Renfrewshire Council

To: Council

On: 28 September 2023

Report by: Director of Finance and Resources

Heading: Financial update

1. Summary

1.1 The Council's financial outlook is subject to ongoing risk over the short and medium term as the Council continues develop financial proposals which underpin the Council's financial sustainability.

1.2 The Scottish Government Programme for Government (PfG) was recently published, which provides useful context for the potential outlook for the local government settlement and an indication of Scottish Government legislative priorities. The PfG outlined a range of proposed areas which will likely impact on the range and scope of services delivered by local government, and consequently the financial position of the Council.

1.3 COSLA and the Scottish Government continue to discuss the development of a fiscal framework as outlined in the Verity House agreement. While the potential additional flexibility councils may have in terms of their revenue grant allocation is welcome, the framework in itself is unlikely to substantially improve the current fraught financial position of local government.

1.4 The medium to longer term outlook for the Council's finances remains challenging and is broadly consistent with the position previously reported to members. An update in relation to Strathclyde Pension Fund is included, which could provide some short term financial flexibility. Whilst the immediate financial position of the Council remains secure with the 23/24 projected outturn broadly in line with the planned position; there remain risks in the short term which are outlined in the report – predominantly related to the 23/24 pay settlement which remains unresolved.

1.5 A suggested amendment to the Council's capital plan is recommended to include provision for new schools investment.

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2. Recommendations

2.1 It is recommended that members:

- Note the financial updates provided in the report
- Agree the revisions to the capital plan as outlined in section 5.

3. Revenue Update

Current Financial Position

3.1 Council agreed the 2023/24 budget on 2 March, including the utilisation of non-recurring reserve funding of up to £12 million to generate an in year breakeven budget position. Broadly, this use of reserves is to fund expected cost pressures in 23/24 of £4 million relating to an anticipated parking charge income shortfall and increased costs of external residential childcare places; with potentially up to a further £7 million relating to the agreed loans fund budget rebuild which has been outlined in successive reports to Council. In addition, Council agreed to utilise a further £0.6 million of reserves in setting the base 23/24 budget. The most recent financial overview report outlines an estimated £5.6 million overspend – slightly above the estimated draw from reserves which has been planned (excluding that planned for loans fund costs). This position will continue to be closely monitored over the remainder of the financial year.

3.2 However, substantial risks remain in relation to the 2023/24 local government pay award which is still to be agreed. National pay negotiations are ongoing and are anticipated to again be challenging given the affordability constraints facing local government. As was the case in 2021/22 and 2022/23, the level of pay provision which has been incorporated into the 2023/24 base budget may require to be adjusted depending on the concluded outcome of the negotiations. A further unanticipated cost pressure has also emerged in relation to the Scottish Government and COSLA recent agreement to pay a nationally set rate to foster and kinship carers, backdated to 1 April 2023. While additional funding has been agreed in relation to paying the new rate, it is anticipated the actual increase in costs for Renfrewshire will exceed the additional funding.

3.3 As has been reported to Council previously, there is significant reliance on non-recurring resource to underpin the revenue position while measures are taken to develop a more sustainable spend level. However, given the significant level of savings already generated by the Council over the past decade, it is increasingly difficult to implement savings which will not impact on service delivery. As the Council continues to implement new ways of working there remains the potential for cost to be incurred in relation to the transitioning of both workplace accommodation and ICT provision to a hybrid working environment that is suitable and appropriate to facilitate safe and efficient working practice.

In addition, and as outlined in previous reports to members, increasing pressure is being experienced in the Council's capital investment programme owing to high levels of construction inflation and an increasing number of contractor claims for additional costs.

Revenue Outlook

3.4 The report to Council in June outlined a medium term forecast which - based on the Council's central planning assumption – results in a financial gap in the range of £45m-£50m over the three year period 2024/25 to 2026/27. This forecast is prior to any decision on council tax. Assuming a 5% uplift in council tax in each year, the cumulative gap would reduce to a range of £30m-£35m.

3.5 Council agreed to develop a further portfolio of work aimed at ensuring financial sustainability (and short term financial stability) is prioritised; and that savings of £35m are targeted over the next three years in order to close this projected financial gap. This position has not changed over the summer period and the broad assumptions and scale of financial challenge remain valid. However, inflationary pressure on costs remains an issue; as does the potential for increased borrowing costs associated with capital investments while interest rates are still projected to increase.

3.6 The Council has been advised by Strathclyde Pension Fund that the result of their most recent triennial actuarial revaluation suggests that the Fund is in a positive position in terms of overall funding levels, with assets exceeding liabilities significantly. This is due to investment returns over the past three years being very strong; and the discount rate which is used as the basis to measure future liabilities also moving favourably compared to three years ago. The sum of these two movements is that the fund is in a position where the funding strategy for the main employer group (which includes all councils who are members) has been revised and the level of employer contributions to the fund in the long term reduced from 19.3% to 17.5%. This level is viewed by the fund actuaries as being consistent with the long term likely movement in overall the funding level. In addition, the proposed funding strategy for 2024/25 and 2025/26 is to reduce employer contributions to 6.5% on an interim basis. This short term reduction in employer contributions will reduce Council costs and provide an element of financial flexibility for the Council which will be factored in to the Council's medium term financial planning arrangements and can assist in smoothing the timeline by which recurring savings are required to be delivered. However members should be aware this benefit is of a short term and one-off nature – it does not address the Council's longer term underlying financial sustainability.

3.7 Therefore the Council will still require to take key decisions on service reform, scope and design which ensure service costs are in line with available resource over the medium to longer term, with reserve balances being used prudently to provide some time and space for service change to be embedded. Without this decisive action, and delivery of substantial savings and cost reduction, the Council will find itself in a position where reserves are exhausted and no longer capable of supporting the recurring revenue budget deficit. In such circumstances the Council would move to a position of being financially unsustainable – necessitating immediate, unstructured spend controls and rapid cost reductions which would undoubtedly impact services and communities more severely than any planned change.

Elected members will have seen recent examples in England where major councils have moved into such territory for a variety of underlying reasons and where the impact on services is expected to be both rapid and significant.

3.8 Members will be aware that securing £35m of financial savings represents a very significant challenge for the organisation, not just reflecting the scale of savings but in the context of the Council being required to do so after a long period of financial challenge. It is highly unlikely that savings at this scale can be delivered without the Council reprioritising spend, impacting on the ability to deliver all current service levels in their current form, breadth or scale.

4 Scottish Government Update

4.1 The Scottish Government published on 5 September their Programme for Government (PfG). This outlines the Government's policy intentions and legislative programme for the coming parliamentary year.

4.2 The financial impact of the measures outlined in the PfG will not become clear until the Scottish Budget is published later in the year (possibly 14 December if previous years are a guide), however there are a number of areas where the Scottish Government's plans may impact on local government finances, the most significant of which are outlined below:

a) Take initial steps to increase the levers available to councils by delivering secondary legislation – enabling councils to apply up to a 100% premium on Council Tax rates for second homes, and discuss other options with Local Government based on the analysis of responses.

b) Continue the Joint Working Group on sources of Local Government funding to identify further options for reforms to Council Tax.

c) Progress the shared programme of work with COSLA under the Verity House Agreement, in particular a revised Fiscal Framework between the Scottish Government and Local Government.

d) Deliver a more efficient approach to public sector property management through the new Single Scottish Estate programme.

e) Work with Local Government to develop the local infrastructure and services needed to provide childcare from nine months to the end of primary school in specific communities in six local authority areas.

f) Commit to provide the necessary funding in the next Budget to increase the pay of social care workers in the PVI sectors in a direct care role – and those working in the PVI sector to deliver funded early learning and childcare – to at least £12 per hour.

g) Work with Local Government to develop the local infrastructure and services needed to provide childcare from nine months to the end of primary school in specific communities in six local authority areas.

h) Work with local authority and other sectoral partners to phase in an expanded national offer for families with two-year-olds, focused on those who will benefit most. This will build on the foundations of the existing 1140 programme.

i) Work with COSLA in the coming year to prepare schools and infrastructure for the expansion of universal free school meal provision to Primary 6 and Primary 7 pupils during 2026, starting with those in receipt of the Scottish Child Payment.

4.3 Work to agree a rules-based fiscal framework is ongoing with substantive discussion ongoing between the Scottish Government and COSLA as to how a framework would operate as outlined in the Verity House agreement. The aim of the framework is to provide increased flexibility for local government in the use of funding provided by the Scottish Government and the removal as far as possible of ringfencing. A firm funding base and potential guaranteed share of Scottish Government total funding is also under discussion, however discussion on these issues is ongoing. What is clear however, is that while there may be increased flexibility resulting from the framework, the fundamental question of quantum for the local government settlement is unlikely to be addressed. In summary, the agreement of a fiscal framework is unlikely to address the core issue of ongoing financial sustainability for councils.

4.4 Within the list above there are a number of additional commitments which local government will require to deliver; and it will be critical for the Council to understand the financial implications, timing and additional funding to be provided in order to ensure that the cost burden for service delivery does not further adversely impact on the Council's financial outlook.

5 Capital Investment Programme

5.1 Previous reports to Council have outlined the ongoing pressure within the capital programme – across both general fund and the Housing Revenue Account – with inflationary costs continuing to be experienced. Capital grant funding addressed only the most core elements of demand in terms of lifecycle maintenance, resulting in much of the Council's capital investment plans requiring to be funded through prudential borrowing.

5.2 Council agreed the 23/24 – 27/28 non-housing capital programme in March. Subsequent to the capital plan being agreed, decisions by the Education and Children's Services Policy Board have committed to the provision of a new primary school in the Dargavel area, and an extension to Park Mains High School to accommodate 400 pupils. Planning and procurement work for both these projects has commenced. It is recommended that provisional spend provision of £45 million for a new primary school, and £30 million for the Park Mains extension be incorporated into the capital plan, phased across the 2023/24 to 2026/27 financial years. These total costs are based on SFT metrics applicable to schools projects to be delivered under Phase 3 of the LEIP programme. At this stage these costs can only be indicative and will be subject to refinement as the design of both projects develops.

5.3 It is recognised that a financial contribution towards the costs of expanding secondary school provision up to 200 pupils is a condition of the s75 agreement with BAE Systems for the Dargavel development. For the purposes of the capital plan the cash contribution is therefore anticipated to be half of the estimated capital spend for the extension. Given this, it is recommended the capital plan also be updated to reflect this contribution, with the balance of funding required across both projects being secured through prudential borrowing. The revenue costs associated with this borrowing will be incorporated into the Council's medium and longer term financial planning arrangements.

Implications of the Report

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

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

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

4. **Legal** - none

5. **Property/Assets** – none

6. **Information Technology** – none

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

8. **Health & Safety** - none

9. **Procurement** – none

10. **Risk** – as outlined in the report, the Council's financial risk exposure both in the immediate term and over the medium term remains high. The report outlines ongoing uncertainty as that robust decisions on service provision will be required as part of the medium term financial planning arrangements to protect the Council's immediate financial stability and resilience but also continue to progress toward medium term financial sustainability.

11. **Privacy Impact** - none

12. **Cosla Policy Position** – COSLA are undertaking active engagement with the Scottish Government in relation to the fiscal framework in order to protect as far as possible the interests of local government.

13. **Climate Risk** – the financial challenges the Council is facing will potentially impact on its ability to implement actions and investments which would be key to achieving net zero aspirations.

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