per capita per annum) in the Scottish economy has been around 1% since 2014, compared to 4% in the UK. Notwithstanding the most recent quarterly economic growth statistics where Scotland marginally outperformed that of the UK as a whole, this pattern of disparity in the level of economic growth between the UK and Scotland is generally anticipated to continue over the medium term. This outlook was outlined by the Scottish Fiscal Commission, as highlighted in the report to Council in June 2018 'Scottish Government Fiscal Outlook – Medium Term Financial Strategy'. This represents a key risk to the Scottish Government budget through the Fiscal Framework arrangements. However, it is recognised that there are also risks at a UK level, and the Bank of England recently forecast UK GDP growth at only 1.75% through to 2021 – the actual economic performance that will emerge for both the UK as a whole and that of Scotland is therefore far from certain. The Scottish Government plans to publish for the first time in September a Fiscal Framework Outturn Report which will provide further information with regards the reconciliation of the Scottish and UK economic position, and implications for the Scotland Reserve and potential borrowing.

6.4 These growth forecasts are and will necessarily be impacted by the form of Brexit which is finally agreed between the UK Government and the EU, with a “No Deal Brexit” potentially impacting more unfavourably than a deal which would allow some form of continued trading arrangements. The Chancellor of the Exchequer recently outlined the potential forecast impact on both the UK economy and the UK government borrowing position under a no deal scenario, where over a forecast period growth would be 8% lower than the current status quo, resulting in additional government borrowing of up to £80bn a year by 2033.

6.5 While there are obvious risks to the overall level of funds available to the Scottish Government from economic performance, the choices and priorities they make also significantly impact on the local government settlement. Again, as outlined in the report to Council in June 2018, the Medium Term Financial Strategy published by the Scottish Government in May provides the clearest indication yet of the Scottish Government’s future spending plans. These include the NHS, Police, Early Learning expansion and increased attainment. The Strategy also outlined that regardless of the scenario outcomes forecast, these priorities and the magnitude of these stated commitments will remain unchanged; resulting in spending on non-priority areas (of which local government’s core grant support is the largest element) being squeezed further when the overall budget is anticipated to experience relatively benign growth.

6.6 The Scottish Government strategy also detailed that efficiency savings of 5% per year could be required from non-priority areas. It remains unclear whether savings of this magnitude would require to be found within the local government settlement, however if this was a realistic prospect, this would significantly increase the scale of the budget challenges facing the Council.

6.7 A further potential long term negative impact on the level of government grant the Council could receive is related to the grant distribution mechanism, which is predominantly based on population measures. Regardless of the change in the overall grant quantum nationally, Renfrewshire’s share will be impacted by both actual and projected population changes across key age groups (eg over 65s, 5-18 year olds etc) relative to the movement at a national level. Therefore, while there could be a projected increase in absolute populations for Renfrewshire, if this growth is less than the projected growth nationally, then Renfrewshire’s share of revenue grant will reduce over the medium to longer term. Whilst such movements are generally not volatile, current projections based on national Records of Scotland data suggest that the overall population share of Renfrewshire will reduce from 3.26% of the Scottish population to 3.20% over the next 20 years. Each 0.01% adverse movement could result in a grant reduction of circa £1 million.

6.8 The current timetable for the key announcements which will inform the position is the UK Government Autumn Statement and Budget will be published on or around 21 November. The Chancellor has also indicated he will undertake a full Spending Review early in 2019. The Scottish Government Budget is expected to be announced on or around 12 December, within the 3 week period after the UK Budget which the Cabinet Secretary agreed under the revised Scottish budget process. It is expected the Scottish budget and local government settlement will again be for a single year, with prospects of multi-year grant settlements not emerging until next year at the earliest.

6.9 The like for like movement in the level of revenue grant received in previous years by the Council is summarised below:

Table 2 – Historic revenue grant movement

	2015/16	**2016/17**	**2017/18**	**2018/19**
Draft Budget announcement	+0.1%	-3.4%	-4%	-0.8%
Final position following Parliamentary approval	-	-	-2.65%	+1%

It is should be noted that in 2018/19, the Scottish Government utilised devolved tax raising powers to raise additional funding which was utilised to provide a better than anticipated financial settlement for local government and which was reflected in an improved settlement when compared with 2017/18. The Scottish Government have however made clear that they do not intend to implement any further tax changes in the course of this parliament, indicating that the structure of tax in Scotland has been set for this period. There is therefore a clear expectation that for 2019/20, the scale of grant reduction that is likely to be experienced by local government will deepen and move back towards level experienced in the period 2016/17 - 2017/18. In addition, there also remains a risk that the additional funding secured for local government over the course of the Parliamentary approval process in 2018/19 is not baselined, which would increase the budget pressures anticipated moving into 2019/20.

6.10 In this context, the current budget strategy central forecast is framed on an assumed level of grant reduction of 2%, (£6 million) in both 2019/20 and 2020/21. Any movement away from this assumption will have a significant effect on the Council's budget position; with each +/-1% movement being broadly equivalent to a £3 million change in the estimated saving requirement. The upper range of the forecast outlines the potential for a 4%(£12 million) cut, which would be similar to that originally proposed in the Scottish Government's draft budget for 2017/18.

7 Projected cost pressures

7.1 The current projection for 2019/20 includes by necessity a range of assumptions in respect of key cost pressures, which in gross terms total approximately £19 million (central forecast), but could range from £14 million up to £27 million, equivalent to approximately 3.6% to 6.7% of the Council's net cost base.

Pay pressures

7.2 In agreeing the 2018/19 budget, the Council set aside budgetary provision for pay increases in line with the Scottish Government public sector pay policy. As mentioned above, negotiations with regards the final 18/19 pay award remain ongoing and as yet there is no agreement with regards the pay award for either teaching or non-teaching staff. Since the public sector pay policy was announced, higher settlements were announced for the NHS in Scotland, adding pressure for an improved offer from the employers' side in local government. As members will be aware, local government sets and agrees its own pay levels through established national bargaining arrangements, however the negotiating procedure for teachers is slightly different, with a tripartite approach in operation involving the Scottish Government. At present, an improved offer has been made to all areas of the workforce, similar to that agreed for the NHS in 2018/19, with the Scottish Government agreeing to fund the additional costs associated with the Teaching Workforce only. If accepted, this would add an unfunded pressure of around £0.400 million to the Council's budget.

7.3 In this context, the prospects for above inflation pay claims in future years are increasing, however pay settlements for local government will undoubtedly need to be balanced with the overall financial context which is anticipated as being one where overall resources will maintain a declining trajectory in both cash and real terms over the medium term. For context, each 1% pay award is equivalent to approximately £2.5 million of additional cost pressure. As was the case for 2018/19, there remains the likelihood that the pay award for 2019/20 will not be agreed prior to the Council agreeing its budget, in which case an appropriate provision would require to be made informed by the position negotiations had reached at that point.

Demographic pressures

7.4 In conjunction with partners in the Renfrewshire Health & Social Care Partnership (HSCP) and Children's Service's, the Council has had demonstrable success in mitigating cost pressures through investment in a range of service demand moderation measures. While this approach will continue to be developed by the Chief Officer of the HSCP and the Director of Children's Services, it is anticipated cost pressures will continue to emerge linked to both service demand and contractual cost pressures.

7.5 The Council agreed funding of £1.1 million would be set aside in 2018/19 to address service pressures within adult services. This funding remains available to the HSCP, in addition to a balance of £1.6 million funding remaining from the £4.4 million set aside in 2017/18 which the HSCP did not fully utilise in year. Discussion with the Chief Financial Officer of the HSCP are ongoing and the in-year financial position and forecast year end position for 2018/19 suggests that the current provisions remain sufficient; however it is anticipated that new cost pressures will emerge over the medium term.

7.6 2018/19 will be the third year of operation for the HSCP, and over the initial three years since inception, the budget settlement with the HSCP has been largely driven by both Council resources and resources available through the Scottish Government grant settlement process which were required to be passed through to the HSCP. Based on recent experience, gross cost pressures experienced Adult Services, would suggest that for planning purposes the potential range for both 2019/20 and 2020/21 is likely to sit within a range of £2 million to £5 million, prior to the impact of any mitigation and saving measures adopted by the Partnership. The breadth of this range is reflective of the volatility in demand that can fluctuate over relatively short periods coupled with the exposure to external contract price pressures, given the scale of external providers used for both homecare and residential care facilities.

7.7 In the context of the Council's anticipated financial outlook, and the evolving relationship with the Partnership the HSCP is currently progressing its financial and strategic planning arrangements assuming a cash uplift in resources within a range of 1%-2% in cash terms, which broadly is a tighter uplift than recent years and informed by the wider and more challenging financial outlook anticipated for the Council. Set against the potential range of gross pressures that the Partnership will be exposed to, this will require, similar to previous years, a range of cost mitigation and saving measures to be implemented across the service. Such measures will be informed by the HSCP ongoing strategic planning and change programmes.

Other cost pressures

7.8 The Council each year faces a range of other cost pressures related to the renegotiation of contractual arrangements, general inflation and specific service issues. These can be recurring issues for example the generally above inflation increases in utilities costs; or specific pressures relating to particular services. Such cost pressure are anticipated to impact over the course of 2019/10 and the medium term, most significantly in relation to waste management. For a number of years the utilisation of the council's strategic waste reserve has provided support in managing extraordinary costs of both waste disposal and recycling;

however this funding is anticipated to be fully exhausted during 2018/19 in line with the Council's long term financial planning arrangements and recurring budgetary provision is required to ensure that services are maintained on a financially sustainable basis. Recycling costs in particular are sensitive to volatility in the international recyclates market – in recent years the Council has witnessed the market moving from a position where the Council received moderate levels of income for recyclates materials, to the Council having to pay significant costs in order for materials to be recycled. This volatility is expected to continue as technology changes to improve recycling rates, and the Council adapts its collection regimes to ensure that the best use can be made of waste materials. Overall, it is anticipated that up to £3 million of recurring budgetary provision will be required in 2019/20 to re-align the existing waste budgets as the Council exits the long term utilisation of the Strategic Waste Reserve coupled with wider ongoing pressures.

7.9 The Council has also committed to a residual waste contract with other Clyde Valley councils which will provide a long term solution to dealing with waste which cannot be recycled. This contract will commence in 2019 and while existing budget provision is anticipated to be sufficient, this is based on an assumed level of waste being delivered. Should the actual tonnage levels vary significantly there may be additional costs incurred and the Council should be alert to this risk over the medium term.

7.10 The Council continually assesses its operations and business processes to ensure they are efficient and has had success in generating more efficient working practices from investment in new technology. In addition, as technology advances there is a move from the traditional approach to ICT procurement (ie purchase software licences which is then held on Council owned servers in large server rooms) to the purchase of "software as a service", where many systems are accessed remotely from a cloud-based solution. This approach has many advantages in terms of freeing accommodation, reducing utilities costs and improving reliability and resilience. The financial consequences are that there is a reduced need for capital expenditure but an increasing need for revenue funding. In this context there is an increasing exposure to contract related pressures and the recent movement of Sterling against other currencies (mainly the Dollar) can exacerbate this as many system providers are based in the United States therefore their costs are incurred in US dollars. As the Dollar strengthens against the Pound (significantly since the Brexit vote), the costs to the Council of ongoing system maintenance and support increases.

7.11 In addition to external contractual pressures the Council has agreed to future commitments as part of delivering City Deal and wider regeneration investment. City Deal represents a significant regional economic programme that will drive economic growth and create jobs across the region. Over £1.1 billion of new investment in infrastructure will be delivered - £275 million within Renfrewshire. This investment is predominantly funded by UK and Scottish Governments, however the Council will contribute just under £18 million which will be funded from prudential borrowing. In addition, due to the phasing of the UK and Scottish Government grant over a 20 year period, there will be a requirement for the Council to temporarily support a proportion of the infrastructure investment costs. This cost will build incrementally in line with the infrastructure investment, then gradually reduce over the full grant period.

7.12 Similarly, the Council has prioritised a range of heritage led investment priorities over the coming years which will also be a driver for economic regeneration across Renfrewshire. This investment will require both capital and revenue investment in the coming years and suitable provision for these costs requires to be built in to the budget pressures forecast over the medium term.

7.13 The financial impact of this wide range of investments will be largely driven by the actual timing of delivery of the associated infrastructure and facility investment but may result in up to an additional £6 million of debt servicing costs emerging. However, as with the Council's wider investment programme, the impact of this will be managed as part of the wider debt smoothing arrangements and opportunities to smooth and dampen the overall impact of this will be actively progressed.

Policy Priorities

7.14 In their most recent Programme for Government, the Scottish Government outlined their policy and legislative priorities for the coming year, with particular a focus on the early years of a child's life. A range of interventions have been developed, many of which impact on the Council and the way services are delivered for example in relation to the near doubling of early learning and childcare places, measures to improve attainment such as the Pupil Equity Fund and reform of education governance. Outwith local government services, the Scottish Government has indicated both through explicit policy direction and funding commitments that the NHS will continue to receive real terms increases in funding. Along with stated commitments to Police funding and implementation of the Carer's Act and free personal care for under-65s, this places the local government settlement under considerable pressure as has been outlined earlier. Many of these priorities however also result in increasing costs for the Council, and it there remains the risk that not all of the costs incurred will be met by new funding streams or that demand may be higher than that previously anticipated. The Council must remain alert to the possibility of such pressures emerging over the medium term.

7.15 At a UK level, the continued efforts to reform the welfare benefits system will have a direct impact in Renfrewshire as the full roll out of Universal Credit commences in September 2018. A range of service demands flow from these measures such as advice services, housing support services and digital skills; in addition to anticipated increased demand for financial support such as Discretionary Housing Payments and Scottish Welfare Fund grants. The Council has over a number of years invested additional resources to manage and mitigate the impact of this reform programme, however there remains the risk that as Universal Credit in particular is rolled out across Renfrewshire from this month, sustained medium to longer term service demands and associated cost pressures may emerge.

7.16 More locally, the Council has agreed a range of investments utilising temporary funding capacity in areas such as Tackling Poverty, employability programmes and environmental improvements. These investments are scheduled to complete over the medium term and there will be a requirement to consider the future delivery of these services, set against the strategic priorities of the Council at that point.

7.17 In terms of new Council priorities, the budget pressures detailed at Table 1 above does not provide for any capacity for new investment in council priorities. The generation of any such capacity would require to be linked to sustainable savings and agreed in line with the Council Plan. The delivery of core services requires to be balanced with the desire to invest in strategic priorities; therefore it is important that the underlying financial strategy continues to adopt a medium term approach whilst recognising the ambition of the Council to invest in direct interventions which support the delivery of key outcomes.

8 Mitigation measures

8.1 The Council has been considering the medium term financial position and the scale of the budget gap for several years, and has had considerable success in putting in place measures to both mitigate cost pressures but also proactively invest in measures which will reduce costs over the medium to longer term through the Better Council Change Programme. The Programme continues to progress a range of projects which will support the release of recurring savings as reported to policy boards regularly. In setting the 2018/19 budget the Council agreed a total of £4.3 million of savings driven by the Programme, with a further £1.5 million estimated to be achieved in 2019/20 and future years from approved projects.

8.2 Directors are currently identifying and developing new opportunities and projects for members consideration which would support the delivery of future savings as part of the strategic approach to service redesign as part of a new phase of the change programme. Potential options are being developed which will for example look to build on the development of the priority of community empowerment, in addition to reviewing current business processes and service design ensuring they are as efficient as possible and that appropriate use is made of new technology and connectivity such as investment in fibre infrastructure and digital services. It should however be recognised that given the potential scale of future saving requirements, coupled with the significant savings the Council has delivered over the long term since 2011, there will be an increasing requirement for the Council to make fundamental transformational changes to how the organisation operates, engages with customers and works with local communities and businesses. More radical redesign of this nature will be a necessity if the ongoing delivery of priority outcomes is to be protected and sustained into the future.

8.3 The Council has in the past forecast a need to fund change projects at scale in order to meet medium term savings demands and ensure the Council remains financial sustainable. The resources set aside in previous years will require to be refreshed as the Council undertakes further change and redesign. This requirement will be built into the financial planning arrangements that will underpin the consideration of the 2019/20 budget.

8.4 As in previous years, an ongoing exercise is being progressed with Directors to identify every opportunity where existing resources can be redirected to meet the impact of new emerging pressures, reducing the net impact for the Council. Such work will examine opportunities from within existing expenditure commitments coming to an end or declining in impact, price, contract or other benefits emerging for the Council, additional income being generated or improved efficiencies emerging from long running change projects.

8.5 The Council's debt smoothing strategy has been in place for several years and has delivered sustainable savings for the Council over this period. It has been previously reported that the capacity of the strategy to contribute to savings would naturally reduce, and a slight revision to the strategy allowed the release of £6 million of savings in 2018/19. This revised approach confirmed that a further £2 million could potentially be generated in 2019/20 and 2020/21; and this opportunity will be explored and targeted to support the developing budget position for 2019/20.

8.6 The level of council tax had remained frozen for several years prior to 2018/19 when Council agreed a 3% increase – the limit permissible as part of the grant conditions set by the Scottish Government in the financial settlement. Some form of a continuing cap arrangement could be possible in future years, and this will be confirmed when the local government settlement is announced in December along with the Scottish Budget. For reference, a 3% increase in council tax would provide approximately £2.0m of additional resources to support spending priorities. While no assumptions around the level of council tax are outlined in this update, it is possible to forecast potential movements in the council tax base i.e. the number of properties on which council tax could be levied. Analysis of planning consent data and new build programmes suggests that over 2019/20 and 2020/21 a prudent estimate would be that an increase in the council tax base of between 0.5% - 1% in each year is reasonable, an improved position on previous years. This movement in the council tax base could potentially generate £0.4 million - £0.9 million for each year.

8.7 The net forecast budget gap taking account of the information outlined in detail above is summarised in table 3 below.

Table 3 – Net budget gap (central forecast)

	2019/20	2020/21
Gross budget pressure per Table 1	£24.750m	£22.250m
Mitigation measures identified to date		
Agreed Better Council Change projects	£1.500m	
Debt smoothing	£2.000m	£2.000m
Council tax base Growth (mid-point)	£0.650m	£0.650m
Reversal of Non-Recurring Spend in 2018/19	£15.600m	
Net Forecast Budget Gap (excluding any council tax increase)	**£5.000m**	**£19.600m**
Overall Range Over 2 Years	**£4m - £48m**	

8.8 The potential scale of the financial challenge facing the Council is apparent. Given the breadth in the potential range of saving requirement over the two year period, it would be recommended that the Council should move forward on the basis of seeking to progress the delivery of £30 million of recurring savings over this two year period, with at least £15 million deliverable in 2019/20 (note that a council tax increase at 3% each year would provide a £2 million per annum contribution towards this target i.e. £4 million in total). This balanced approach would provide both potential flexibility for non-recurring investment in key priorities in 2019/20 and importantly mitigation against a more negative outcome emerging for 2019/20 that is more closely aligned to the Upper Forecast outlined in Appendix 1. In line with existing practice, this saving target would be subject to review as additional certainty develops and the actual position emerges for 2019/20.

8.9 Given the current medium term outlook, it is important that the Council continues to adopt a sustainable medium-term perspective in budget planning, ensuring sufficient flexibility remains to manage the final revenue grant position which will emerge. This approach will protect ongoing financial and service sustainability and mitigate the risk of the achievement of a balanced budget for 2019/20 being dependent upon the un-planned use of non-recurring sources of funding such as general reserves.

8.10 As outlined earlier, the Corporate Management Team remain available to work with elected members and political groups to assist in the development of budget strategies for 2019/20 which remain flexible, sustainable and focussed on the delivery of key Council priorities as outlined in the Council Plan.

9 Longer Term Outlook

9.1 Given the many variables and risks which potentially impact on the council's financial position, forecasting over the longer term inevitably becomes more challenging. In particular the form of the UK exit from the EU could have significant implications for the Scottish economy and therefore the Scottish Government budget. However, it is incumbent on the Council to continue to adopt a longer term outlook to ensure that risks to the council's underlying financial sustainability are identified early and that where appropriate long term strategic responses carefully planned, developed and implemented.

9.2 The Financial Outlook report to Council in September 2016 included a Long Term Financial Strategy which set out a range of risks, challenges, approaches and principles which remain valid today. It is intended that this long term strategy will be fundamentally reviewed in 2019 to ensure it remains appropriately current and informed once the UK Government Spending Review has been published and any information with regards a potential Scottish Spending Review is clarified, as well as the outcome of Brexit negotiations and the exit route becomes clear as well as the potential longer term economic implications.

9.3 The existing strategy outlined a need for the council to continue to plan services and finances over the medium to longer term on the basis of :

- reducing resources with significant uncertainty over when sustained growth may return and at what level
- rising cost and demand pressures expected to remain a feature of the Council's longer term outlook
- an increasing need for the Council to prioritise spend to focus on the delivery of strategic outcomes
- a focus on delivering change, transformation and savings continuing to be a necessary feature of the Council's long term planning arrangements.

9.4 The principles adopted by Council in agreeing the strategy therefore remain valid and will continue to form the basis of the Council's financial planning approach over the medium term:

(i) The Council has an ongoing commitment to efficiency, modernisation of service delivery and prioritisation of resources on the delivery of key strategic outcomes.

(ii) The Council strives to maximise income, grow its tax base and attract external funding.

(iii) Investment in service transformation and early intervention/ prevention, including lifecycle maintenance to protect existing investments in our assets is given appropriate priority.

(iv) Any new borrowing decisions taken by the Council are capable of repayment on a sustainable basis and overall debt levels are contained within affordable long term parameters.

(v) The Council's core budget is not underwritten by the use of general reserves or speculative capital receipts.

(vi) Council reserves are maintained at a level which provides appropriate financial resilience to the Council and the core services it provides and should be subject to ongoing annual review in the context of the risk profile faced by the Council.

10 Non-Housing Capital

10.1 The Council's capital grant figures for future years are not known at this point, and will not be confirmed until the Scottish Budget is announced in December. As outlined above, it is expected that the Scottish Government will once again provide only a single year set of financial settlement figures for local government.

10.2 The Scottish Government previously published high-level all Scotland spending plans through to 2019/20 for both capital and revenue which confirmed a planned increase in capital spending of around 6% - 7% per annum, growth of which was supported by plans to maximise the use of Scottish Government borrowing powers each year. The final position for 2019/20 and beyond could be influenced by Scottish Government decisions with regards the potential use of budget flexibility arrangements or devolved tax powers to boost levels of capital investment.

10.3 The Council agreed in September 2016 to a number of financial planning principles in order to ensure the capital programme remains sustainable and affordable; including directing capital grant in the first instance to support ongoing lifecycle maintenance and renewals programmes in order to protect the existing asset base; and this principle remains key to the development of future capital plans. It is also proposed that the capital plan is only updated to include known resource and will not include investment which is based on unsecured receipts or assumed grant income. Investments underpinned by borrowing must be based on business cases which deliver associated efficiencies which support borrowing costs.

10.4 In this context and similar to the approach adopted in previous years, it would be proposed that the Council continues to restrict making new capital investment commitments to that fundable by available capital grant which has been confirmed as part of the local government settlement. It is likely therefore that at the Council budget meeting, budget proposals in relation to capital would be restricted to a single year update to the capital programme taking account of the confirmed 2019/20 capital grant.

Implications of the Report

1. **Financial** – the report highlights the financial risks facing the Council over the medium term, and a requirement to continue to make significant financial savings in order to remain financial sustainable.

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 shape 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

4. **Legal** - none

5. **Property/Assets** - none

6. **Information Technology** - none

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** – none

10. **Risk** – a range of financial risks are outlined within the report, along with mitigation measures as far as they are possible.

11. **Privacy Impact** - none

12. **Cosla Policy Position** – none

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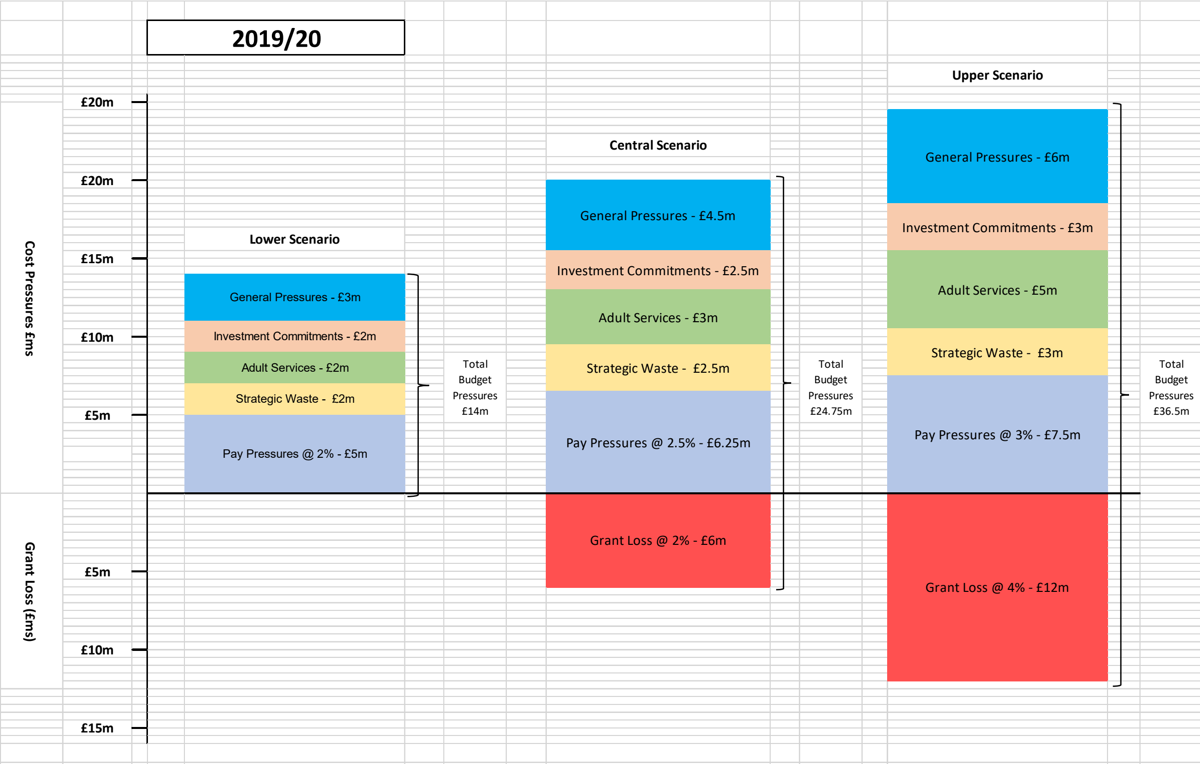
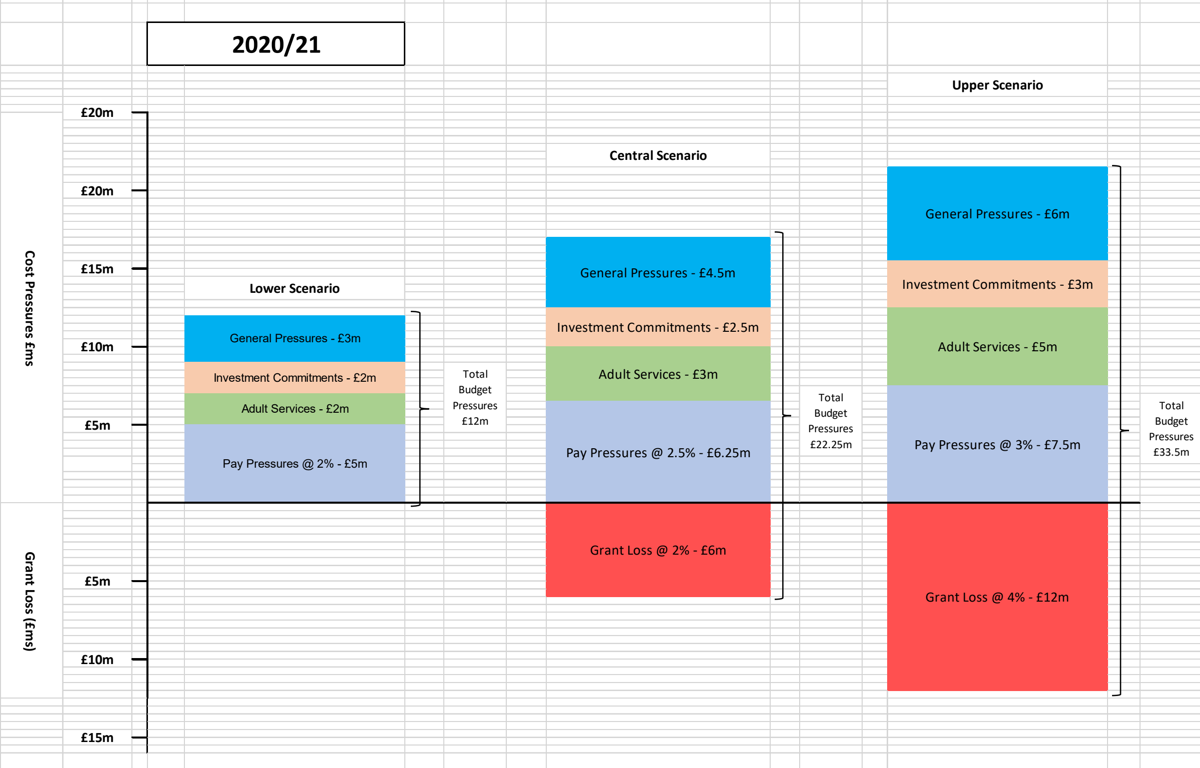
Appendix 1


2019/20
Cost Pressures £ms
Grant Loss (£ms)
£20m
£20m
£15m
£10m
£5m
£5m
£10m
£15m
Lower Scenario
General Pressures - £3m
Investment Commitments - £2m
Adult Services - £2m
Strategic Waste - £2m
Pay Pressures @ 2% - £5m
Total Budget Pressures £14m
Central Scenario
General Pressures - £4.5m
Investment Commitments - £2.5m
Adult Services - £3m
Strategic Waste - £2.5m
Pay Pressures @ 2.5% - £6.25m
Grant Loss @ 2% - £6m
Total Budget Pressures £24.75m
Upper Scenario
General Pressures - £6m
Investment Commitments - £3m
Adult Services - £5m
Strategic Waste - £3m
Pay Pressures @ 3% - £7.5m
Grant Loss @ 4% - £12m
Total Budget Pressures £36.5m


2020/21
Cost Pressures £ms
Grant Loss (£ms)
£20m
£20m
£15m
£10m
£5m
£5m
£10m
£15m
Lower Scenario
General Pressures - £3m
Investment Commitments - £2m
Adult Services - £2m
Pay Pressures @ 2% - £5m
Total Budget Pressures £12m
Central Scenario
General Pressures - £4.5m
Investment Commitments - £2.5m
Adult Services - £3m
Pay Pressures @ 2.5% - £6.25m
Grant Loss @ 2% - £6m
Total Budget Pressures £22.25m
Upper Scenario
General Pressures - £6m
Investment Commitments - £3m
Adult Services - £5m
Pay Pressures @ 3% - £7.5m
Grant Loss @ 4% - £12m
Total Budget Pressures £33.5m