Renfrewshire Council

To: Council

On: 29th September 2016

Report by: Director of Finance and Resources

Heading: Financial Outlook 2017/18 – 2019/20

1. Overview and Key Messages

1.1.1 The report to Council on 13 February 2014 'Revenue Budget and Council Tax 2014/15' established the Council's anticipated medium term financial position through to 2017/18, confirming a likely budget saving requirement of between £20 and £30 million, after accounting for saving anticipated from the Council's medium term debt smoothing strategy.

1.1.2 Since that time, the Council has set three budgets covering 2014/15 - 2016/17. Each of these successive budgets has progressively addressed this medium term financial challenge by incorporating a range of efficiency and saving measures. The period since the current medium term financial strategy was framed in February 2014 has remained fluid from a range of perspectives. As a consequence the strategy has been kept under active review, with appropriate adjustments made linked to a range of factors which have been subject to material change over the course of this period.

1.1.3 The report to Council on 3rd March 2016 'Revenue Budget and Council Tax 2016/17' outlined the most recent update of the forecast through to 2017/18. Similar to previous updates, the Council's financial outlook continued to remain uncertain, over not just the medium term but also over the short term period leading into 2017/18. At that time it was anticipated that a residual budget gap of up to £6 million potentially remained for the period through to 2017/18, albeit it was acknowledged that the Council's financial projections moving into 2017/18 included a range of key assumptions which were subject to uncertainty and potential movement.

1.1.4 The purpose of this report is therefore to provide elected members with an update on the Council's current financial position, projected position moving into 2017/18 and the medium term financial outlook beyond 2017/18. The report will cover the following key areas of the financial strategy for elected members:

- The Council's current financial position;

- The updated projection for 2017/18 taking account of key changes that have occurred since March

- An updated outlook for the Council beyond 2017/18, particularly in light of changed and uncertain economic environment following the June referendum vote across the UK to leave the European Union.

- An outline of the key strategies and financial planning recommendations to support the Council to address the medium term challenges in a financially sustainable manner.

- Overview of the long term financial landscape for the Council, the key long term financial risk that this presents and the short to medium term strategies that require to adopted to plan for this longer term landscape.

1.2 Key Messages

1.2.1 The Council's current financial position remains in line with the financial planning assumptions made when the Council set its budget for 2016/17. In addition, Audit Scotland has recently completed their audit of the 2015/16 accounts and the audited financial position remains in line with that reported to Council in June 2016. Notwithstanding the significant financial challenges to be faced in the forthcoming years overall the Council's immediate financial position remains stable and consistent with existing financial and service plans.

1.2.2 Uncertainty in relation to the forecast position for 2017/18 has shifted considerably following the outcome of the referendum vote in June for the UK to Leave to European Union. It is expected that moving into 2017/10 a saving requirement of between £20 million - £30 million will be required to achieve a balanced budget. After taking into account savings of approximately £20 million already planned for 2017/18, linked predominantly to the Debt Smoothing Strategy and also the Better Council Change Programme, a residual saving requirement of up to £10 million remains a possibility. Increased certainty for 2017/18 is not expected to be secured until towards the end of 2016 and possibly moving into 2017.

1.2.3 Given the scale of uncertainty and potential for variability, it is important that the Council plans for a range of potential outcomes over this short time horizon with a central planning assumption of a £6 million residual saving requirement. In addition, it is anticipated that moving forward beyond 2017/18 and through to 2020 an annual saving requirement of significant scale is likely to continue over the medium term. Given this outlook, it is important that the Council continues to adopt a sustainable medium term perspective in developing the budget planning for 2017/18, ensuring sufficient flexibility to manage in a sustainable manner the final position that emerges over the coming months. In this context, 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 2017/18 which remain flexible, sustainable and focused on the delivery of key priorities detailed in the Council Plan.

1.2.4 In sharp contrast to the position outlined to the Council in March of increasing medium term certainty expected to emerge over the course of 2016, the outlook is now considerably more uncertain and exposed to increased downside risk following the significant events that have subsequently occurred. It is still anticipated that the Council will continue to be presented with a requirement to deliver significant year on year savings to address the financial challenge of reducing resources set against increasing cost and demand pressures. The scale of the annual saving requirement is now increasingly uncertain and could potentially sit within a range of £16 million - £27 million per annum in the period up to 2020. Subject to greater certainty emerging over coming months and years it would be advised that the Council adopts a central medium term planning assumption of being required to deliver savings of £20 million per annum in the two years 2018 - 2020. There will be a requirement to maintain an ongoing assessment of key factors impacting upon this projection to ensure the Council is alert to the potential for any significant changes, in particular if indications suggest an increasing risk of a shift to the upper end of this projection.

1.2.5 Looking to the longer term beyond 2020, the financial outlook identifies many issues consistent with that outlined for 2017 – 2020, with financial challenges anticipated to remain beyond 2020. This longer term outlook re-enforces the need for the Council to continue to plan services and its finances over the medium to longer term on the basis of:-

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

2. Recommendations

2.1 It is recommended that the Council:

- Notes the update on the Council's current financial position.
- Notes the update on the anticipated outcome for 20107/18 and the range of uncertainty that still exists in relation to a wide range of issues.
- Notes the update on the medium term outlook for the Council in the context of current forecasts and the expectation of further significant budget reductions for the Council through to 2020.
- Notes the anticipated position on capital grant and the recommendation to continue to restrict the timeframe on new investment funded by capital grant to the period confirmed by the Scottish Government.
- Approve the Council's ongoing commitment to the financial planning principles outlined at paragraph 5.5 and 6.2 below.

3. Financial Outlook – Revenue Budget

3.1 Current Financial Position

3.1.1 The Council's current financial position remains in line with financial planning assumptions made in the setting of the 2016/17 budget. Audit Scotland has recently completed their audit of the 2015/16 accounts which has confirmed that the audited financial position remained in line with that reported to Council in June. Unallocated reserves are currently just over £7 million and there is currently no dependence on these reserves as part of the 2016/17 budget strategy approved in March 2016. As reported to Council at the March budget meeting, it would not be recommended that unallocated reserves fall below £7 million. Budget monitoring for 2016/17 to date confirms all services remain in line with budget. Notwithstanding the significant financial challenges to be faced in the forthcoming years, overall the Council's immediate financial position remains stable and in line with existing financial plans.

3.2 Update on Budget Strategy 2017/18

3.2.1 The report to Council on 13 February 2014 'Revenue Budget and Council Tax 2014/15' established the Council's anticipated medium term financial position through to 2017/18, confirming a likely budget saving requirement of between £20 and £30 million, after accounting for savings anticipated to flow from the Council's medium term debt smoothing strategy.

3.2.2 Since that time, the Council has set three budgets covering 2014/15 - 2016/17. Each of these successive budgets have progressively addressed this medium term financial challenge by incorporating a range of measures including savings secured through the Better Council Change Programme, cost avoidance achieved through demand and cost mitigation strategies and securing growth in the council tax yield and investment income. The period since this medium term financial strategy was framed in 2014 has remained fluid from a financial, economic and political perspective. As a consequence the strategy has been kept under active review, with appropriate adjustments and updates made linked to a range of factors which have been subject to material change over the course of this period.

3.2.3 The report to Council on 3rd March 2016 'Revenue Budget and Council Tax 2016/17' outlined the most recent update of the forecast through to 2017/18. Similar to previous updates, the Council's financial outlook at that time continued to be uncertain, and it was anticipated it would remain subject to a series of potential downside risks.

3.2.4 In March it was anticipated that after taking account of around £20 million of planned savings already incorporated into the budget strategy for 2017/18, relating primarily to debt smoothing, a residual budget gap of up to £6 million potentially remained. It was recognised that this projection included, by necessity, a range of key assumptions which were subject to uncertainty and potential movement, both positive and negative. Most notably the areas of key uncertainty were focused upon:

- *Future grant settlement* – the UK Government's Comprehensive Spending Review (CSR) in November 2015 and March budget statement in 2016 outlined that the level of Scottish block grant that was expected to be available to the Scottish Government would be subject to relatively limited growth over the medium term. In response to the November CSR announcement the Scottish Government published a detailed budget for 2016/17 but did not provide any material details of spending plans beyond this single year budget. It was anticipated that this would be subject to review by Scottish Government following the May 2016 Scottish Parliamentary elections, with a three year budget announcement expected around September or October 2016. At that time it was anticipated that given the relatively flat forecast in Scottish Government resources over the medium term, should areas of the Scottish budget that were protected in 2016/17 – Health, Police, Education - continue to receive similar levels of protection, there would be little to suggest that the medium term prospects for the local government budget was likely to materially improve from the reduction experienced in 2016/17.

- *Future Pay Settlements* – no national agreement was secured beyond 2016/17 and this remains the case at present.

- *Demand led Pressures* – demographic and socio-economic demand led cost pressures, in particular on both Children's Services and Adult Social Care, which are recognised to be a key determinant on the Council's financial position and can be subject to material movement over relatively short periods.

Government Grant Prospects

3.2.5 Since the updated outlook for 2017/18 was reported to members in March and following the Scottish Parliamentary election in May, the Scottish Government has reaffirmed key policy commitments for this new parliamentary period. This includes a commitment over the course of this parliament to increase health spending by £500 million above real terms growth, protect the policing budget in real terms, invest additional resources in health and social care and double the provision of free childcare hours. Given the limited growth prospects for the Scottish Government budget that was expected over this period, this level of commitment to major areas of spend by the Scottish Government sets an inevitable expectation of a negative consequential impact for local government and anticipation of sustained reductions in Scottish Government grant over the course of the current Scottish parliamentary period.

3.2.6 In addition, the Scottish Government will move into a new fiscal environment with enhanced powers being devolved under the Scotland Act 2016 – with approximately 50% of the resources the Scottish Government will spend being funded through devolved tax raising powers. This has added a new dimension of risk and uncertainty to the Scottish budget. Moving forward over the medium term, this devolution process will be governed by the new Fiscal Framework. The mechanics of the framework are complex but in essence will mean that the performance of the Scottish economy relative to that of the UK as a whole will be key in determining whether the Scottish budget will fare better under the new devolved arrangements than it would have had under the current arrangements. This process of fiscal devolution is a major change and even in normal circumstances would present a major new dimension of risk. In the current context of Brexit and all the uncertainty that is associated with it, the risks appear to be even greater. Indeed, the Fraser of Allander Institute this month published a report, "Scotland's Budget 2016", which amongst other key conclusions stated that *"Even before the EU referendum outcome, the Scottish budget was facing real terms cuts over the next few years driven largely by the plans set out by the previous Chancellor George Osborne. Our new findings suggest that the Scottish budget* *could be cut by between 3% – 4% percent in real terms by 2020-21 and up to 6% – around £1.6 billion – under a worst case scenario."*

3.2.7 Undoubtedly the most significant change over recent months was the unexpected outcome of the UK referendum vote in June to leave the European Union. The potentially far reaching impact of the referendum outcome was outlined in some detail in a report to the Leadership Board on the 18th September. However, the scale of uncertainty associated with both the exit process itself and the medium to longer term impact of the UK leaving the EU is significant.

3.2.8 From an economic and financial perspective, there has been as predicted an immediate reaction to the Brexit vote which moving forward over at least the short to medium term is likely to have negative implications for the Council's financial outlook over and above that which was anticipated prior to the referendum vote itself.

3.2.9 As outlined in the report to the Leadership Board, there is a general consensus of deterioration in the economic growth prospects at both a UK and Scottish level following the Brexit vote. In an immediate response, the UK Government has already confirmed that the key fiscal target to move the UK public finances into surplus by 2019/20 had been abandoned and will be pushed back by an as yet unconfirmed period of time.

3.2.10 It is now expected that the UK Government will take some time to assess developments before announcing consequential changes to the Comprehensive Spending Review (CSR) as part of the Autumn Statement which has now been confirmed as being the 23rd November. The poorer post Brexit referendum prospects for economic growth in the UK will undoubtedly impact on the UK Government's forecast tax revenues placing additional pressure on public finances.

3.2.11 The net impact on public sector spending plans across the UK and subsequently in Scotland will not become clearer until the new CSR announcement. Changes arising from the new CSR may result in the UK Government's programme for reduction in public sector expenditure across the UK being deeper and or extending for a longer period than was previously planned. This would have material risks for both the Scottish Government's budget and ultimately the Council's financial outlook moving into 2017/18 and beyond.

3.2.12 What is clear at this stage is that the overall risks to the Council's financial outlook, in both the short and medium term, have increased since the last update to members in March and there is every prospect that as future spending plans of both the UK and Scottish Governments are revised and confirmed the Council will face increased cuts to government grant than those previously projected prior to the exit vote.

3.2.13 As a consequence of these developing circumstances, the short term 2017/18 budget strategy has become increasingly uncertain:-

- Similar to 2016/17, the Scottish Government are expected to wait until after the UK Government's Autumn Statement before announcing their draft budget and local government settlement, raising the possibility of a late funding announcement in December or potentially into the New Year.

- Given the uncertainty the Scottish Government have indicated that they will be committing only to a single year budget and therefore uncertainty over future years will remain.

- There is an increased risk that the grant cut for local Government could potentially be higher than that experienced in 2016/17. This will be a particularly acute risk if the Scottish Government overall budget falls from what was expected and they remain committed to their spending pledges to Health and Police. In such circumstances the local government budget is at high risk of disproportionately shouldering the majority of any reduction in overall Scottish Government spending plans.

- At this stage, it is not clear what conditions may or may not accompany the grant settlement offer to local government and what impact this may have on the Council's budget. In this respect the Scottish Government have to date announced an intention to remove conditions associated with a Council Tax freeze and introduce a cap arrangement providing scope for a maximum increase in Council Tax levels of 3% moving into 2017/18.

3.2.14 The current budget strategy is framed on a grant cut of up to 3.5%, a broadly similar level to the reduction experienced in 2016/17. Given the scale of uncertainty, it would be prudent for the Council to plan for a potential range of grant cut, including the possibility of a cut beyond 3.5 %. Planning on this basis will assist in developing flexibility in the Council's financial planning for 2017/18 and allow the Council to respond to the risk of both a late and potentially poorer financial settlement than 2016/17. Variability from the 3.5% assumption can have a significant impact and each +/-1% variation in the level of cut would represent approximately a £3 million change in the estimated residual saving requirement for 2017/18 of £6 million.

Projected Cost Pressures in 2017/18

3.2.15 As referred to earlier in the report, the current projection for 2017/18 includes by necessity a wide range of assumptions in respect to key cost pressures, which total over £15 million, almost a 4% growth in the Council's net cost base. It is expected that over the coming months a number of these areas will become more certain in scale allowing a firmer position for 2017/18 to be established.

3.2.16 In addition to securing a firmer assessment of emerging cost pressures, as always detailed work is progressing with all Directors to identify opportunities to manage new pressures through the re-allocation of existing resources to mitigate net cost growth in the overall budget. Detailed below are the major areas of uncertainty in relation to cost pressures and which are expected will be subject to ongoing movement over the coming months as matters progress and which will impact on the settled position moving into 2017/18.

- Pay award – negotiations in respect to pay are ongoing and it would not be anticipated that they will be resolved for a number of months and potentially into 2017. These negotiations will be undertaken in the context of a backdrop where pay levels in the private sector have been increasing, moving forward projections anticipate upward pressure on inflation from historically low levels, set against the contrasting expectation of a further medium term period of contraction in local government resources in Scotland. Each 1% increase in pay level provides an additional £2.1 million of cost pressure in 2017/18 and therefore similar to grant, movement in the finalised position can have a material impact on the overall financial position. In addition, the Council has remained committed to the payment of the living wage and has extended this commitment in 2016/17 to all adult social care staff employed by external providers. The living wage announced for 2016 was higher than anticipated increasing by almost double the percentage increase that was expected, with the Living Wage Foundation citing a degree of "catch up" being included in this increase. The new living wage is expected to be announced in November and with an expectation of increasing inflation on the horizon there remains a risk that this may increase beyond expectations, resulting in additional cost pressure moving into 2017/18.

- Demographic Pressures – the strategy includes a provision to address the impact of additional service pressures arising from demographic and socio-economic changes. The Council has over a number of years been successful in implementing a range of strategies across both Children's and Adult Services aimed at redesigning service provision to achieve better outcomes whilst at the same time lowering the cost of service provision. The full impact of a range of these strategies are delivered over a number of years and as such continue to build each year in their significance, supported by the impact of new measures that continue to be designed and implemented by Directors. Work in this respect is continuing with both the Director of Children's Services and Chief Officer of the Health and Social Care Partnership (HSCP). Over the coming months greater certainty will be secured in respect to the net financial impact that is achievable moving into 2017/18 taking into account changes in actual demands levels that are being experienced during 2016/17. In addition, as part of the 2016/17 budget and in line with the associated government grant conditions, the Council passed over as part of the delegation of resources to the HSCP, the full £8.779 million of new resources directed to support investment in Adult Social Care. These resources were directed to support a range of issues, most significantly to support the payment of the living wage to all adult social care workers and to meet the financial impact of demand led pressures. Based on the scale of demand pressure experienced in 2016/17 the scope for these resources to continue to assist in meeting anticipated further growth in demand in 2017/18 will assessed and become clearer over the coming months. It is expected therefore that the net impact of demographic and socio-economic pressures will be firmed up over the second half of 2016 and the strategy updated accordingly.

- National pension changes and apprenticeship levy – the Council will continue over the course of 2016 and 2017 to implement changes arising from the UK Government's national reform of the state and employee pension arrangements, including the phased introduction of auto-enrolment and in addition the implementation of the new apprenticeship levy from 1st April 2017. Over the course of both 2016 and 2017, changes in relation to pension arrangements and the apprenticeship levy are estimated to add over £10 million of additional costs to the Council's net cost base. In particular, the final impact of the introduction of auto-enrolment is subject to some uncertainty and is dependent upon the degree to which employees chose to stay in the Council's pension arrangements once auto-enrolled. The expected final scale of this cost pressure will not become clearer until the end of 2016 and ultimately will only be confirmed during the course of 2017.

- Non Domestic Rates – Notwithstanding any increase applied to the rate poundage by the Scottish Government in setting their 2017/18 budget, the Scottish Government is currently undertaking a revaluation exercise as part of the non domestic rates system in Scotland. At present, indications would suggest that similar to the last revaluation exercise in 2010, major Council properties, such as schools, may see a material increase in valuation. This however is yet to be confirmed and a number of decisions will also require to be taken by the Scottish Government as part of implementing the outcome of the revaluation exercise, in particular the operation of any transitional arrangements. Such arrangements are normally self financing within the system and phase in over a number of years the impact of valuation changes, both increases and decreases. Transitional arrangements operated in 2005 but did not operate in 2010, where in general terms Council assets absorbed in a single year the full impact of the uplift in non domestic rates costs following revaluation. It is expected that the impact and operation of the revaluation process will become clearer over the course of 2016 and any change in the rate poundage confirmed as part of the Scottish Government budget announcement. Only at this point will the degree of cost uplift in cost for Council properties become clear.

- Utilities – the Council procures energy provision through national contract arrangements delivered by the Scottish Procurement Directorate (SPD). As a commodity, energy can be subject to significant short term volatility driven by a wide range of factors that can shift and emerge very quickly. In recognition of this the SPD employ a sophisticated forward purchasing strategy that seeks to hedge against the risk of having to procure at the point of consumption and being fully exposed to the prevailing price. Given the nature energy markets and the potential for volatility, it is always difficult to be certain of future energy costs over even a short term time period of a single year. Based on their purchasing and hedging strategy, SPD normally provide a financial planning guide on the forthcoming financial year prices around November or December. Only at this point is there a firm view of the potential change required in energy budgets and the strategy will be updated accordingly at this time.

Changes to the Council Tax System

3.2.17 Full details have yet to emerge from the Scottish Government over proposed changes to the Council Tax arrangements from 2017/18. Changes in the banding arrangements for those property bands E – H along with some enhancements to the existing Council Tax reduction scheme are expected to raise a net £100 million across Scotland. The detailed implementation arrangements continue to be subject to ongoing discussions as do the distribution arrangements linked to the proposed application of the additional net funding raised from the changes. The Scottish Government have indicated that it remains their intention that this funding will be provided directly to head teachers. Given there is no detail as yet on how this will be achieved it is not anticipated at this stage that this will have any positive impact on the Council's forecast budget deficit

Projected Funding Gap

3.2.18 Given the scale of uncertainty that still exists in relation to a range of significant areas, it is anticipated that the projected overall cost pressure of £15 million will be subject to some movement over the coming months. Additionally, as outlined above, there is now increasing uncertainty in relation to the Council's grant prospects in 2017/18 and an increasing risk that it could potentially be in excess of that experienced in 2016/17.

3.2.19 As noted earlier, after taking account of around £20 million of savings already accounted for in the 2017/18 strategy, the previous forecast of a residual saving requirement of up to £6 million i.e. a top end projection would now be presented as a central planning assumption i.e. a total saving requirement in 2017/18 of £26 million.

3.2.20 The recent changes in the Council's financial environment present a much more uncertain set of circumstances, with an increased risk of variability from this central forecast. For example, a residual saving of up to £10 million (total saving of £30 million in 2017/18) would arise should the Council's grant be cut by 4.5% and cost pressures overall settle marginally above current provisions. Equally, should the Council's grant be cut by 2.5%, a range of the cost uncertainties settle below current provisions and work with Directors in relation to the base budget is successful in releasing existing resources to meet new pressures, there may be limited or no residual saving requirement beyond the £20 million already accounted for in 2017/18.

3.2.21 The final scale of saving for 2017/18 is likely to sit somewhere within a range of £20 million to £30 million in total. Certainty in this regard is however unlikely to begin to emerge until the end of 2016.

3.2.22 Given the scale of uncertainty and potential for variability, it is important that the Council plans for a range of potential outcomes over this short time horizon. This will assist in mitigating the risk of having to respond within a limited time period to set a balanced budget for 2017/18 following what is anticipated will once again be a later than normal confirmation of the financial settlement for local government.

3.2.23 Further and as outlined in section 4 below, it is anticipated that moving forward beyond 2017/18 an annual saving requirement of scale is likely to continue over the medium term. Given this outlook, it is important that the Council continues to adopt a sustainable medium term perspective in developing the budget planning for 2017/18, ensuring sufficient flexibility to manage in a sustainable manner the final position that emerges over the coming months. In this context, 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 2017/18 which remain flexible, sustainable and focused on the delivery of key priorities detailed in the Council Plan.

4. Medium Term Financial Outlook to 2020 – Revenue Budget

Medium Term Grant Prospects

4.1 The current Comprehensive Spending Review (CSR) period for the UK Government which was announced in November 2015, extended through to 2019/20. At that time the UK Government set out their plans to move the UK fiscal position into a planned surplus position by 2019/20. As referred to above, this will now be subject to revision by the UK Government with an updated CSR announcement planned for November 2016. This is expected to outline revised spending plans over this period taking into account the UK Government's assessment following the post Brexit vote impact. Outwith the UK Government's existing announcement of postponing the objective of moving the public sector budget into surplus by 2020, it is difficult to predict with any certainty what decisions the UK Government may make in revising the CSR and how they intend, if at all, to adjust previous spending plans in response to the changed environment for the UK.

4.2 Equally, it is difficult to predict at this stage how the Scottish Government's budget will be affected over the medium term based on UK Government's revision of the CSR and how the forecast level of devolved tax revenues over the medium term may change from those previously forecast by the Scottish Government. Currently, recognising the scale of uncertainty and period over which this may continue to persist, it is difficult to envisage a set of circumstances where the medium term outlook for the Scottish Government budget is likely to improve from the high level position outlined in their budget announcement in December 2015. It is more probable that any material movement would result in potentially less resources being available for planned spending in Scotland over the CSR period. Coupled with the policy priorities already set out by the Scottish Government and the inevitable implications this has for the existing local government budget, there is now an increased risk that over the medium term the level of annual grant reduction applied by the Scottish Government to the local government budget in 2016/17, may continue not just into 2017/18 but over the medium term through to at least the end of the current decade. The recent report by the Fraser of Allander Institute, "Scotland's Budget 2016", concurs with this outlook citing

"Local government will likely be a focal point for debate. As an area of 'unprotected spend', our analysis suggests that the grant to local government could be reduced by around £1 billion on a like-for-like basis by 2020-21 – with increases in business rate and council tax income only partially offsetting these cuts."

Based on a potential range of average annual reduction in grant levels of between 2% - 4% the loss in grant to the Council would be approximately £6 million - £12 million per annum. At this pace of reduction, by 2019/20 grant levels would be between £18 million - £36 million less in cash terms than 2016/17 presenting significant ongoing challenges for the Council.

Council Tax Income

4.3 As referred to earlier, the Scottish Government have indicated an intention to remove the application of a grant condition linked to a continuation of the Council Tax freeze and introduce arrangements to support a cap on increases set at 3%. Details have yet to be confirmed on how this arrangement will operate and if it is the Scottish Government's intention to operate such a mechanism beyond 2017/18. If implemented, it does however open up the opportunity for the Council to consider as part of setting annual budgets an annual increase in Council Tax levels following the long term period it has remained frozen since the first year of the freeze in 2008/09. It should however be noted that for context, each 1% increase in Council Tax will yield just under £0.7 million of additional income.

4.4 In addition to any potential changes in future Council Tax levels, it is anticipated that the Council Tax base will continue to grow over the medium term at relatively limited but nevertheless steady pace of around 0.5% per annum. This anticipated growth reflects the level of development activity currently occurring and expected to commence over the coming years across Renfrewshire. However, on a note of caution, the house building sector was disproportionately impacted by the immediate fall-out from the Brexit vote and it remains to be seen whether there is any lasting impact which has a consequential slowing in the future pace of development activity across the UK and ultimately within Renfrewshire.

Future Spending Pressures and Commitments

4.5 It is anticipated that moving forward beyond 2017/18 the Council will continue to experience year on year spending pressures, increasing demand for services and the impact of existing commitments made by the Council. As outlined earlier in the report, it remains challenging to predict with certainty the scale of cost pressures the Council will face on a year to year basis given the extent of uncertainty and variability of pressures the Council is exposed to as a large and complex public sector organisation. Taking account of a range of scenario outcomes, the potential scale of annual cost pressures could range from £10 million to £15 million. Detailed below are a range of the most significant areas that will influence this position over this period and which remain consistent with the 2017/18 position outlined earlier in the report:-

- Pay and Living Wage - despite the backdrop of an anticipated reduction in resources, it is expected that pay pressures and increases in living wage costs will be a recurring feature of the Council future financial landscape. Assuming annual pay awards of between 1% - 2% and living wage increases in the ranges experienced over recent years, an annual cost pressure of approximately £3 million - £6 million per annum would be anticipated.
- Demographic and Demand - similarly, increasing demand and demographic led pressures are anticipated to remain an ongoing challenge each year for Council. Notwithstanding the success the Council has achieved in mitigating the associated cost growth, net annual cost pressures of this nature have ranged from £1 million to £3 million over recent years and typically remain subject to a degree of uncertainty moving from one year to the next with short term acceleration in growth remaining an underlying risk. In addition, after a period of reducing numbers, primary school rolls forecasts suggest that moving forward these are expected to begin increasing over the medium term. This may drive additional demand for teaching resource, in particular if maintaining a pupil teacher ratio is a specific condition of future local government settlements.
- National Policy Changes - changes in national policy have remained a significant driver of new cost burdens for the Council. As outlined earlier reform of public sector and UK state pension arrangements coupled with the Apprenticeship Levy is expected to add over £10 million of additional cost to the delivery of existing services. Although difficult to be definitive, there remains the risk that national policy changes at both a UK and Scottish Government level will continue to create new cost pressures for the Council through introducing new or increased costs associated with being a large employer, introducing new statutory responsibilities on the Council or through indirectly creating new or increased demand for existing Council Services. An area of uncertainty in this respect relates to the ongoing implementation of Welfare Reform changes at both a UK level and as a result of powers being devolved to the Scottish Government. In respect to each of these areas, the shape, scale and timing of change is subject to uncertainty as are the full implications for the Council in terms of costs to deliver existing services and wider demands that may arise for Council services as a result of the changes. Additionally, the Scottish Government's commitment to double the number of hours of free childcare has potentially significant risks, both from a financial perspective but also in terms of service delivery and long term sustainability.
- City Deal - in addition to external pressures the Council has agreed to future commitments as part of delivering City Deal. City Deal represents a significant regional economic programme that will drive economic growth and create jobs across the region. It involves amongst other things over £1.1 billion of new infrastructure investment across the City Region, with £275 million being delivered within Renfrewshire. The infrastructure investment is funded predominantly by government grant provided by both the UK and Scottish Governments. The Council's contribution to delivery of the projects within Renfrewshire amounts to just under £18 million which will be delivered through prudential borrowing, the impact of which will not feature in the Council's financial strategy until post 2020. In addition and in order to accommodate the payment of government grant support over a 20 year period set against the delivery of investment over a shorter period, there will be a requirement for the Council to temporarily support a proportion of the costs associated with the delivery of the investment programme. The financial impact of this commitment is already emerging and will incrementally build up over the coming years in line with the infrastructure delivery, forecasting to peak in terms of associated annual

interest costs in 2021/22. Thereafter, this commitment will gradually reduce as the grant payments are made over the full 20 year period of the funding agreement.

Future Funding Gaps

4.6 In sharp contrast to the position outlined to Council in March of increasing medium term certainty expected to emerge over the course of 2016, the Council's financial outlook is now significantly more uncertain and exposed to increased downside risk than it was only a few months ago following on from the significant events that subsequently occurred. However it is still anticipated that the Council will continue to be presented with a requirement to deliver significant year on year savings to address the financial challenge of reducing resources set against increasing cost and demand pressures. The scale of the annual saving requirement is now increasingly uncertain and as outlined above could potentially sit within a range of £16 million - £27 million per annum. Subject to greater certainty emerging over coming months and years it would be advised that the Council adopts a central planning assumption of being required to deliver savings of £20 million per annum in the two years 2018 - 2020. There will be a requirement to maintain an ongoing assessment of key factors impacting upon this projection to ensure the Council is alert to the potential for any significant changes, in particular if indications suggest an increasing risk of a shift to the upper end of this projection.

Other Medium Term Considerations

4.7 This medium term saving requirement will in itself present the Council with major financial and organisational challenges. However, it should also be noted that sitting alongside this is a range of additional considerations that will also require to be taken into account as part of the medium term planning which is progressed by the Council over this period, including:

- Over the course of the current financial strategy through to the end of 2017/18, the Council has utilised temporary investment capacity to invest in a range of priority areas including the Tackling Poverty programme, Invest in Renfrewshire employability programmes and Early Year's initiatives. Moving beyond 2017/18 these temporary funding arrangements will begin to come to an end and there will be a requirement for the Council to consider the sustainability or otherwise of these services, set against the resources that will be available and the strategic priorities of the Council. In addition, an added complication in this respect relates to future uncertainty around EU funding post 2018 and which in addition to Council funding is a key element of funding existing employability programmes. As reported to the Leadership Board, at present certainty has yet to be secured around the continuation of funding for such programmes covering initially from 2018-20 and indeed in the longer term once a UK exit from the EU is negotiated. This similarly will need to be carefully monitored and as certainty emerges over future funding arrangements appropriate transitional planning put in place.

- The potential saving requirements detailed above do not provide for any capacity for new investment. Over the course of the existing financial strategy running through to 2017/18, the Council has achieved investment in key priorities through the redirection of existing resources and through directing temporary revenue surpluses to support targeted time limited investment programmes. The nature of the Council's medium term financial outlook, both in scale and potential for movement, means that the Council will need to continue to adopt a strategic and sustainable plan linked to the delivery of priorities approved in the Council Plan and agreed with partners in the Community Plan. The existing Council Plan runs until 2017 and will be subsequently updated identifying refreshed strategic priorities moving forward. These strategic priorities will continue to provide a clear focus in future budget decisions, where the delivery of core services must be balanced with the increasingly limited resources that will be available to the Council in the future. In this context it is important that the Council's underlying financial strategy maintains a sustainable medium term perspective whilst at the same time recognising the ambitions of the Council to direct investment to support the delivery of key outcomes. Directing investment to such areas of priority in a climate of reducing resources will inevitably require the Council to make difficult choices to support the re-direction of existing resources and which will have natural consequences for the level of services provided in other areas of provision.

- In its current form the benefits the Council's financial position has accrued from the debt smoothing strategy was anticipated to drop off to a much reduced scale moving beyond 2017/18. Given it is anticipated that the Council will be moving into a further period of sustained and significant cost reductions beyond 2017/18, a review has been undertaken to reassess the approach associated with the implementation of the final stages of the current strategy. It is now intended that resources previously earmarked to deliver accelerated debt repayment will now be utilised to directly support the revenue budget over the medium term through providing relief from annual debt charges. This change in approach will allow a further phase of debt smoothing savings moving beyond 2017/18 to be established for a defined medium term period after which the benefit would drop away. This will provide additional opportunity through this period of further more immediate financial challenge and assist in protecting core front line services and mitigate against unnecessary reductions in service provision in anticipation of a return to growth in resources over the medium to longer term. In addition, the change in approach will also provide access to a flexible resource to support the Council to deliver the inevitable scale and pace of change that will be required to meet the overall financial challenge, including costs associated with continuing to resize and reshape the workforce.

5. Long Term Outlook Beyond 2020

5.1 Looking beyond 2020 and into the longer term, it becomes inevitably more difficult to forecast. This would be the case in normal circumstances, however the difficulty in this regard has been magnified by the wider uncertainty associated with the UK's planned negotiation to exit the EU and what the longer term impact of this will be on the UK, Scotland and ultimately Renfrewshire as an area.

5.2 Notwithstanding such difficulties, it is important that the Council continues to adopt a long term outlook, not just in planning the delivery of strategic outcomes and services, but also from a financial perspective to ensure that major medium to long term risks to the Council's financial sustainability are identified early, even though there may be uncertainty over their specific timing, scale and ultimate effect. Maintaining a longer term perspective ensures that early consideration of appropriate strategies is undertaken to plan for the expected emergence of the respective risks ensuring the Council remains pro-active in responding to anticipated changes in its long term environment.

5.3 Attached at Appendix 1 to this report is a Long Term Financial Strategy which sets out the current perspective of the Council's long term financial outlook. Many of the issues identified remain consistent with that outlined for 2017 – 2020, with challenges anticipated to remain beyond 2020 for the Council. The long term strategy provides a more detailed overview of some of the key workstreams in place and under development to manage increasing demand, avoid future costs and create greater capacity and opportunity for promoting prevention and early intervention. Such approaches will assist in protecting core services and vulnerable users and ensure services remain targeted, focused on the delivery of improved outcomes and importantly financially sustainable. This long term financial strategy will continue to be developed and aligned to the policy priorities of the Council as set out in the current and future Council Plan.

5.4 The long term outlook outlined in the strategy re-enforces the need for the Council to continue to plan services and its 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 over the long term,
- rising cost and demand pressures expected to be a long term feature of the Council's financial outlook
- an increasing and ongoing need for the Council to prioritise spend to focus on the delivery of strategic outcomes, and
- a focus on delivering change, transformation and savings continuing to be a necessary feature of the Council's long term planning arrangements.

5.5 In the delivery of the existing medium term financial strategy through to 2017/18, the Council agreed to a set of financial planning principles to underpin the delivery of the strategy and to support long term financial sustainability of the Council. Given the context outlined for both the short, medium and potentially long term, these principles remain equally valid for the Council moving forward. It would therefore be proposed that the following principles continue to underpin the delivery of the medium term strategy through to 2020:

(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.

6. Financial Outlook - Non-Housing Capital Investment

6.1 Similar to the revenue budget, the Council has no visibility of capital grant levels beyond 2016/17 and this is unlikely to emerge until December or January as part of the Scottish Government budget announcement and the specific detail of the local government settlement. Similar to the revenue grant, this will be heavily influenced by the UK Government CSR announcement in November, as well as decisions the Scottish Government may take in relation to the prioritisation of available resources.

6.2 In considering its strategy for investment, the Council has sought to ensure capital spending remains affordable, financially sustainable and deliverable within the resources that are available over the medium to longer term. In addition, as part of prudently managing its investment commitments, the Council has restricted making investment commitments supported by capital grant until firm figures are confirmed by the Scottish Government, and has sought to protect its existing asset base moving forward through planned and responsible maintenance programmes. In this context, the Council has previously agreed that the medium term investment strategy will progress on the basis of continuing to adopt the following financial planning principles:

- Any new capital borrowing undertaken by the Council will be underpinned by specific investment cases which are capable of delivering efficiencies to support the annual costs of the associated borrowing and or those costs being supported by savings delivered through the Council's wider budget planning process.

- Future years capital grant funding will continue to be prioritised in the first instance to support ongoing lifecycle maintenance and renewal programmes across the Council's asset base to protect the assets the Council currently holds and its ability to deliver services to citizens.

- Investment commitments will only be taken forward on the basis of capital receipts that have been secured and received by the Council with no reliance being placed on the predicted future generation of receipts from planned disposal programmes.

- The Council will continue to actively pursue other sources of funding to maximise support for investment opportunities including external grant funding sources, partner contributions and where appropriate bid funds which may become available through the Scottish Government and other sources.

6.3 It is proposed that moving forward over the medium term the Council continues to commit to these financial planning principles and given at present there is no visibility of capital grant funding beyond 2016/17, it is proposed that the updating of the capital programme, focuses only on known and estimated resources that are expected to be confirmed in December or January. Officers will be available to work with political groups and elected members as required, to develop proposals for capital investment, in line with the financial planning principles agreed by Council.

Implications of this report

1 **Financial Implications** – The report details an estimated budget position over the period 2017-18, and highlights the likelihood of the need for further budget savings over the medium term period through to 2020. The forecast position through to 2020 has been updated from the position presented to members in March 2016 following on from the Scottish Parliamentary elections and referendum vote for the UK to Leave the European Union.

2 **HR and Organisational Development Implications** – integration with the Council's workforce planning arrangements will continue to be a key measure required to help address the forecast medium term reduction in Council resources.

3 **Community Plan/Council Plan Implications** - The Council remains committed to Community Planning priorities and the priorities outlined within the Council Plan will be key to providing strategic context to support prioritising future budget decisions.

4 **Legal Implications** – N/A

5 **Property Implications** - N/A

6 **Information Technology Implications** - N/A

7 **Equal Opportunity Implications** – Equality Impact Assessment will continue to be a key consideration in the development budget proposals.

8. **Health and Safety Implications** – N/A

9. **Procurement Implications –** N/A

10. **Risk Implications –** the report sets out the range of financial risks that are likely to be faced by the Council in the short, medium and longer terms and the requirement for the Council to actively manage these to maintain long term financial sustainability whilst increasingly focusing the reducing resources that will be on the delivery of key strategic priorities in line with the Council Plan.

List of Background Papers

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Appendix 1

Renfrewshire Council

Medium to Longer Term Financial Strategy

Contents

Executive Summary

1.1 This medium to longer term financial strategy outlines the financial challenges and opportunities the Council could face over the medium to long term, and provides a financial framework which will support the Council to remain financially sustainable and delivers on its key strategic objectives and priorities.

1.2 This strategy document is structured to support and compliment the Council's shorter term budget planning structures and processes which generally have a 3 year planning horizon. The strategy will also compliment the Council Plan, highlighting how the Council's financial capacity and agreed financial planning principles will support the delivery of Council priorities; but also outline what the associated challenges are to this from the economic, political and regulatory environment.

1.3 Audit Scotland has highlighted that councils with well developed financial plans and strategies are better equipped to manage the challenges facing local government in the future. This strategy is one element of the Council's overall framework of robust financial planning and budgetary control.

Strategic Economic and National Policy Context

1.4 The previous medium term financial strategy outlined both a fragile and challenging economic environment, characterised by austerity budgets and uncertainty for many Eurozone and world economies. The seminal vote for the UK to leave the EU has added a further layer of uncertainty as outlined in a report to the Leadership Board in September 2016.

1.5 This new and significant post Brexit uncertainty has had, and is likely to continue to have, a material impact on UK public finances. The economic recovery from the 2008 financial crisis and subsequent recession has undoubtedly been dealt a significant blow by the fall-out from the Brexit vote. It is now highly likely that previous forecasts of a sustainable economic recovery across the UK will be subject to fundamental re-assessment. However, at this stage it is too early to tell just how deep and long lasting the impact the Brexit vote and the subsequent exit process will ultimately have across the UK. In the Autumn statement, expected to be made on the 23rd November, the new UK Chancellor of the Exchequer has indicated he intends to "re-set UK fiscal policy".

1.6 It is difficult at this stage to anticipate what the outcome may be for the Scottish Block settlement provided to the Scottish Government. It would be wrong to assume that this means an end to fiscal consolidation. With a weaker economic outlook and rising inflation putting pressure on the welfare budget, further medium term departmental spending cuts over and above what was already planned seems more likely. Equally however, both the UK and Scottish Government have reaffirmed their commitment to infrastructure spending as a route to provide economic stimulus to mitigate some of the adverse effects of the

Brexit vote. This will therefore be a critical announcement and is expected to provide a refreshed post Brexit outlook for public finances across the UK and naturally will be a major influence on Scotland's budget.

1.7 In addition to the impact of the wider UK economy, moving into 2017/18 Scotland begins to assume greater fiscal autonomy under the 2016 Scotland Act. A process will commence in 2017/18 to devolve greater tax raising powers to the Scottish Parliament which will move Scotland towards a position where 50% of public sector spending is funded through devolved taxation powers. This process of fiscal devolution is a major change and even in normal circumstances would present a major new dimension of risk. In the current context of Brexit and all the uncertainty associated with it (the terms of the exit process and the post exit economic environment), the risks appear to be even greater.

1.8 In addition to the anticipated real terms squeeze on the Scottish Government's budget over the medium term, the Scottish Government has set out and reaffirmed clear policy priorities that will have significant implications for the local government budget in Scotland over this period and potentially beyond. It is therefore anticipated that over the medium term and potentially extending beyond the end of this decade, local government will move into a further period of sustained cash terms reduction in resources. Although this direction of travel appears to be relatively firm, the scale, pace and longevity is uncertain and this is unlikely to change over coming months with the Scottish Government indicating a further single year budget in 2017/18.

1.9 Moving forward, the key strategic priorities which are set out in the Council Plan will become increasingly important in the context of the Council's longer term financial planning. With a shrinking resource base and the delivery of sustained efficiencies becoming increasingly challenging, it is inevitable that the Council will increasingly be required to focus resources on those services which support the key strategic outcomes targeted by the Council.

It appears likely therefore that the Council will be required to continue to plan over the medium to longer term from a basis of ongoing uncertainty where flexibility and maintaining a medium term perspective will become an increasingly important feature of the Council's financial planning landscape. Despite this, at this stage it does appear certain that the delivery of sustained savings and cost reductions coupled with the increased prioritisation of a reducing resource base will by necessity remain a significant feature of the Council's long term planning.

Financial outlook and Cost pressures

1.10 The Council's financial outlook over the longer term time horizon is challenging, and can be broadly divided into cost pressures and income pressures. With regards cost pressures there are a wide range of both short term and more fundamental pressures. This report focuses on those which have the potential to have a significant and fundamental impact on the Council's financial position over this horizon:

- Demographic pressures
  - Pressure on adult and older people services driven by increasing demand is expected to significantly increase in the medium to longer term. This will require an ongoing commitment from the Council to continue to work innovatively to re-shape service delivery to deliver better outcomes whilst maintaining financially sustainable services. However such is the anticipated demand pressure, it is inevitable that there will remain significant risk of year on year requirement for net growth in the level of resource requirement required for these service areas.
  - Primary rolls have been increasing for 3 years - this is likely to continue and extend into secondary. Further, analysing the roll projections at individual school level suggests that several schools will begin to have capacity issues linked to housebuilding plans in particular areas. This shift in local demographics will require ongoing monitoring and may drive a requirement for additional teaching resources and a need to reshape the current education estate.

- Service pressures
  - New burdens from the enactment of the Children & Young People (Scotland) Act
  - Waste collection, recycling and disposal
  - Volatility in utility costs
  - The introduction of self directed support for adults requiring care and support
  - ICT service evolution and the move to "cloud" computing
  - Contractual and other inflationary cost pressures

- Pay pressures
  - General pay inflation and incremental drift
  - Continuation of changes in national pension arrangements
  - Living wage related pay cost pressures

- Policy related pressures
  - Welfare reform
  - Costs related to the Carers (Scotland) Act
  - Health and social care integration
  - Proposed Education Bill

The Council will need to remain pro-active in monitoring and evaluating the changing public sector landscape, remaining alert to key changes and for new and emerging cost pressures; ensuring that changes and pressures are understood, scoped and incorporated into the Council's financial plans and where appropriate longer term plans put in place to mitigate the impact of key longer term financial risks.

Income pressures

1.11 The principal source of funding for the Council continues to be the Government Grant, which provides over 80% of the funding required to meet the net cost of providing services. As outlined earlier, it is anticipated that based on the weakening economic outlook, coupled with the policy priorities set out by the Scottish Government, that local government is anticipated to face a further period of sustained reduction in the level of government grant. This may continue into the next decade and possibly the longer term. The uncertainty in this respect is potentially unprecedented and much may depend on what the longer term settled impact is for the UK and Scottish economy in a post exit environment outside the EU. In addition, it is recognised that specific risks reside around economic regeneration and skills development activities that are currently delivered by the Council and which lever in substantial amounts of EU funding. In the very short term, there appears to be appropriate guarantees being secured in relation to this funding but moving into the medium and longer term, the position becomes less certain. At this stage there is no indication what longer term funding arrangements may exist once the terms of the UK exit from the EU are concluded.

On the back of a weakening economic outlook for the UK and Scottish economies and taking account of the Scottish Government's articulated policy priorities for future spending over the course of this Parliament, local government in Scotland is expected to move into a further medium term period of sustained reduction in its major source of funding from the Scottish Government. The scale of the reduction is uncertain as is the period of time over which it will extend. The ongoing contraction in government grant may continue into the next decade and possibly beyond and the Council needs to prepare itself for this possibility. Certainty in respect to the scale and timing is not expected to emerge in the short term and the Council will therefore be required to progress its strategic and financial planning arrangements with ongoing uncertainty in this regard.

Significant areas of economic and skills development services are funded by European Regional Development Funding and European Social Funding; and currently there is no guarantee from either the UK or Scottish Governments with regards to the replacement of these funding sources in the longer term. It is not anticipated that certainty in this regard will emerge potentially for a number of years as the exit negotiations are progressed and the Council will require to monitor this position very closely, engage where appropriate in national discussions as they develop and plan appropriately for the current guaranteed funding to come to a natural end with potentially no certainty over access to new funding sources emerging over the medium term.

1.12 For several years now, the total package of grant support to the Council has been contingent on a council tax freeze. Following the findings of the Commission on Local Tax Reform the Scottish Government have proposed removing the freeze and introducing an annual cap of 3% on council tax rises, accompanied by changes to the ratios of the upper bands E-H (albeit it has yet to be clarified how the additional funding from the changes in council tax banding will be ring fenced for education spending). Moving forward it would appear that the opportunity to review council tax levels as part of the annual budget setting and longer term financial planning process will once again be a potential consideration for the Council. Whilst any increase in council tax yield over the medium to longer term is expected to be minimal given the already high level of collection, new house building could provide a marginal but sustained increase in the council tax base over the medium to longer term which will support a growth in net income.

It is expected that over the coming months greater clarity will emerge in relation to the future changes proposed for council tax and the potential introduction of a cap arrangement to replace the freeze that has operated for a number of years and the Council's financial planning arrangements should be adjusted as appropriate. For the purposes of longer term forecasting it is anticipated that the Council's net council tax base will grow at a marginal but sustained rate based on anticipated new house completions.

Mitigation Strategies

1.13 The Council already has in place a number of medium and longer term strategies which are focussed on mitigating cost growth or delivering efficiency savings. These strategies and the actions which flow from them are necessary in order for the Council to manage over the medium term its financial outlook and long term financial sustainability; and reduce the risk of being required to make unnecessary savings or cuts to services quickly in order to maintain a balanced budget.

In order to support the objective of both financial and service stability, it is important that the Council where possible looks to achieve savings and deliver change in a planned fashion. Given the uncertainty that exists over the medium term financial outlook, it is important that the

Council maintains a rolling medium term outlook when looking at the pipeline of delivery of change and savings, ensuring that flexibility exists in its shorter term budget strategies to respond in a managed fashion to unexpected movements in the Council's financial position.

1.14 Without action to address and plan for cost and service pressures the financial position of the Council would quickly come under significant pressure and longer term sustainability risks. A key response of the Council over a significant period of time has been to mitigate future cost growth through investment in preventative and early intervention services. It is important that moving forward that the Council continues to progress such strategies to support both better outcomes but also the longer term sustainability of services. In this context, active review of the Council's ongoing Debt Smoothing Strategy has been undertaken with adaptations implemented to support additional savings over the medium term period in order to protect resources supporting front line service delivery over this period.

1.15 The next phase of the Better Council Change Programme will focus over the medium term on digital service delivery, early intervention, asset optimisation and commercialisation with the aim of delivering further savings and service modernisation. In many cases the service transformation will require up-front investment in for example ICT or other assets.

It is critical that the Council continues to be innovative, focused on driving efficiency and delivering better outcomes in smarter, more sustainable ways. Left unchecked, the Council will otherwise face financially unsustainable demand led pressures. In this context, it is important that longer term financial planning takes appropriate account of the need to develop and deliver such change in order to promote long term service sustainability. It is important that sufficient financial flexibility is in place to support and deliver such longer term beneficial change that promotes sustainability and better outcomes.

1.16 Moving forward, the Council will increasingly be required to take strategic decisions, balancing the needs of communities with the resources available; and creating a sustainable model of service delivery which focuses a reducing level of resource on the delivery of those outcomes that are most important to the people of Renfrewshire. This will inevitably lead the Council into difficult territory and will require decisions covering potential dis-investment or stopping non-priority services in order to support and sustain investment in key priorities; the examination of alternative service delivery models; and the ongoing consideration of the future shape and size of the workforce that is required to meet the future needs of the Council.

Reserves

1.17 Active use of planned reserves has and will remain a key part of the Council's financial strategy and has remained a key mechanism to support the delivery of key objectives and to support long term financial sustainability objectives. Unallocated general reserves are a key protection mechanism for the Council, providing financial resilience to manage unexpected demands on services, unanticipated costs or reductions in income. The level of unallocated reserves has historically been around 2% of the Council's net expenditure, with an absolute deminimus of £7m being recommended. The level of unallocated reserves should reflect the financial risks currently and anticipated, and should be reviewed regularly to ensure the level remains appropriate to the risk profile of the financial environment.

As a general financial planning principle, no reliance should be placed on the use of unallocated reserves for day to day operations. A balance of around 2% of net expenditure is considered in the current economic environment an appropriate level of unallocated reserves to hold over the medium term and this should be reviewed on a regular basis in the context of changes in the Council's financial risk environment.

The use of existing earmarked reserves and the creation of new reserves will continue to play an important role in the management of the Council's current and future financial position.

Capital Investment

1.18 Given the limited visibility of capital grant from the Scottish Government, the Council has adopted a number of principles in the management and planning of capital spend which remain valid:

- No new general borrowing will be undertaken without being underpinned by a specific investment case which is capable of delivering revenue savings sufficient to meet associated borrowing costs

- Future years capital grant will be prioritised to lifecycle maintenance and asset renewal

- The capital investment programme will continue to be supported by capital receipts from the sale of surplus assets, however no reliance will be placed on speculative receipts, only receipts which have been received.

- The council will actively and aggressively pursue other sources of funding to maximise investment opportunities.

1.19 In addition to the above principles, the Council has a major obligation to deliver the three City Deal projects which it is leading. This will require considerable planning to ensure the Council's capital funding, cash, borrowing and treasury management positions are all clearly monitored and understood.

Part 1

Introduction

1. Introduction

1.1 Purpose of the Financial Strategy

This financial strategy provides a strategic medium to long term term framework which establishes overall financial direction and parameters to support the Council to move forward and deliver against its strategic policy objectives and priorities. The development of the financial strategy is supported by existing key areas of activity:

- **The basic financial planning and control system** – the Council has well established budget planning and controls systems which have proved critical in supporting ongoing financial stability for the Council, particularly over recent years as financial challenges have increased significantly. This is focused on shorter term challenges for the Council, typically one year detailed budget with 1 – 2 year forward looking forecasts depending upon the current stage in the financial settlement cycle. The emphasis of this work is primarily to ensure fundamental stewardship requirements are met in relation to the Council's finances i.e. legal requirement to set a balanced budget, responding to year on year changes, support the delivery of short term service and Council objectives and controlling annual expenditure within agreed limits.

- **Longer term modelling** – the Council continues to examine longer term modelling arrangements which look to forecast forward over the long term. The work undertaken in this respect has reduced in more recent years from the scale undertaken previously recognising the significant fluidity of the economic, fiscal, and political environment. This has made such financial forecasting extremely challenging with wide degrees of uncertainty. Nevertheless, the principle objective of such processes remain valid and are aimed at supporting the development of a long term perspective of the Council's potential financial landscape and the identification of key underlying financial risks for the Council. Notwithstanding the significant uncertainty that exists looking to the long term, this allows the Council to plan for and build in longer term strategies to mitigate the development of the negative impacts of these key risks.

1.2 The medium term financial strategy seeks to integrate these key activities through;

- enhancing, developing and extending the key outputs from the shorter term financial planning arrangements,

- incorporating the key identified financial risks and the associated mitigation strategies that emerge from the longer term forecasting arrangements

- integrating these in a medium term financial planning context alongside the Council’s key policy objectives and priorities, providing a clear financial framework to support the Council to change over the medium term and focus resources on the delivery of key strategic objective.

1.3 The strategy itself provides a framework which over the medium term will;

- guide and inform key financial planning principles,

- support long term financial sustainability of the organisation and avoid short term focused decision making,

- allow the identification of the critical workstreams to support the both the delivery of the annual budget setting requirement and medium term changes to the Council’s financial and service structures;

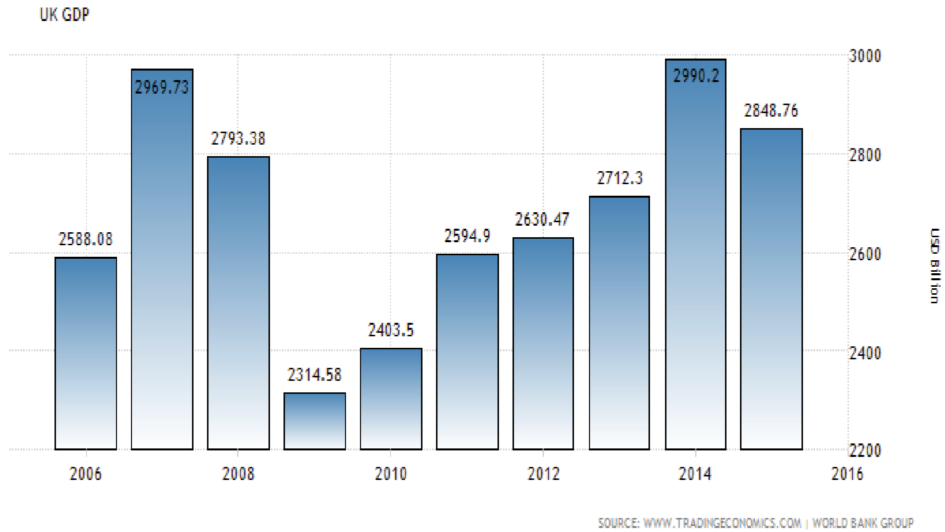
Part 2

National Strategic Context

UK economic outlook

2.1 The previous medium term financial strategy outlined both a fragile and challenging economic environment, characterised by austerity budgets and uncertainty for many Eurozone and world economies. The recent seminal vote for the UK to leave the EU has added a further layer of unprecedented uncertainty as outlined in a report to the Leadership Board in September 2016.

2.2 The Council is heavily dependent on government grant income to fund delivery of its services. The health of the public finances at both a UK and Scottish Government level as well as policy decisions taken by national levels of Government inevitably weigh heavily on the financial outlook and prospects for the Council both in the short and longer term. Since the global financial crisis which took hold in 2008, the UK has experienced poor economic growth – taking until 2014 for UK GDP to recover back to the level achieved in 2007 before a further dip in 2015.



2.3 The Office for Budget Responsibility (OBR) in November 2015 forecast GDP growth in 2016 of 2.4%, which it revised down to 2.0% in March 2016, prior to the Brexit vote. Since then and following the Brexit vote in June, there is a consensus amongst economic forecasters of limited economic growth over the medium term as the uncertainty caused by Brexit impacts on investment and recruitment decisions denting short to medium term growth prospects. The longer term impact of the Brexit vote on economic growth will take some time to emerge. There is the possibility that the impact is temporary in nature and as and when the exit terms are agreed and uncertainty dissipates, economic growth is re-established to historically normalised levels, albeit the economy will be a step below where it otherwise may have been. A more significant and damaging risk is that there is a lowering of longer term growth rates as the economy settles into life outside the EU. The inextricable link between economic growth and the health and prospects for public finances means there is an inevitable expectation of additional pressure on the public finances in the UK, but with significant uncertainty over the scale and more importantly whether this will continue over the long term.

2.4 It should also be recognised that whilst Brexit has the most immediate and dominant impact on the state of the nation's financial position and prospects, there are other unresolved issues within the Eurozone itself, which despite the vote to leave may still impact on the UK economy given how interlinked world economies and banking systems are.

2.5 This new and significant post Brexit uncertainty has had, and is likely to continue to have, a material impact on UK public finances. The economic recovery from the 2008 financial crisis and subsequent recession was, prior to the Brexit vote, already recognised to be fragile and subject to a range of downside risks. Undoubtedly the post Brexit impact has dealt a significant blow to this recovery process. Evidence of this is illustrated from the decision of the Monetary Policy Committee of the Bank of England in July 2016 to cut the bank rate to 0.25%, a historic low, and to introduce further quantitative easing measures to both stabilise financial markets and stimulate the economy in light of poor economic forecasts over the medium term. It is now highly likely that previous forecasts of a sustainable economic recovery across the UK will be subject to fundamental re-assessment. However, at this stage it is too early to tell just how deep and long lasting the impact the Brexit vote and exit negotiation process will ultimately have.

Fiscal Outlook

2.6 As outlined above, the future prospects for the UK public finances are intrinsically linked to the prosperity in the wider economy. The UK government spending review set in 2015 outlined a plan to eliminate borrowing by 2019-20 through a series of measures to remove £37 billion of spend annually, predominantly through welfare reform. This was based on GDP growth averaging 2.4% over the next 5 years, a forecast which now appears unlikely to be unachieved.

2.7 The 2015 Spending Review outlined funding for the devolved Scottish Parliament as follows:

	Baseline 2015/16 £ billion	2016/17 £ billion	2017/18 £ billion	2018/19 £ billion	2019/20 £ billion
Resource DEL	25.9	26.1	26.3	26.3	26.5
Capital DEL	3.0	3.2	3.2	3.2	3.4
Total DEL	**28.8**	**29.3**	**29.5**	**29.6**	**29.8**

2.8 The resource funding (revenue funding) for Scotland was to increases in cash terms, but only by a limited amount and which in effect equated to a 1.3% reduction in real terms each year. Capital allocations by contrast were projected to increase in real terms each year.

2.9 The 2015 Spending Review will now be revised by the new Chancellor of the Exchequer in light of the Brexit vote, with the announcement due to be made on 23rd November. At this stage it is difficult to predict with any certainty the decisions that will be taken. The new Chancellor has indicated that he is prepared to 'reset' UK fiscal policy and an early decision was taken to extend the timeframe over which he plans to reduce annual borrowing to zero, albeit the scale of extension has not yet been confirmed. It would be wrong however, to assume that this means an end to fiscal consolidation. With a weaker economic outlook and rising inflation putting pressure on the welfare budget, further medium term departmental spending cuts over and above what was already planned seems now to be a greater risk. Equally however, both the First Minister and the Prime Minister have reaffirmed their commitment to infrastructure spending as a route to provide economic stimulus to mitigate some of the adverse effects of the Brexit vote.

2.10 In addition to the impact of the wider UK economy, moving into 2017/18 Scotland begins to assume greater fiscal autonomy under the 2016 Scotland Act. A process will commence in 2017/18 to devolve greater tax raising powers to the Scottish Parliament and which will move Scotland towards 50% of public sector spending being funded through devolved taxation powers. Moving forward over the medium term, this devolution process will be governed by the new Fiscal Framework. The mechanics of the framework are complex but in essence will mean that the performance of the Scottish economy relative to that of the UK as a whole will be key in determining whether the Scottish budget will fare better under the new devolved arrangements than it would have had under the current arrangements. This process of fiscal devolution is a major change and in normal circumstances would present a major new dimension of risk. In the current context of Brexit and all the uncertainty that is associated with it, the terms of the exit process and the post exit economic environment, the risks appear to be even greater. Indeed, the Fraser of Allander Institute very recently published a report, "Scotland's Budget 2016", which amongst other key conclusions stated that: -

- *"The Smith Commission's proposals were intended to introduce both greater risk and greater reward to the Scottish budget. However with additional economic uncertainty following the EU referendum, a weakening UK fiscal position, ongoing UK welfare reform, and a fragile Scottish economy, the devolution of these new tax and social security powers could not have come at a more challenging time. There is a real risk that this new framework will only add strain on Scotland's public finances at least in the near term."*

- *"Under the complex arrangement for determining the Scottish Government's budget under the new fiscal framework, what will be crucial is how the growth in Scottish tax receipts per head compares to the growth in equivalent tax revenues per head in the rest of the UK."*

- *"The balance of evidence suggests that Scotland will do well to match UK economic performance at least in the short-term."*

- *"Even before the EU referendum outcome, the Scottish budget was facing real terms cuts over the next few years driven largely by the plans set out by the previous Chancellor George Osborne. Our new findings suggest that the Scottish budget could be cut by between 3% – 4% percent in real terms by 2020-21 and up to 6% – around £1.6 billion – under a worst case scenario."*

National Government Strategic Policy Drivers

2.11 As referred to earlier, over 80% of the Council's funding is provided in the form of Scottish Government grant and therefore the Council's financial position, prospects and outlook is heavily influenced by the level of funding made available by the Scottish Government. The local government settlement from the Scottish Government has over the past years been extremely challenging, with the 3.5% grant cut experienced in 2016/17 being the biggest ever single year cut imposed on the local government revenue budget. Additionally, it is once again expected that the Scottish Government will announce only a 1 year budget for 2017/18, perpetuating the cycle of short term financial settlements which restricts the ability of the Council to effectively plan over the medium to longer term both from a financial and service delivery perspective. Notwithstanding the Scottish Government's reluctance at present to commit to budget planning beyond a single year, the Government has outlined very clear policy and spending priorities that they intend to deliver over the course of the current Parliament. This includes growing by £500 million above inflation, spending on the NHS, protecting in real terms spending on the Police Scotland and seeking to double the provision of free childcare. Given the scale of these commitments and the proportion of the Government's budget touched by these spending priorities, there will be inevitable consequences for the areas of the Scottish Government budget that remain unprotected, the significant element of which is local government. It appears inevitable that the local government budget will over the medium term be squeezed considerably, as a consequence of further downward pressure on public finances arising from the weakening economic outlook, coupled with the spending priorities set out by the Scottish Government.

2.12 In addition, the Scottish Government has also in recent years introduced a range of conditions which have formed part of the annual financial settlement offered to local government which were required to be satisfied to access the full amount of revenue grant. Such measures have varied over the years but have included the council tax freeze and maintaining teacher numbers and/or the pupil teacher ratio. Although the Government have announced an intention to remove the Council Tax freeze moving into 2017/18, it remains to be seen if other conditions continue to be a feature of future year financial settlements and to what extent they restrict local flexibility for the Council in setting its annual budget.

2.13 Extending devolution to local communities is a key aim of the Community Empowerment Act, which places obligations on local authorities in terms of community consultation and participation in decision making (including resource allocation decisions), and also with regards the control of local authority assets. Community bodies have a right to request to purchase, manage or use land or building assets belonging to a local authority. Further proposals to delegate governance and finances directly to schools have also been outlined by the Scottish Government in their Programme for Scotland 2016-17. Individually, each of these measures has the potential to change how the Council progresses financial planning and budget setting in years to come. In this context, it will be important that the Council remains alert to such changes and new obligations to assess the financial, planning and service implications.

2.14 The UK Government agreement to devolve welfare powers to the Scottish Parliament may have significant implications for local government in Scotland. While the state pension will remain a reserved matter, powers in respect of employment programmes and supporting long term unemployed people into work, job seeker support, discretionary welfare payments and DHP, and benefits for people who are disabled and their carers will be devolved. The Scottish Government plans to establish a new Social Security Agency to manage and administer these services. The exact implications of the new service on current local government support services is unknown at this stage, however these again could be significant depending on the delivery approach decided eg in partnership with local government or delivery in full by the new agency. The impact on advice and employability services currently delivered by councils and their local partners also remains unknown. The Council will require to fully engage in discussion around the proposed new service delivery model to fully understand the potential service and financial impact.

Part 3

Local Strategic Context

Strategic Drivers in Renfrewshire

Local Demographics and Socio-Economic circumstances

3.1 Renfrewshire is home to approximately 175,000 people, with the age profile of these residents broadly in line with the Scottish average. The total Renfrewshire population has remained stagnant over the past 20 years at a time when the Scottish population was gradually increasing. Projecting forward to 2037, according to the National Records of Scotland, the Renfrewshire population is forecast to increase very marginally in Renfrewshire by 0.6%, whilst in contrast the Scottish population is expected to grow steadily by 8.8% over the same period (it is recognised that these projections would have been influenced by net inward migration assumptions which may in time be revised following the outcome of any change in free movement within the existing European Union area follow negotiation and agreement on the terms of the UK exit from the EU). Life expectancy for both males and females is below the Scottish average; while levels of morbidity are higher. The 75+ age group is forecast to increase 15% over the next 6 years, a recurring demographic trend that is increasing in its significance and which will over the longer term exponentially increase demand led pressures on services for the elderly.

3.2 The Renfrewshire area covers both affluent and significantly deprived localities, with widely varying prospects and life expectancy evident. This position was the subject, amongst other things, of a report by the Commission on Tackling Poverty set up by the Council in 2014. Since then the Council has been actively addressing the challenges of tackling poverty through dedicated funding and an action plan involving a range of community planning partners. SIMD data released in August 2016 again names the Ferguslie area of Paisley as the most deprived area in Scotland, outlining just how deep rooted the problems facing the Council are. Tackling poverty and inequality is a key priority for the Council and fundamentally addressing and reversing the associated long standing challenges which arise from poverty and deprivations means it is likely to remain a strategic focus for the Council over the medium to longer term.

Council priorities

3.3 The Council Plan as refreshed in 2015 outlines 10 priorities for the period to 2017, and the financial strategy of the Council is appropriately aligned to support addressing these priorities. Significantly, the Council has committed to the physical and economic regeneration of the area through a range of initiatives such as building on the area's culture and heritage, participation in the Glasgow City Region City Deal and the improvement of Renfrewshire's town centres.

3.4 An outlook of contracting resources available to the Council over the medium and potentially longer term, reinforces the need for the Council to continue to plan services and finances over the medium to longer term on the basis of:-

- reducing resources with uncertainty over when sustained growth may return,

- rising cost and demand pressures expected to be a long term feature of the Council's financial outlook,

- an increasing and ongoing need for the Council to prioritise spend to focus on the delivery of priority strategic outcomes defined in long term Council Plans, and

- a focus on delivering change, transformation and savings will continue to be a necessary and inevitable feature of the Council's planning arrangements

Long Term Commitments - City Deal

3.5 Whilst a key part of the Council's strategic priority to deliver regeneration, the financial issues related to the Council's involvement in the Glasgow City Region City Deal are of particular note, and will extend over the long term. City Deal represents a significant regional economic programme that will drive economic growth and create jobs across the region. It involves amongst other things over £1.1 billion of new infrastructure investment across the City Region, with £275 million being delivered within Renfrewshire. The Council is leading the delivery of three significant infrastructure projects:

- Glasgow Airport Investment Area (GAIA)
- Clyde Waterfront and Renfrew Riverside (CWRR)
- Glasgow Airport Access Project (AAP)

3.6 The infrastructure investment is funded predominantly by government grant provided by both the UK and Scottish Governments. The Council's contribution to delivery of the projects within Renfrewshire amounts to just under £18 million which will be delivered through prudential borrowing, the impact of which will not feature in the Council's financial strategy until post 2020. In addition and in order to accommodate the payment of government grant support over a 20 year period set against the delivery of investment over a shorter period, there will be a requirement for the Council to temporarily support a proportion of the costs associated with the delivery of the investment programme. The financial impact of this commitment is already emerging and will incrementally build up over the coming years in line with the infrastructure delivery, forecasting to peak in terms of associated annual interest costs in 2021/22. Thereafter, this commitment will gradually reduce as the grant payments are made over the full 20 year period of the funding. It is also recognised that access to the Grant Funding commitments made by both the UK and Scottish Governments is not automatically guaranteed and will be subject to delivery of specified outcomes by the City Deal partners over the long term associated with physical delivery of the infrastructure plans and delivery of economic growth targets. It will be important therefore that the Council's long term plans ensure that this long term commitment is appropriately planned for and is undertaken in a manner consistent the delivery of long term financial sustainability of the Council.

Part 4

Financial Outlook

Financial outlook

4.1 This section will outline the key financial issues the Council is likely to have to deal with over the medium to longer term ie 3-10 years, and these can be broadly grouped into cost pressures and income pressures.

Cost pressures

4.2 A perennial feature of the Council's financial landscape is additional cost pressures emerging each and every year. Every Council in Scotland will face a range of cost pressures over the coming years; with many experienced being similar in nature and scale whilst others will be distinctly associated with particular areas of the country. The section below outlines some of the key drivers for increased costs for the Council over the medium to longer term. When considering the long term forecasting period involved, it is clear uncertainty plays a greater role and definitive confidence around the accuracy of the future cost pressure becomes less significant. What is important for the Council is that the key long term financial risks are identified and appropriate planning and mitigation strategies are developed and employed to plan for the long term changes and challenges that the Council will face.

Demographic pressures

4.3 As mentioned earlier, the gross population of Renfrewshire is projected to increase marginally in the coming years. Information on population projections from the National Records of Scotland (2012 based population projections) can be summarised as follows:

Renfrewshire	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
All ages	**174,563**	**174,709**	**174,870**	**175,039**	**175,202**	**175,366**	**175,527**	**175,691**	**175,830**	**175,945**	**176,038**
0-5 years old	11,349	11,276	11,269	11,340	11,405	11,459	11,501	11,532	11,555	11,562	11,555
6-18 years old	24,162	24,148	24,112	24,034	23,971	24,084	24,206	24,295	24,317	24,362	24,430
19-65 years old	108,183	107,812	107,579	107,220	106,778	106,221	105,588	104,958	104,231	103,446	102,659
66 years old +	30,869	31,473	31,910	32,445	33,048	33,602	34,232	34,906	35,727	36,575	37,394

4.4 As illustrated in the table above, while the overall population remains relatively static, this forecast does not include the increase in population which may accompany current and planned housebuilding. Current projections forecast an additional 4,000 houses could be built in Renfrewshire over the period to 2022, with potential for a further 6,000 being built in the years following this. Naturally, there are risks with these projections as sentiment ebbs and flows with economic news. For example it should be noted that housebuilders' share prices have suffered significantly in the weeks since the Brexit vote as confidence in the UK housing market has reduced and it remains to be seen whether this will have a lasting impact on the scale of development activity and long term delivery of new house completions over the medium to long term. Equally, as new house completions feed through, there remains the potential for

Renfrewshire to experience a greater degree of churn or displacement within an overall broadly static population as people move around the area but with limited net inward migration. Nonetheless, a potential increase in both the number of households and the overall population should be anticipated for planning purposes; with potential consequent demand for school places and community services such as waste collection, recycling and disposal also increasing; and these pressures are explored in more detail below.

4.5 More pressingly however, is the projected increase in the population of over 65s of over 20% over the next 10 years. Projecting further out this percentage of over 65s making up the total population of Renfrewshire is expected to move from 17% in 2016 to 26% in 2036. This age group has potentially significant needs in terms of support to live independently in their own homes, care at home, and residential and nursing home places. Whilst individuals are expected to live longer, this does not necessarily mean that they will live longer *in good health*, therefore the support they require may be for an increasingly extended period. Tellingly, the population of over 90s is projected to triple over the next 20 years.

4.6 Pressure on adult and older peoples services driven by increasing demand is therefore expected to significantly increase in the medium to longer term, and these services will require significant increases in resource. The Council and the Renfrewshire Health and Social Care Partnership are actively planning for this increase in demand, and some of the mitigation and service redesign measures proposed are outlined in section 5 below.

4.7 Owing predominantly to the increased number of houses anticipated to be built over the next 10 years, school roll projections suggest an increase in pupil numbers in excess of 10%. In the past increasing primary numbers have been largely offset by falling secondary, however both are projected to increase moving forward.

Year	Primary	Secondary	Special	Total
2016	13,405	9,903	362	23,669
2017	13,468	9,967	377	23,811
2018	13,626	10,091	377	24,094
2019	13,519	10,387	377	24,283
2020	13,560	10,724	377	24,661
2021	13,648	10,926	377	24,951
2022	13,841	11,144	377	25,362
2023	13,948	11,363	377	25,688
2024	14,188	11,424	377	25,989
2025	14,252	11,587	377	26,216
2026	14,445	11,592	377	26,414

4.8 This increasing school roll projection has long term consequences for teaching resources across the Council that will bring not just financial implications but longer term workforce planning implications. Further, analysing the roll projections at individual school level suggests that several schools may begin to experience capacity challenges linked to housebuilding plans in particular areas. In addition, as part of the Local Government Settlement for 2016/17, all local authorities agreed to maintain the national pupil / teacher (p/t) ratio at the 2015 level. Renfrewshire's p/t ratio was 14.6. If such an agreement remains a medium to long term feature of future financial settlements, this could drive a formulaic change in the level of annual cost increase that may be experienced in teaching resources with limited opportunity to develop local solutions to best meet Renfrewshire's needs. It is clear therefore that over the medium to long term, the Council is likely to be moving into a long term period where there will be growing demand pressures emerging in the delivery of Education services with an increasing pressure on the existing estate, escalating the potential need to reshape it to meet long term demands as well as maintain its physical condition. This projected shift in local demographics will necessitate careful ongoing monitoring and may potentially drive longer term workforce planning and school estate challenges that will require to be planned for and ultimately addressed.

Service Specific pressures

4.9 The Council has traditionally experienced a relatively high demand for support services for children and young people. While this pressure still remains, the mitigation measures put in place over the past number of years such as the development of Functional Family Therapy and the Permanence and Care Excellence Programme have reduced the number of children who are looked after by the authority. However, there are a number of pressures as a consequence of changes to the responsibilities of local authorities to support looked after children introduced under the Children and Young People (Scotland) Act 2014. The three most significant pressures are the right of looked after and accommodated children to remain in placement to the age of 21, the extension of a right to throughcare support to the age of 25 and an extension of allowances to kinship carers. This legislation is recent and there is potential pressure for growth in looked after children numbers arising from the extension in support. In addition, the Scottish Government has set out a commitment to double the provision of free childcare of 3-5 year olds to 1140 hours over the course of the current parliament. As a new statutory requirement, it would be expected that this will be fully funded by the Scottish Government. Nevertheless this will create a wide range of significant challenges for the Council in terms of costs to deliver the new level of provision, and the capacity of the public sector and partnership market to deliver the service, both in term of physical infrastructure and the size of workforce required.

4.10 Compounded by the projected increase in housebuilding, existing cost pressures in relation to waste collection, recycling and disposal are projected to increase. Landfill tax rate rises have been limited to inflationary rises in recent years as opposed to the escalator which operated from 2007 to 2014; however given the devolution of this tax to the Scottish Parliament and collection by Revenues Scotland, there is potential additional risk should Scottish waste policy diverge markedly from the rest of the UK. Increases in costs, particularly with regards to recycling are difficult to estimate given the significant volatility in the markets for recyclates; however the trend in the past 3 years has very much been towards cost increases as opposed to a position where the Council was able to generate income from recyclable materials. Separate collection streams for recycling and residual waste disposal add additional burdens; as does a need to separately dispose of food waste. Zero Waste Scotland targets of 70% of waste being recycled and maximum 5% sent to landfill, both by 2025, are challenging targets the Council will need to address over the medium term. The Council has recently committed to a long term residual waste contract in conjunction with 4 other West of Scotland councils which provides cost certainty for an extended period from 2019/20, therefore the financial risks associated with this particular service have been mitigated to a significant extent. However, the risks associated with environmental and waste management remain significant as both policy and legislation in this area develops and potentially changes in light of the UK exit from the EU.

4.11 The continuing volatility in utility costs is an ever present challenge for the Council. Cost projection in this area is extremely difficult given the impact of global factors such as oil and gas prices and supply, the evolution of different more environmentally friendly energy generation sources such as wind and solar power, and the continuing use of nuclear power as part of a diversified strategy for the country's energy needs. The Council along with other public bodies purchases utilities through a national contract managed by the Scottish Procurement directorate of the Scottish Government. The forward purchasing of a proportion of estimated demand provides some protection from exaggerated volatility however the general trend in prices is upwards. The council spent £5m on gas and electricity in 2015/16 and increases to this cost will remain a significant risk in the future. In terms of consumption, the Council has invested in a range of energy efficiency measures such as LED street and building lighting, solar installations on public building which generate electricity which can be consumed by the Council or sold back to the National Grid; and investment in more efficient boiler plant and controls. These combined efforts to reduce the Council's consumption are providing and will provide a degree of protection from energy cost risks.

4.12 Adult social care services have been radically changed by the introduction of the Social Care (Self Directed Support) (Scotland) Act 2013, which gives service users a much greater degree of choice and control of the support services they receive. Professional staff work in partnership with the person needing support and their family to agree their needs, what difference they want services to make to their lives and what sort of services and support would achieve this. An appropriate budget for support is determined, over which the individual can have as much control as they wish. This presents challenges for the Council's service planning, advice services and infrastructure to support options which users take up. The Council requires to ensure that the systems and processes necessary to successfully operate SDS remain fit for purpose as the numbers of service users increases. The service is also required to continually plan and assess service demand, both for Council support and for support commissioned from external agencies in order to ensure the best use of resources. This continuous reshaping of service provision, increased demand for advice services and ongoing staff training results in financial risks for the Council which are difficult to forecast as they can be heavily influenced by changes and development in the preferences of users.

4.13 The environment and methodology for the delivery of <u>information and communications technology (ICT) services</u> is constantly evolving with new technology bringing both opportunities and costs. Information security and information sharing are challenges the Council has faced over recent years and as the public sector landscape continues to reshape eg closer integration of health and social services, then the requirement to share information potentially will grow; requiring always to protect that information from being shared unnecessarily or in an unmanaged way. The Council has met a Cabinet Office requirement for public bodies to be Public Service Network (PSN) accredited which allows information to be passed to and from other public bodies and the Council; and is a mark of the security of the Council's own networks and gateways. The costs of maintaining this level of security, and also of addressing the Council's evolving ICT requirements in an environment where "software as a service" and a move away from the traditional approach where the Council would maintain a significant in-house server estate puts additional and growing pressure on revenue budgets. The market delivery of ICT services, both software and hardware, is evolving fast and delivery of both as a purchased service is becoming an increasing feature. The Council, in planning for ICT resilience, risk management, access to high quality services and reducing cost in an ever faster moving environment, is shifting the delivery of a range of ICT services to this model where it is appropriate. Looking to the future and given the current direction of travel in the market place, a shift to the provision of services as opposed to assets – either infrastructure, hardware, software or end user devices – is likely to become the increasing norm. There will therefore be a need for the Council to plan for this fundamental shift, recognising that in the longer term, meeting the Council's ICT requirements will require less capital resources and an increasing emphasis on revenue resources to acquire services.

4.14 In addition to the specific pressures mentioned above, the Council faces a range of <u>contractual and other inflationary cost pressures</u> linked to annual cost increases such as maintenance contracts and the unitary charge for PPP schools. Other general inflationary pressures have traditionally been managed on a bottom line basis by Directors and are not as a matter of course funded; however in an environment of potentially increasing inflation this pressure will require continual monitoring and assessment.

Pay pressures

4.15 Since the recession which took hold in 2008 the pay landscape in the public sector has been characterised by significant pay restraint. Pay inflation has varied between 0% and 1.5% at a time when inflation in the general economy was higher, effectively resulting in a real terms decline in public sector pay levels. However, the fact that pay growth has failed to match the pace of inflation in the economy generally, allied with an expectation of increasing inflation linked to the Brexit vote, suggests that pressure on pay awards could increase in the coming years. The UK Government has a public sector pay cap of 1% for 4 years from 2015/16, however it is not certain whether this will be translated into the Scottish context and indeed local government in Scotland. Given the outlook for public finances outlined above, it is difficult to envisage that a degree of pay restraint will not continue as part of the overall solution to the financial challenge being faced. That said, it will be important for the Council to recognise the potential challenges this presents, both in financial terms as well as from a longer term workforce planning and organisational development perspective. Pay represents only part of the overall package offered to employees and it will be important that the Council continues to modernise the overall pay structure, wider terms and conditions, training and development and job roles within the Council. This is important to ensure the delivery of high quality services; to maintain attractiveness as an employer who values and invests in our employees; where future career opportunities can be seen, where work flexibility is valued by both employer and employee; and where people are clear on how their role makes a difference to the people of Renfrewshire. Generally the Council does not budget for "incremental drift" where employees move up pay bands within their grade as their service with the Council extends. This cost has traditionally been managed through the natural turnover in staffing as they move from post to post; however as the overall headcount of the Council reduces and the age profile of Council staff increases, this pressure will become more difficult to manage in this fashion and the ability to manage this pressure moving into the future will require to be carefully monitored.

4.16 The Council also has costs associated with pension reform to contend with, most notably from auto-enrolment of staff into the Council pension scheme. The Council has agreed a "staging date" of 2017 in terms of the full application of auto enrolment, at which point the Council will require to automatically enrol any member of staff not currently a member of the scheme with the onus on the employee to notify the Council if they wish to opt out. New members of staff have been auto-enrolled since 2015. While the policy objective is laudable, there are significant additional employer contributions associated with the move. For the organisations which have already passed their staging date, experience suggests that around 60% - 80% of those members not previously in the scheme who are enrolled do not opt out. For Renfrewshire this could result in an additional cost of up to £3m.

4.17 The Council is committed both as an employer and as a service purchaser to ensure that employees are paid the Living Wage. There is a UK Government commitment that the Living Wage will increase to £9.00 per hour by 2020 - the current living wage paid by the Council is £8.33. Post achievement of this level it is anticipated annual increases may be more in line with pay inflation generally. Of additional concern is the implication for adult social care services where again a commitment has been given to ensure that, where these services are commissioned from the independent and third sectors, that employees of organisations who are providing these services will also receive the Living Wage. There is no certainty of Scottish Government grant funding to cover these costs in full, nor of an ongoing commitment by private and third sector providers to meet their share of Living Wage costs. Therefore this is an area of potential significant financial pressure for the Council and the Health & Social Care Partnership, both in terms of the current financial year but also moving forward into the future and the longer term sustainability of this commitment and should there be a longer term policy commitment to extend this into other sectors of commissioned services, in particular, the provision of early years services.

4.18 As a consequence of the implementation of the Living Wage, the Council along with other local authorities could be required to fundamentally reform pay and grading structures. Where the living wage has been implemented, many of the lower points on the current pay grades have been eroded, pushing up not just wages for those on those scales, but also squeezing the gap between these individuals and their team leads. As the level of Living Wage continues to increase at above general pay inflation rates, this pressure becomes even more acute and it will be important that the Council ensures that in this context, its pay and grading structure remains appropriate and avoids unnecessary equality risks.

Policy Influences

4.19 The UK Government has, through the Welfare Reform Act 2012, introduced a raft of changes to welfare provision over the last four years. The underlying policy intent of the Government's measures is to reduce the level of welfare spending; to support people off welfare benefits and into work and; to reduce the complexity and administrative burden of the current system. The impact of these reforms on Renfrewshire residents has been the subject of several reports to members over the past number of years; as well as being a driver for the instigation of the Tacking Poverty Commission. These wider reform issues, particularly the continued roll-out of Universal Credit, combined with the devolution of welfare powers to the Scottish Government as proposed by the Smith Commission, have potentially significant service and financial implications for the Council. The Council's strategic approach to welfare reform has, over the last four years recognised and planned an effective response to the changes. These included ensuring effective arrangements were put in place to manage the impact of welfare reform; manage the impact on citizens and the financial risks to the council. These risks require to be kept under review, particularly in relation to:

- anticipated increasing demand for financial assessments due to the complex interaction between benefits, tax credits and council tax reduction
- increasing demand for financial, benefits and debt advice
- increasing demand for Discretionary Housing Payments to support those with immediate and pressing financial support to address housing related costs such as the implications of the bedroom tax, and other welfare reform such as the benefits cap
- increasing demand for Scottish Welfare Fund support, potentially outstripping the allocation made to the Council by the Scottish Government
- service demands to build on existing employability programmes and the wider programme of economic regeneration

4.20 The implications for the Council from the devolution of aspects of welfare provision to the Scottish Government is still uncertain; however the local government role in delivery of social security is a significant concern in terms of service configuration and planning. For example, should the Scottish Government opt to deliver benefits services directly, then there are obvious workforce issues for the Council, in addition to a potential disconnect between benefits advice and other advice services the Council provides.

4.21 The Scottish Government have confirmed that the Carers (Scotland) Act will be commenced on 1 April 2018, which will introduce new statutory duties in relation to the assessment and provision of support to unpaid and young carers and the people they care for. Although most of the new duties are relatively clear, discussion is ongoing in relation to the charging of looked after people for replacement care i.e. the care provided to replace the input which an absent unpaid carer would normally provide. Although the Scottish Government has advised sufficient resource will be provided to deliver the new duties, the availability of free replacement care is highly likely to increase demand for support, leading to significant demand on social care budgets.

4.22 As mentioned above, the Council has extended obligations under the Children and Young People (Scotland) Act to provide support and accommodation for looked after and accommodated (LAC) children up until they reach 21 years of age. Local Authorities supporting looked after young people will also have to provide “advice, guidance and assistance” to care leavers up to the age of 26 where this is something that would be helpful to them. The extension of support to kinship carers also presents a further potential pressure for the Council. The table below shows the growth in non looked after children placed with related carers. At

31st March 2016 the number of children looked after by non LAC related carers is three times the 2012 level and this upward trend is expected to continue.

Year	Non LAC Link Carer
2011/12	45
2012/13	112
2013/14	125
2014/15	138
2015/16	148

4.23 The Scottish Government has a number of school related manifesto pledges, amplified in the government's delivery plan for education "Delivering Excellence & Equity in Scottish Education" published in June 2016. Currently, legal responsibilities for delivering education and raising standards in schools sit largely with education authorities. The Government plans to extend these responsibilities to schools and teachers in a new Education Bill, due for consultation early in 2017. The financial implications for councils at this point are unclear, however the manifesto pledged to "deliver £750m in additional investment through the extended Scottish Attainment Fund including £500m raised from local tax reforms delivered direct to schools." Renfrewshire was not amongst the authorities selected for participation in the first phase of the attainment challenge, however in the second phase five Renfrewshire primaries will each receive around £80k per year until financial year 2018/19. Renfrewshire has been selected as a "challenge authority" for the third phase of the Attainment Challenge which relates to secondary schools and engagement with the Scottish Government in this regard remains ongoing. The £500m referred to in the manifesto is "the additional £100 million that will be raised each year from local tax reforms" ie from council tax banding changes. From 2017-18 the Government has indicated that they intend to allocate this amount directly to schools. The exact mechanism for this distribution is not yet agreed, however there is a risk that over the medium term, if the direction of policy intent is to allocate resources direct to schools, that the current resource allocation methodologies are impacted; increasing risk to both funding levels and to the financial management of the Council as funding flows become more complex. The recent announcement by the Scottish Government of a Governance Review suggests major change in both the structures and funding of primary and secondary education in and by local authorities is a real possibility. This may therefore present major service and financial change for the Council and it will be important that the Council remains alert to and actively engaged in developments in this policy space.

4.24 Over the medium term and sitting alongside the expected scale of financial challenge to be faced, the Council has a range of key policy related financial considerations to address that have the potential to extend into the medium to longer term. These will need to be incorporated into the Council's financial plans over this period, including:

- Temporary investment capacity currently directed to a range of priority areas including the Tackling Poverty programme, Invest in Renfrewshire employability programmes and Early Year's initiatives. Moving beyond 2017/18 these temporary funding arrangements will begin to come to an end and there will be a requirement for the Council to consider the sustainability or otherwise of these services, set against the resources that will be available and the strategic priorities of the Council. In addition, an added complication in this respect relates to future uncertainty around EU funding post 2018 and which in addition to Council funding is a key element of funding existing employability programmes. As reported to the Leadership Board, at present certainty has yet to be secured around the continuation of funding for such programmes covering initially from 2018-20 and indeed in the longer term once a UK exit from the EU is negotiated. This similarly will need to be carefully monitored and as certainty emerges over future funding arrangements appropriate transitional planning put in place.

- Over the course of the existing financial strategy the Council has achieved investment in key priorities through the redirection of existing resources and through directing temporary revenue surpluses to support targeted time limited investment programmes. The nature of the Council's medium term financial outlook, both in scale and potential for movement, means that the Council will need to continue to adopt a strategic and sustainable plan linked to the delivery of priorities approved in the Council Plan and agreed with partners in the Community Plan. The existing Council Plan runs until 2017 and will be subsequently updated identifying refreshed strategic priorities moving forward. These strategic priorities will continue to provide a clear focus in future budget decisions, where the delivery of core services must be balanced with the increasingly limited resources that will be available to the Council in the future. In this context it is important that the Council's underlying financial strategy maintains a sustainable medium term perspective whilst at the same time recognising the ambitions of the Council to direct investment to support the delivery of key outcomes. Directing investment to such areas of priority in a climate of reducing resources will inevitably require the Council to make difficult choices to support the re-direction of existing resources.

Income pressures

4.25 2016/17 witnessed the largest ever single year cut to the level of revenue grant funding for local government in Scotland. This single year settlement was in contrast to the detailed 4 year comprehensive spending review figures announced by the UK government in the Autumn of 2015; and which has been outlined in section 2.7 above.

4.26 The Cabinet Secretary for Finance and the Constitution has indicated a further 1 year settlement is anticipated in 2017/18, limiting the ability of the Council to plan over the medium term with any degree of certainty its financial outlook. As covered in detail in the covering report, the impact of the decision to leave the European Union is likely to remain a significant feature of the fiscal landscape for some time, both in terms of the impact of uncertainty during the exit negotiation process and in terms of the lasting impact on long term economic growth prospects. During this period, major uncertainty will exist for the Council in terms of future prospects for revenue and capital grant funding. What is perhaps better understood is the anticipated general direction of movement in government grant support. As set out in more detail in the covering report, local government in Scotland can reasonably expect further cuts in revenue grant over the medium term as pressures in other areas of the public sector such as the NHS emerge and the Scottish Government prioritises these services over local government. The larger impact however is likely to be driven by the state of the UK economy generally as outlined above.

4.27 In addition to the overall expectation of reducing grant resources available to local government over the medium term, the Council’s position on or close to the grant floor may remain unchanged moving forward given forward projections for net population change across Renfrewshire relative to the rest of the country, therefore exacerbating the impact of the loss in grant resources to local government. This will remain under ongoing review to identify any potential change in direction, for example the scale of future house building in the area may provide a degree of counterbalance to this projected change in relative population. The Council will also need to remain alert to proposed changes in the grant settlement process, such as changes in the measures for rurality and deprivation; and also to the impact of new burden funding within the overall financial settlement changes, ensuring that the underlying change in funding and the impact on the Council is clearly understood. In addition, and as outlined in detail in the covering report, the Scottish Government will assume significantly increased responsibility for raising taxes and administering welfare benefits as agreed in the Scotland Act 2016. As recently highlighted by the Fraser of Allander Institute, these changes present a new scale of risk and at the same time access to potential reward for the Scottish Government. However this is undoubtedly a most significant and challenging period of change in Scotland’s fiscal landscape that is likely to be made more challenging and complex when occurring at the same time as the EU exit process is progressed. It will be important that over the medium to longer term the Council remains alert to how this national fiscal position and outlook is developing in this new and untested environment, and anticipates the impact of any material changes that appear to be developing. In addition, it will also be important that the Council remains both alert to and engaged in any future discussions in relation to any proposed developments and changes in respect to the future funding arrangements for local government.

4.28 Recent reports to both the Leadership Board and Economy & Jobs Policy Board outlined the risks of current levels of EU funding being at withdrawn following the Brexit vote. Significant areas of economic and skills development services are funded by European Regional Development Funding and European Social Funding; and currently there is no guarantee from either the UK or Scottish Governments with regards to the replacement of these funding sources in the longer term. The Council should continue to explore with partners the possibility of replacement funding, and press government on these issues as developments from the exit process unfold.

4.29 For several years now, the total package of grant support to the Council has been contingent on a council tax freeze while the system of council tax was reviewed. The Scottish Government response to the findings of the Commission on Local Tax Reform were to propose an annual cap of 3% on council tax rises, accompanied by changes to the ratios of the upper bands E-H. Moving forward therefore, it would reasonable to assume that the opportunity to review council tax levels as part of the annual budget setting and longer term financial planning process will once again be a potential consideration for the Council – subject to the cap that may be imposed by the Scottish Government and any associated conditions that may or may not accompany this change in policy. In addition and as mentioned referred to earlier, any increase in income from banding changes are proposed by the Scottish Government to be ring-fenced to support education provision and may not be available to councils to address general funding pressures – again this position has yet to be clarified and financial plans will require to be updated accordingly once this becomes clear. Whilst any increase in council tax yield over the medium to longer term is expected to be minimal given the already high level of collection, new house building as mentioned above could provide a marginal but sustained increase in the council tax base over the medium term. The magnitude of this increase will depend to a large extent on the type of housing being built and the council tax band into which it would fall. However, it would appear reasonable to assume for the purposes of longer term forecasting that an annual increase in the council tax collected, linked to an increase in the council tax base, in the order of £0.5m may be potentially sustainable.

4.30 The operation of the non-domestic rates system is being reviewed by the Scottish Government with a report going to Ministers from the Barclay Review Group in July 2017. The review aims to enhance and reform the business rates system to better support business growth and long term investment and reflect changing marketplaces. It is impossible to say at this stage what the impact from the recommendations of the review will be, other than there being a suggestion that the overall level of funding (ie the tax take) is maintained. The review, and also the rating revaluation in 2017, may affect both the income available and costs for the Council. While any changes could be mitigated through the Scottish Government adjusting the poundage rate, there is potentially more upside risk to costs given buildings cost inflation over the years since the last revaluation in 2010.

Part 5

Mitigation Strategies

Mitigation Strategies

5.1 The Council already has in place a number of medium and longer term strategies which are focussed on mitigating cost growth or delivering efficiency savings. These strategies and the actions which flow from them are necessary in order for the Council to manage over the medium term its financial outlook and long term financial sustainability; and reduce the risk of being required to make unnecessary savings or cuts to services quickly in order to maintain a balanced budget. In order to support the objective of both financial and service stability, it is important that the Council where possible looks to achieve savings and deliver change in a planned fashion. Additionally and given the uncertainty that exists over the medium term financial outlook, it is important that the Council should maintain a rolling medium term outlook when looking at the pipeline of delivery of change and savings, ensuring that flexibility exists in its shorter term budget strategies to respond in a managed fashion to unexpected movements in the Council's financial position.

Early intervention

5.2 As outlined above, the Council will continue to face long term and substantial cost pressures from changes in demographics and socio-economic circumstances. In the absence of any pro-active action taken by the Council to address and plan for these service pressures, the Council's financial position would quickly come under significant strain, increasing the risk to longer term sustainability. A key response from the Council over a significant period of time has been to mitigate future cost growth through investment in preventative and early intervention services, shifting resource from services which deal with the consequences of for example ill health or increased dependency. It is acknowledged that the simultaneous investment in new services may not be possible at the same pace as dis-investment from current services, and periods of "double-running" may be a consequence. Change on this scale also takes time to plan and implement, making for a challenging financial position. However, it is recognised that such measures provide medium to long term benefit and act as a counterbalance to pressures emerging from natural demographic change.

5.3 With the introduction of the Renfrewshire Health and Social Care Partnership (HSCP), the Council has a partner to work with to achieve these aims in terms of adult care and support services. The workplan agreed by the HSCP outlines several key areas of change over the coming years:

- Service review of Homecare
- Service review of Care Homes;
- Service review of Occupational Therapy services and provision of equipment and adaptations;
- Service review of Self Directed Support;
- Review with each provider how services will be delivered from 1 October 2016.

5.4 These prioritised areas reflect the national policy direction to shift the balance of care, promote independent living and ensure person centred care. The service reviews will critically appraise and challenge current models of service delivery to ensure resources are focused on greatest need delivering the best outcomes for service users.

5.5 Within Childrens' Services, preventative projects such as Functional Family Therapy and improved routes to permanence are having positive impacts on the accommodated population. Functional Family Therapy supports a number of young people at home who are at serious risk of becoming accommodated. The Permanence and Care Excellence programme (PaCE), aims to improve permanent placements for children who cannot be safely looked after during their childhood by their birth families. The Council aims to have a decision on a permanent placement within 6 months of a child being accommodated. A permanent placement could be with family/friends, a rehabilitation home, consideration of adoption or to remain in their current placement.

5.6 Investing in prevention has been a key element of the Council's long term financial planning to date and has proved to be a key and positive contributor to the Council's financial stability and sustainability. The impact of such measures continue to contribute to the mitigation of cost growth linked to demand led pressures and given the demographic and socio-economic outlook for the Renfrewshire area, it will be important moving forward that the Council continues to pro-actively pursue the prevention agenda as part of the long term planning to deliver better outcomes through service delivery that is financially sustainable.

Service transformation

5.7 One of the key aims of the Council Plan is to be a "Better Council", and a programme of change projects aimed at transforming services has been in place for a considerable period of time. The Better Council Change Programme (BCCP) has delivered substantial change in and modernisation of services in a thematic way – examining, developing and implementing change to deliver improved procurement, asset management, customer access and corporate support. Over the period the programme has been in place, significant savings have been delivered, predominantly from increased efficiency, contributing towards the protection of front line services.

5.8 The next phase of the BCCP will focus over the medium term on digital service delivery, early intervention, asset optimisation and commercialisation with the aim of delivering further savings and service modernisation. In many cases the service transformation will require up-front investment in for example ICT or other assets, therefore the availability of, and replenishment of, modernisation funds is critical, and this issue is covered in further detail below.

5.9 Again in conjunction with the HSCP, the Council will look to further develop its ways of working, particularly to build a structured approach to how to involve and engage General Practitioners to ensure they are meaningfully part of service based working. A number of change projects will progress to inform how the HSCP can best design an effective and dynamic approach to 'locality' and 'cluster' based working and to build collaboration and joint working between services. These projects will bring together GP's, Social Work, District Nurse, Rehabilitation Service, Mental Health and other staff to consider how they can improve joint working to better support the needs of local patients and service users. As part of the Change and Improvement Programme, the Partnership will maximise the use of the Integrated Care Fund (ICF) to explore and test innovative new ideas and wider service change, where available adopting evidence based approaches, designed to shift the balance of care rather than to maintain historic arrangements and relationships:

- To roll-out successful rehabilitation, reablement and technology-enabled models of service to all adult care groups;
- To deliver a community capacity building plan, engaging a wide range of stakeholders in its development and delivery, with a view to third sector organisations or partnerships leading on a number of the work areas; and
- To develop locality and cluster based models of working and networking.

Continuous Improvement

5.10 The necessity to deliver Best Value and key outcomes for residents is critical for the Council, and is a key focus for the Council. Moving forward, Audit Scotland have refreshed and reviewed the Best Value evaluation framework and the Council will be audited in the near future. This review may generate further thoughts on areas in which the Council could improve, however the Council will also continue to self evaluate its performance through a variety of service specific benchmarking frameworks, through the ongoing development and application of the Better Working toolkit, and through use of evaluation frameworks such as the EFQM model.

Service Prioritisation and Strategic Commissioning

5.11 As outlined above, the Better Council programme has delivered substantial savings and significant service change – largely in 'back office' areas of the Council. The effective implementation of these changes will continue where ever possible, such as the investment in the Enterprise Resource Planning (ERP) system which will generate further efficiencies in administrative processes and deliver improved information management. However, it is becoming clear that the ability of the Council to generate the savings required from the back office and wider service efficiency is diminishing and is unlikely to sustain the Council through this period of medium term financial challenge.

5.12 Moving forward, the Council will increasingly be required to take strategic decisions, balancing the needs of communities with the resources available; and creating a sustainable model of service delivery which focuses a reducing level of resource on the delivery of those outcomes that are most important to the people of Renfrewshire. This will inevitably lead the Council into difficult territory and will require decisions covering potential dis-investment or stopping non-priority services in order to support and sustain investment in key priorities; the examination of alternative service delivery models; and the ongoing consideration of the future shape and size of the workforce that is required to meet the future needs of the Council.

Treasury Management and Debt Smoothing

5.13 Over a number of years the Council has implemented a debt smoothing strategy as one of the key methods of achieving long term budget savings and maintaining sustainable debt levels in the context of the Council's shrinking resource base. The strategy involves examining the Councils existing debt profile and structures, and taking the opportunity to manage this profile to minimise future debt repayments. In its current form, the benefit the Council's financial position has accrued from the debt smoothing strategy was anticipated to diminish to a much reduced scale moving beyond 2017/18. Given it is anticipated that the Council will be moving into a further period of sustained and significant cost reductions beyond 2017/18, a review has been undertaken to reassess the approach associated with the implementation of the final stages of the current strategy. It is now intended that resources previously earmarked to deliver accelerated debt repayment in 2016 - 18 will be utilised to support the revenue budget through providing relief from annual debt charges over the medium term. This change in approach will allow a further phase of debt smoothing savings moving beyond 2017/18 to be established for a defined medium term period after which the benefit will fall away. This however will provide additional opportunity through this forthcoming period of further financial challenge to assist in protecting core front line services and mitigate against unnecessary reductions in service provision. In addition, the change in approach will also provide access to a flexible resource to support the Council to deliver the inevitable scale and pace of change that will be required to meet the overall financial challenge, including costs associated with continuing to resize and reshape the workforce.

Part 6

Reserves Strategy

Reserves Strategy

6.1 The Council maintains a range of long and short term reserves to manage the financial risks outlined in this report, to provide financial stability for the Council and to support the delivery of change and key strategic priorities.

6.2 Unallocated general reserves are a key protection mechanism for the Council, providing financial resilience to manage unexpected demands on services, unanticipated costs or reductions in income. The level of unallocated reserves has historically been 1-2% of council net expenditure, with an absolute de-minimis of £7m being recommended in the previous version of the medium term financial strategy. The level of unallocated reserves should reflect the financial risks currently and anticipated, and should be reviewed regularly to ensure the level remains appropriate to the risk profile of the financial environment. As a general financial planning principle, no reliance should be placed on the use of unallocated reserves for day to day operations. Maintaining a balance in the region 2% of net expenditure is considered in the current economic environment to be an appropriate level of unallocated reserves to hold over the medium term.

6.3 The Council also maintains several earmarked reserves which are held for specific purposes to reflect future commitments the Council has agreed. The flexibility which earmarked reserves provide is an important part of the overall ability of the Council to maintain financial stability, support long term financial planning associated with the delivery of key strategic outcomes and also mitigate against future financial risks. Over the medium term, the use of existing earmarked reserves, and the creation of new reserves will continue to play an important role in the management of the Council's current and future financial position.

6.4 Key earmarked reserves are held as follows:

Reserve	Purpose
Capital Funds	The Council holds an investment capital fund into which revenue contributions are committed to fund future capital commitments. Over the period of this strategy several large scale investment projects have been committed to eg the Paisley Museum redevelopment and Ferguslie Sports Facilities. In addition the Council will continue to require to invest in schools, public buildings and infrastructure and the maintenance of these funds in addition to a capital receipts reserve assists in enabling these works to be undertaken once agreement has been secured. In addition, use will also be made of Capital Funds to hold resources linked to the delivery of the Council's revised Debt Smoothing Strategy which will be released over the medium term to counter balance debt servicing costs, providing an avenue of support to protect the delivery of front line services.

Service Modernisation and Reform Fund	The Council has maintained this fund for a considerable time in recognition of the need as outlined above of the continual need to modernise Council services through investment in for example new technology, but also to fund service redesign which may involve the need to consider voluntary severance for particular staff groups. Audit Scotland have recently highlighted that Councils have been dependent on incremental service change to generate savings; but this approach is not sustainable – a more strategic, longer term approach which fully considers alternative forms of service delivery is required. The availability and replenishment of modernisation funds to enable change is crucially important if the Council is to remain financial sustainable.
Long term reserves	The Council maintains reserves which are linked to the delivery of major council projects – schools PPP and waste management. The PPP reserve is held to replace future Scottish Government funding for unitary charges which is due to cease in 2030/31 – the PPP contract itself will run for a further 5 years after this date therefore the Council considers it prudent to set aside funds now to meet this commitment. The Council also has obligations in terms of future waste management arrangements, and contributions from existing waste revenue budgets have been set aside to manage the anticipated costs of managing both recycling and residual waste over the medium term.
Short to medium term reserves	A range of other earmarked reserves are held to meet known future commitments and to support council priorities as set out in the Council Plan and Single Outcome Agreement. As the Council continues to evolve to meet the changing needs of local residents, the use of short and medium terms reserves will remain an important tool in managing the financial impact of investment decisions.

Part 7

Capital Investment

Capital Investment

7.1 The Council has a capital pan which traditionally looks three years ahead. The Scottish Government has in recent years however provided only single year settlement figures, making capital planning difficult as the Council has no visibility of capital grant income in the medium term. Further, the Scottish Government has accelerated or decelerated portions of capital grant from year to year, again further complicating the process of planning for capital investment.

7.2 The practice the Council has therefore adopted in terms of capital planning is to plan capital investment funded from capital grant on the basis of known funding awards and not to build in assumptions in respect to future awards. In recognition of the need to maintain long term service sustainability in the context of a more restricted resource base, the Council has committed to prioritise initially capital grant as it become available to support maintenance and renewal programmes such as infrastructure and roads maintenance, public buildings maintenance and vehicle replacement. This practice has ensured that historic investment in Council buildings and assets is protected; and that the Council's investment plans remain affordable. Both these principles and a number of others outlined below, were agreed by Council in 2013 and remain valid today in a context of current and future funding constraints:

- No new general borrowing will be undertaken without being underpinned by a specific investment case which is capable of delivering revenue savings sufficient to meet associated borrowing costs.

- Future year's capital grant will be prioritised initially to support lifecycle maintenance and asset renewal.

- The capital investment programme will continue to be supported by capital receipts from the sale of surplus assets however no reliance will be placed on speculative receipts, only receipts which have been secured.

- The council will actively pursue other sources of funding to maximise investment opportunities.

7.3 The final principle above is of particular relevance to the Council's aspirations over the medium to longer term with regards substantial investment in and redevelopment of key strategic heritage assets, and other community assets such as parks, leisure and sports facilities. This investment is a key strategic priority in terms of the economic and social regeneration of the area, but is however heavily reliant on external sources of funding. The Council has demonstrable success in securing external funding including for example the City Deal, Heritage Lottery Fund, Historic Environment Scotland and Museums & Galleries Scotland; and this success will require to be built on in future.

7.4 In addition to the above principles, the Council has major commitments as part of delivering City Deal. City Deal represents a significant regional economic programme that will drive economic growth and create jobs across the region. It involves amongst other things over £1.1 billion of new infrastructure investment across the City Region, with £275 million being delivered within Renfrewshire. The infrastructure investment is funded predominantly by government grant provided by both the UK and Scottish Governments. The Council's contribution to delivery of the projects within Renfrewshire amounts to just under £18 million which will be delivered through prudential borrowing, the impact of which will not feature in the Council's financial strategy until post 2020. In addition and in order to accommodate the payment of government grant support over a 20 year period set against the delivery of investment over a shorter period, there will be a requirement for the Council to temporarily support a proportion of the costs associated with the delivery of the investment programme. The financial impact of this commitment is already emerging and will incrementally build up over the coming years in line with the infrastructure delivery, forecasting to peak in terms of associated annual interest costs in 2021/22. Thereafter, this commitment will gradually reduce as the grant payments are made over the full 20 year period of the funding agreement. There are financial risks associated with the City Deal programme, with the member councils being responsible for any associated risks linked to cost overruns. In addition, access to the associated grant commitments from both the Scottish and UK Governments is not guaranteed and will be subject to the city region securing appropriate performance standards at key intervals over the 20 year period, linked to both progress in the physical delivery of the infrastructure projects and thereafter in terms of securing the associated economic growth targets. Given the nature of the long term commitment associated with this programme, this will require considerable monitoring and planning to ensure the Council's capital funding, cash, borrowing and treasury management positions are all clearly planned and implemented and that the Council and the wider City Deal member councils achieve appropriate progress in meeting the key gateway targets. The delivery of the envisaged long term benefits is important to protect the Council from any consequential financial impact associated with the wider programme delivery.