To: Council

On: 24 September 2020

Report by: Director of Finance and Resources

Heading: Financial Outlook 2021 - 2023

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1. Overview and Key Messages

1.1 As previously reported to both the Council and more regularly to the Emergencies Board prior to the summer period, the Council faces significant financial disruption as a consequence of the COVID19 pandemic and associated emergency response. It was previously reported to members that the financial impact of COVID19 on the Council was extremely fluid and subject to rapid change in line with decisions being taken by national governments in response to the developing management of the emergency response across the UK.

1.2 Prior to the summer period, and based on the potential full year cost exposure to the Council and the funding announcements made to date by the Scottish Government, it was recognised that given the possible scale of the net financial impact the Council may be required to manage, that the full deployment of the existing £6.5 million of unallocated reserves maintained by the Council for emergency events may not be sufficient to address even the immediate financial challenge in 2020/21.

1.3 It was also recognised that assessing the financial impact of COVID19 on the Council would be a fast moving and complex process, with limited clarity and significant uncertainty linked to both future costs and funding over the course of 2020/21. In this context it was recognised there was an urgent need for the Council to pro-actively review its financial strategy to reflect this material change in the Council's strategic and operational context.

1.4 It was also acknowledged that although the initial focus of this work was securing immediate financial and service stability in 2020/21, there was also an urgent requirement to adjust the financial strategy to provide increased flexibility and manoeuvrability to support the Council manage the ongoing impact that COVID19 may have beyond this initial emergency period. The underlying objective in this regard is to ensure the Council's financial strategy is more appropriately positioned to respond to an increasing number of significant risks, uncertainties and indeed new demands arising from COVID19. These include the risk of a second wave, the potential risk of having to live with COVID19 and associated restrictions for longer than anticipated, and supporting the major challenge of recovery across Renfrewshire's communities and businesses.

1.5 In addition, it is further recognised that COVID19 has significantly disrupted the Council's strategic management of the medium term financial challenge that was already forecast prior to the emergence of COVID19: -

- Members will recall that the Council's medium term financial strategy had established a central planning scenario of being required to secure £25 million of transformational savings from the Right for Renfrewshire (R4R) programme over the period 2020-23. The 2020/21 budget incorporated the planned delivery of savings arising from the first tranche of R4R changes which were forecast to deliver only circa £6 million of recurring savings over the period 2020 - 22. The R4R programme was formally paused as the Council was fully focused on managing the COVID19 response. Consequent delivery and implementation of these initial R4R transformation changes have been disrupted and delayed; as has work to bring forward and develop the second tranche of R4R transformation changes intended to support the delivery of the much more significant balance of savings of £19 million over the remaining period 2021/22-2022/23. The pace at which the Council is able to step back up and deliver this strategic transformation programme over the period is subject to uncertainty and will require to be balanced with the ongoing demands placed on the Council from the COVID19 emergency as well as the increased demands to support Renfrewshire to recovery.

- As outlined in more detail in the main body of the report, the economic and public sector expenditure context at a national level is now subject to significantly greater uncertainty than that which existed pre-COVID19. The measures taken by national governments to respond to COVID19 has extended the impact from not just being a public health crisis but also to one of being an economic crisis of unprecedented proportions in many respects. The impact this will ultimately have on national economic prospects over the medium term and public expenditure plans across both the UK and Scotland, is at this stage unknown, will take time to emerge and will be influenced by important decisions yet to be taken by both UK and Scottish government. However, the risk of the Council's financial outlook being more negative than the previous central scenario forecast, has increased materially.

In response to the material change in both these key areas of strategic influence over the Council's medium term outlook through to 2023, the financial strategy requires to be repositioned to ensure the Council is better placed to manage the increased downside risk that now exist. Further, it is anticipated that over the course of 2020/21, the Council will be required to fully deploy its unallocated reserves. It is critical that the Council plans to replenish these reserves over the short term in order to restore immediate financial resilience and therefore this will add to the medium term financial pressures the Council will require to address.

1.6 This report therefore provides an update to the Financial Outlook previously outlined to the Council in September 2019, and the updated financial position as presented to Council on 9th March 2020, taking into account specifically the updated impact of the COVID19 emergency during 2020/21 and critically the recommended key responses in regard to adjusting the Council's medium term financial strategy arrangements.

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2. Recommendations

2.1 It is recommended that for the General Fund revenue account that the Council: -

- Note the update regarding the Council's current financial position and update in respect to the assessment of the net impact of the COVID19 emergency and further funding announcements made by the Scottish Government over the course of 2020/21.

- Note the updated financial outlook over the medium term and the significantly heightened risk outlook for the Council over this period, and the ongoing expectation of the Council being required to continue to plan for further significant budget gaps in the period through to 2023.

- Note that the Right for Renfrewshire transformation programme is being remobilised and will continue to progress the existing plan of supporting the delivery of £25 million in savings over the period through to 2023, although it is acknowledged this timing is subject to greater risk as a consequence of the COVID19 disruption to date and moving forward.

- Agree to the adjustments to the current financial strategy as outlined in section 3.15 of the report and the planned approach for utilising funding flexibilities that are agreed nationally through ongoing negotiations with the Scottish Government.

- Agree to the replenishment of unallocated reserves moving into 2021/22 as outlined in the report and that further application of financial flexibilities moving forward will be outlined for members in future financial updates, recognising the significant uncertainty and risk the Council's general fund may experience over the period through to 2023.

2.2 It is recommended that for the General Fund capital investment programme the Council: -

- Notes the updated assessment and the ongoing work being progressed by officers to pro-actively engage with the Council's full suite of contractors in regard to the ongoing impact of COVID19.

- Note that it is anticipated that it will take towards the end of the year before a clearer assessment of the financial impact may be more clearly understood.

- Agree to the recommendation outlined in section 4 that in the interim, a review is undertaken by officers of the existing capital programme and associated recommendations are brought forward for member's consideration as part of future financial updates.

2.3 It is recommended that for the Housing Revenue Account (HRA) the Council: -

- Notes the updated assessment of the impact of COVID19 on the HRA and the proposed use of balances in 2020/21 to absorb this negative financial impact.

- Notes the assessment that moving forward the reduced level of unallocated balances for the HRA are assessed as sufficient in the context of the revised risk profile.

- Note that the HRA long term 30 year business case will continue to be reassessed and updated over the course of this year as matters in relation to COVID19 in particular progress.

- Note that the latest update confirms that significant additional capital investment capacity over the medium to longer term continues to be expected to emerge and that proposals on the deployment of this investment to existing stock and new build projects will be brought back to the December Council meeting.

3. General Fund Revenue Account

3.1 Officers have continued to support the national COVID19 costing exercise being coordinated through COSLA which is informing ongoing engagement with the Scottish Government as to the full cost across local government of responding to the COVID19 emergency.

3.2 As previously reported the anticipated costs emerging from the exercise to forecast the full year impact have been substantial and are subject to material uncertainty and change as the immediate position and outlook over the summer months in particular have been subject to ongoing situation adjustments at pace in response to COVID19 developments.

3.3 The most significant illustration of this was the movement on re-opening of schools in August, with the detailed planning for a blended learning approach which had been operationally progressed and costed over a number of weeks, being stepped down to contingency status with a major shift to the full return of pupils to schools in conjunction with a wide range of very specific operation adjustments occurring in August.

3.4 As a consequence, this full year estimated costing exercise has continued over the summer period to be subject to regular revision to keep it aligned as closely as is possible to the developing and forecast impact on Council services and local communities over the course of 2020/21.

3.5 In addition, work has also progressed with Directors to identify areas within the existing 2020/21 budget provision where existing resources could be made available and be re-purposed to assist in funding additional costs incurred throughout the COVID19 response period.

3.6 In addition, a range of further funding announcements have been made by the Scottish Government, predominantly in response to Barnett consequential adjustments flowing to Scotland following UK Government funding announcements for local government in England.

3.7 Taken together, the changes that have occurred over the course of the summer have materially changed the current 2020/21 COVID19 impact in comparison to the position outlined prior to the summer period.

3.8 Services Excluding Education, Early Learning and Childcare

Excluding Education, early learning and childcare hubs which are dealt with below, it is currently estimated that the net additional costs in 2020/21 are expected to be in the region of £20 million - £22 million. This represents a reduction from the £27 million - £28 million reported prior to the summer. The improved position reflects a reduction on anticipated loss of council tax income which is still forecast to be significant at circa £4 million - £5 million, a higher level of planned savings to be achieved over the course of 2020/21 than previously anticipated and lower planned spend on food provision reflecting a full time return to schools where entitled children will receive free school meal provision in school.

3.9 Outwith Education, Early Learning and Childcare, several further funding announcements have been made by the Scottish Government over the course of the summer increasing the overall quantum of funding made available to the Council. Some of these funding streams have confirmed distributions to individual council level, whilst others remain subject to ongoing discussion and confirmation. To date, the Council will receive approximately £10 million from confirmed funding distributions with further available subject to confirmation of the overall quantum at an all Scotland level and the basis of distribution across Scotland, but potentially in the region of £4 million - £6 million.

3.10 This would provide potentially between an estimated £14 million to £16 million of additional Scottish Government funding to meet the forecast net cost of £20 million - £22 million referred to in paragraph 3.8. As summarised in Appendix 1, this would leave an estimated net cost to be funded by the Council of approximately £4 million – £8 million. It should be noted that this cost projection in particular remains at this stage an estimate and could be subject to significant and rapid change as a result of a range of potential risks including for example, a localised lockdown across all or part of Renfrewshire and or a general national second wave that impacts more widely. Nevertheless, at this stage the level of net funding requirement that is currently forecast to emerge is now at a scale that may be sufficiently addressed through the application of the Council's unallocated reserves of £6.6 million during 2020/21. However, as outlined earlier in the report, full deployment of the Council's unallocated reserves exposes the Council to significantly greater risk.

3.11 Education, Early Learning and Childcare

As outlined above, the Scottish Government decision taken over the course of the summer period to support a 100% return of pupils to school at the beginning of the 2020/21 term, has significantly altered and reduced the forecast of additional costs that are expected to be incurred in delivering schools, early learning and childcare arrangements.

In addition, several funding announcements have been made by the Scottish Government to support the return to Education. Nationally this amounts to £155 million of additional funding to support additional teaching staff (£80 million), logistics to support the return to schools (£50 million cleaning, hygiene, social distancing measures etc), and provision of digital devices and digital connectivity (£25 million). Not all of this funding has confirmed distributions to council level and will be subject to ongoing engagement with the Scottish Government. Additionally an element of the teaching funding relates to the next financial and academic year.

3.12 Nevertheless, taking account of both the 100% return to schools which has materially reduced projected additional operating costs along with the enhanced funding package and confirmed flexibility available to use specific grant funding associated with Pupil Equity Funding and Early Learning and Childcare expansion, it is now anticipated working in conjunction with the Director of Children's Services that within Education, Early Learning and Childcare, additional expenditure to be incurred as part of delivering Education, early learning and childcare over the course of the financial year will be fully fundable within the full range of resources and flexibilities now made available to the service with no net residual balance to be funded by the Council's wider financial strategy.

3.13 <u>Renfrewshire Health and Social Care</u>

Within adult services managed by Renfrewshire HSCP, the service has been required to take unprecedented measures in response to the coronavirus pandemic, including substantial levels of support to external care providers in order to ensure their ongoing financial sustainability. The most recent forecast estimates that over the course of 2020/21 the service will incur additional costs specifically in relation to COVID-19 in the region £14 million. This is a significant reduction from earlier forecasts, reflecting a lower level of supplier sustainability payments emerging from that previously expected. As previously reported to members, the Scottish Government did in March provide in principle confirmation that all reasonable additional costs associated with the crisis will be fully funded. The HSCP continues to fully support the monthly reporting arrangement with the Scottish Government in this regard and recently the IJB has sought more specific formal follow up confirmation from the Scottish Government on this funding commitment. On this basis, at present additional cost relating to the COVID response for the HSCP is expected to be fully funded by the Scottish Government and will not therefore require any call for additional funding from its partner organisations. Should the Scottish Government not fund all the additional costs incurred there would in the first instance be a requirement for the IJB to consider in-year financial recovery action and pro-active measures in this regard are being progressed by the Chief Officer on a precautionary basis.

3.14 Medium Term Outlook

3.14.1 <u>Economic and Fiscal Outlook Pre-Covid19</u>

It has been previously reported to members that the economic outlook for the UK was one of relatively weak growth by historical standards with that of Scotland in general lagging that of the UK as a whole. In addition, the budget effects of the devolved Scottish tax policy, which raises over £500 million more in revenues than if UK tax policy were implemented, has been all but wiped out by weaker earnings growth in Scotland relative to the UK, and at the beginning of 2020 there was nothing in the economic forecasts to suggest any degree of recovery in this position in the next few years.

In addition, 2020/21 represents the first year of fiscal reconciliation adjustments under the fiscal framework, where over estimations in tax receipts in previous years require to be repaid by Scotland to the UK treasury. The Scottish Government elected to maximise spending in 2020/21 by using its resource borrowing powers to mitigate the impact of approximately £200 million of negative fiscal reconciliation adjustments in 2020/21. This borrowing will however be required to be repaid in future years and further, the expected fiscal reconciliation for 2021/22 at around £550 million, is a very large future risk which along with the deferred £200 million adds significant net budget pressure that will need to be managed by the Scottish Government in future years.

However overall, the 2020/21 budget in Scotland experienced a higher level of growth by recent standards at circa 3.6% in real terms compared to budget 2019/20, excluding new responsibilities on primarily social security. This uplift was nearly all due to positive Barnett consequential adjustments flowing from spending increases by the UK Government and is the largest increase in the block grant since pre-austerity days. In contrast, the local government revenue budget experienced a cash standstill (real terms cut) on a like for like basis after adjusting for new responsibilities and duties. This position reflected the Scottish government's stated policy priorities over the course of the current parliamentary period of real terms growth and real terms protection of spending in other major areas of its budget, most notably the NHS and Police.

In this context, the prospects for the Council's grant settlement over the medium term remain subject to ongoing uncertainty.

Given some of the additional resources announced by the Scottish Government after the stage 1 debate were funded through the use of in-year flexibility, there remains uncertainty over whether all of this additional funding will be baselined moving beyond 2020/21. There was therefore only limited positive change emerging in the 2020/21 settlement, suggesting no need to make any material adjustment to the Council's central planning assumption over the next two years of a forecast 1.25% per annum reduction in government grant funding. This is particularly the case in the context of the ongoing commitments made by the Scottish Government to the other priority areas of their budget coupled with the financial risk exposure that accompanies growing fiscal devolution for the Scottish Government. In the short term this is manifesting itself in significant challenges as a result of the growing fiscal reconciliation adjustments, estimated at approximately £1 billion, to be addressed over coming years coupled with relatively weak underlying economic and earnings growth which now play a significant and direct role in the future prospects for the Scottish Budget.

3.14.2 Impact of COVID19 on the Economy

The UK and Scottish economies are experiencing the most significant period of contraction in history. However, it is recognised this is by no means a normal economic event. The Public Health response to the COVID19 pandemic emergency required large part of the economy to be closed down as part of the lockdown arrangements operating across the UK and indeed almost all major economic regions globally.

This action to in effect place the economy into an “induced economic coma” to support the wider Public Health response has resulted in the most significant quarterly contraction in economic activity ever experienced with recovery gradually beginning to emerge as National Government’s ease lockdown restrictions. However, even with the gradual easing, many restrictions continue to apply and consequently the return to normal economic activity levels is not immediately possible. Latest HM Treasury analysis of economic forecasters suggests an average projection for 2020 of a 10% contraction in overall economic activity, a much deeper recession than that of the 2008 financial crisis where a 6% loss in GDP was experienced between Q1 2008 and Q2 2009.

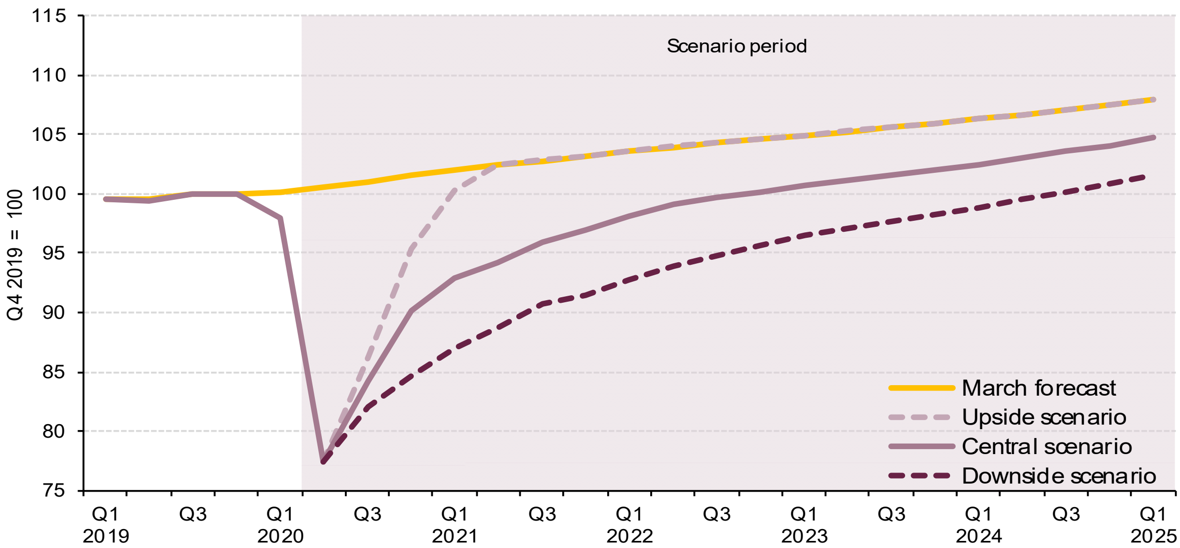
The major ongoing question is how the economic recovery to pre-COVID19 levels will emerge. It appears that the initial prospects of a very quick economic bounce back in 2021 – or V-shaped recovery – has somewhat dissipated as a likely prospect, with a much less certain outlook emerging, and recovery very much linked to the prospects of a vaccine or effective treatment that would allow a return to normal social and economic activity. Additionally, there is an increased acknowledgement of the growing risk of more permanent economic damage or “scarring”, as areas of business fail to survive the crisis, or shrink substantially, and specific sectors are significantly damaged and potentially take much longer to recover than the wider economy - aviation being an obvious example.

The Office of Budget Responsibility (OBR) published its annual Fiscal Sustainability Report (FSR) in mid July. The 2020 edition incorporated, as usual, long term - to 2060 - estimates of the UK’s likely fiscal position. It also updated the shorter term forecasts on which such long term forecasts are based. This unusual step was necessary due to the unprecedented change in circumstances brought about by the pandemic. However, rather than publish a revised - central - forecast, the OBR published 3 new scenarios reflecting the level of uncertainty that currently exist based on differing assumptions over the timing and effectiveness of a vaccine being found and distributed: -

- upside scenario - rapid return to pre crisis path with no long term scarring;
- central scenario - slower recovery, with permanent scarring equivalent to 3% of GDP; and
- pessimistic scenario - even slower recovery, with permanent scarring equivalent to 6% of GDP.

Note that the OBR comment that “the upside scenario is probably about as good as one could hope for - but the downside is by no means a worst case”.

Figure 1: Real GDP scenarios compared to March forecast



Source: ONS, OBR

Economic growth prospects are heavily dependent on the speed of bounce back from the recession in 2020. As outlined above this is subject to significant uncertainty and is extremely difficult to judge. However, what appears more certain is that the medium term prospects based on any of the OBR's scenarios present a deteriorated outlook in comparison to the already historically weaker growth forecast back in March. Additionally, the risk outlook also appears to be very much focused on the downside, including:

- the impact of the ongoing unwinding of furlough support to less generous forms of employment support and whether unemployment accelerates on the back of this change;

- the prudent pace at which lockdown restrictions have been eased and in some instances reversed particularly in some specific sectors such as hospitality, conferences, the arts and tourism and the risk of a second wave over this winter period in particular and or a substantial growth in localised lockdowns across the UK;

- the on-going caution emerging from consumers in returning to retail, accommodation and hospitality venues;

- inconclusive progress achieved to date on Brexit negotiations which increase the risk of a "no deal" exit at the end of this calendar year;

- geopolitical risks including the worsening relations with China which could adversely affect sectors like Higher Education.

The OBR's assumption of a return to an expected medium to long term growth rate of 1.5% (in real terms, i.e. excluding inflation) suggests that the post financial crisis slowdown in economic growth is set to continue. Indeed, if Brexit negotiations go badly, or geopolitical relations deteriorate further, then even this low forecast growth rate may be revised down further.

3.14.3 National Government Response to the Economic Crisis

It is clear that the COVID19 Public Health emergency has quickly developed into an unprecedented economic crisis. The response of the UK Government to deploy fiscal interventions to support business and the economy through the COVID19 emergency has been unprecedented in its reach across all sectors of business and in its financial scale. Unprecedented levels of borrowing (outwith the major war periods) have been undertaken by the UK Government to fund measures such as the furlough scheme, support for the self employed, business rates relief, specific targeted business grant support, business loans and guarantee schemes etc. All these measures have been designed to support businesses across the economy survive this enforced lockdown and emerge in a condition where they can resume economic activity contributing quickly to the economic restart and ultimately mitigate job losses..

As recently reported by HM Treasury, total UK Government debt has now surpassed £2 trillion and exceeds the total annual output of the UK economy for the first time since the early sixties when World War debts still weighed heavily on the public sector balance sheet. For context, prior to the financial crash of 2008, UK government debt was below 40% of GDP, and therefore now is in relative terms to the overall size of the economy, approximately two and a half times that size.

Inevitably, higher levels of debt will result in additional interest and repayment costs moving forward. However, in the current context, a positive counter balance is the historically low rates of borrowing the UK Government is currently able to access. The impact of this is that although debt levels are growing significantly, the overall cost annual debt servicing costs remain relatively stable.

3.14.4 Potential Impact on Public Expenditure

At a UK level the Government has borrowed significantly more over the course of 2020/21 than they had planned, and it remains to be seen what impact this has moving forward on spending plans. The policy responses to this will be critical and the UK Government will have to balance how to achieve securing a rebalanced outlook for public finances without damaging or risking the economic recovery. In broad terms the policy options available involve one of three areas which can be utilised in any combination: -

- Tax increases to raise additional revenues. There are risks to be balanced in raising taxes which could potentially reduce consumer spending power and disincentivise inward investment etc, both of which will be key drivers in economic recovery.

- Reduce public spending through a further wave of austerity cuts. Just prior to the COVID crisis the UK government announced an end to austerity with the spending growth included in the 2020/21 budget. In this context the appetite for a further period of sustained austerity may be low, in particular in view of the critical role public services will play in supporting social and economic recovery; and

- Increasing borrowing further over at least the short term to support public spending, investment and spending power in the economy.

The broad policy approach that the UK Government adopts will have a key influence on the prospects for public spending levels which ultimately set critical overall context for the Scottish Government budget and local authority financial settlements in Scotland. For example, should the UK government adopt a predominantly growth focused strategy which concentrates on stimulating as quickly as possible sustained and healthy economic growth to reduce the relative impact of the debt, they may choose to take the opportunity to borrow even more whilst historically low rates exist and in doing so seek to protect public sector spending plans, protect or indeed grow public sector infrastructure investment to stimulate growth and jobs and chose not to materially vary or change taxes - particularly in the short term to protect consumer spending and private sector investment.

At present it is suggested that the UK Government still intends to outline a new medium term Comprehensive Spending Review (CSR) in the Autumn at which point their intended direction of travel in this regard should become clearer, including implications for the Scottish Government's block grant settlement over the medium term. Should a multi-year CSR be announced the Scottish Government have previously committed to provide local government in Scotland with multi year finance settlement which if forthcoming would go some way to provide greater certainty moving forward for local government in Scotland.

3.14.5 <u>The Council's Medium Term Grant Prospects</u>

Prior to the COVID19 pandemic, the Council's financial strategy was based on a central financial planning scenario of the Council likely to experience further reduction in government revenue grant of circa 1.25% per annum over the period through 2023. This reflected the wider challenges likely to be faced by the Scottish Government in terms of their own budget over this period coupled with their stated commitment to grow the other major areas of their budget outwith local government. In this now radically changed context, the Council's potential medium term prospects in relation to future government grant settlements has become significantly more uncertain and subject to potentially greater downside risk. This is likely to remain the case at least until the UK Government CSR is announced at which point a greater degree of certainty may emerge including whether the outlook for public spending across the UK has changed materially, either negatively or positively from previous plans. At present it is proposed that this central scenario continues to be adopted for financial planning purposes, but that the financial strategy includes sufficient flexibility to plan for the possibility that this may deteriorate should the UK Government CSR commit to a more negative outlook for public spending across the UK.

3.14.6 <u>Heightened Risk of Increased Cost Pressures</u>

As previously outlined in the existing financial strategy it was already anticipated that the Council will continue to experience significant cost and service demand pressures moving forward. Broadly, these were expected to be in the region of £28 million of additional net recurring costs over the two-year period through to 2023.

In addition to the increased uncertainty linked to future grant prospects, the potential cost and service pressures the Council may experience over the medium term has increased in risk.

There is significant uncertainty as to how the COVID19 public health emergency will continue to unfold over the next 12 – 24 months. It appears clear that despite the apparent progress being made to secure a vaccine and or effective treatment options across the global scientific community, the Chief Medical and Scientific officers across national governments have indicated that we are likely to be living with the virus for some time to come.

This raises ongoing exposure to significantly increased risks of further unplanned and significant cost pressures that the Council may be exposed to throughout the medium term period of the financial strategy, and for these to be driven potentially by very short term and rapid developments that will not have been budgeted for - similar to the experience unfolding during 2020/21.

In this context the Council has already fully deployed unallocated balances in 2020/21 and therefore given this scale of ongoing risk exposure it is critical that the financial strategy seeks to re-establish an appropriate level of unallocated reserves as we move into 2021/22 – without clearly available unallocated reserves the Council's immediate financial resilience is significantly weakened. Based on the significantly increased risk exposure the Council is now facing it is proposed that the revised financial strategy seeks to re-establish unallocated reserves at £10 million.

In addition, in the current context now facing the Council, the financial strategy is also required to provide enhanced scope to respond and manage increased risk that further recurring cost and demand pressures, over and above the existing central planning assumption of £28 million that is included in the existing strategy through to 2023, could emerge unexpectedly over a short time horizon. The timing of such an event may provide the Council with limited time and or opportunity to address such issues if these occur close to the statutory timescales to set balanced annual budget.

3.14.7 Supporting Social and Economic Recovery

It is recognised there will be a lasting impact across Renfrewshire from COVID19 specifically in relation to the economic and social impacts that will take time to recover from irrespective of how quickly or otherwise the public health aspect of the emergency is progressed. This will undoubtedly place additional demands on the Council to play a key leadership role, working in partnership with a range of public sector partners, the private and 3rd sector partners as well as the communities across Renfrewshire. Re-focusing and re-purposing of existing resources and programmes towards the most important priorities that emerge from this partnership recovery work will be critical as well protecting the Council's ability to deliver existing plans covering for example major capital investment programmes recognising the important role these will play to support and stimulate economic recovery and provide direct benefits to our local communities. It is also recognised that as the recovery agenda develops, new priorities that will be critical to the overall recovery process may emerge that will require support and resources. The potential for additional high priority requirements and demands of this nature require to be factored into the need for financial flexibility over the short to medium term.

3.14.8 Impact of Delay to Right for Renfrewshire (R4R)

The existing financial strategy was underpinned by a requirement for the R4R transformation programme to support the delivery of £25 million of recurring revenue savings over the medium term period to 2023. An initial phasing assumption of savings of £7 million, £13 million and £5 million was made for each financial year through to 2023. In setting the 2020/21 budget the first tranche of R4R savings were budgeted with £3.6 million of recurring savings planned to be released in 2020/21 with a further £2.4 million of linked full year effect savings in 2021/22. To remain in broadly in line with the existing financial strategy, a further £14 million of transformation savings would require to be secured as part of the 2021/22 budget and a further £5 million in 2022/23.

Members will however be aware, that at the onset of the pandemic, a decision was taken to formally pause the R4R programme, recognising the capacity of the Council was required to be diverted to fully support the emergency response. The Council very much remains on an emergency footing and working to significant ongoing restrictions similar to all large-scale organisations.

The corporate management team is at present remobilising the R4R programme with the initial focus on stepping back up implementation of the tranche 1 service designs that were paused. As a consequence, the delivery of this initial tranche of transformation changes and associated savings has been disrupted and will now take longer to fully deliver, pushing more of the delivery into 2021/22. In addition, no meaningful work has been progressed in relation to commencing the further tranches of transformational change. Although the CMT will be focusing on stepping the transformation programme back up, the reality is that the transformation programme has suffered significant delay in the context of the three year financial strategy planning horizon. Additionally, there remains a significant risk that even once remobilised and restarted, the pace at which this work can progress will be hampered by the capacity of the organisation continuing to support the ongoing emergency response as well as the social and economic recovery priorities across Renfrewshire.

There is therefore a substantial risk that the targeted R4R savings of £25 million over the three year period to 2023 will now take longer to deliver. In addition, given the current timeline of being already midway through 2020/21 coupled with the fact the country remains firmly in the middle of the pandemic, there is a heightened risk that achieving delivery of £14 million of savings in 2021/22 is under material threat.

Consequently, this increased risk drives a further and potentially more significant immediate term requirement for the financial strategy to be adapted to provide increased flexibility to manage the impact of an unplanned delay to the release of savings emerging from the Council's transformation programme.

3.15 Key Strategy Response Measures

3.15.1 Fundamentally, the medium term financial strategy position remains valid in terms of the requirement to secure significant recurring savings over the medium term period. At present, there is now greater downside risk that the actual scale of savings that the Council will be required to deliver will exceed the £25 million target.

This is likely to be informed to some degree by the outcome of the UK Government's CSR in the autumn and the following Scottish Government Budget, scheduled for December and potentially three year financial settlement for local government. If a more negative outlook emerges from this critical period of national announcements there will be a requirement for the Council to fundamentally adjust the saving target moving forward and carefully consider what this may mean for the scale of required transformation.

3.15.2 However, in the context of all that is outlined above, the risk of additional financial and demand pressure emerging at short notice during this period is significant. Equally, the capacity of the Council to progress the required transformational change at pace may be subject to unavoidable constraint. In addition, the requirement to refresh the Council's unallocated balances in order to re-establish immediate financial resilience will exacerbate the short term pressure over this period.

3.15.3 In this context it is critical that the Council remains focused on delivering the R4R transformation programme and seeking to secure the targeted £25 million of savings. However, it is also acknowledged that the financial strategy requires some degree of adjustment, recognising the increased risk, uncertainty and potential for significant short term volatility in the Council's financial position, caused by factors the Council may have little or no influence over.

3.15.4 Given these current circumstances, now more than ever, it will be critically important the Council seeks to mitigate the major risk of financial volatility. In this context, the financial strategy is required to place greater focus on protecting the immediate stability of the Council during this period, both financially and from a service perspective, whilst critically continuing to facilitate a managed advancement of the transformation programme recognising this remains the Council's principle vehicle to achieve both financial sustainability and to redesign services that are better aligned to meet the current and future needs of communities and business. It will be critical that over the near term future, the Council is capable of operating in a stable manner, is able confidently to be reassured in its capability and capacity to provide ongoing support to the Renfrewshire community as COVID19 continues to develop and at the same time progress support to the social and economic recovery across Renfrewshire.

3.15.5 In this context a number of key changes will be made to the financial planning arrangements. The changes are focused on providing levers that provide an enhanced degree of financial resilience and manoeuvrability to protect the Council from being heavily buffeted and disrupted by negative financial impacts that may emerge over the short to medium term. It is important to recognise that any application of such measures do not come without financial cost and each will create medium to longer term financial consequences for the Council which will add to the financial pressures over the medium to longer term.

3.15.6 It is therefore proposed to make a number of corporate financing changes to long term capital funding arrangements linked to the Council's existing capital programme, enhancing planned borrowing in order to release previous revenue contributions to capital along with adjustments to the long term PPP funding strategy as part of the Council's wider debt smoothing arrangements. These changes will provide the opportunity to replenish unallocated reserves moving into 2021/22 in line with the recommendations outlined above as well as enhancing short term revenue flexibility should the Council face further unexpected financial volatility and or disruption to the delivery of R4R benefits.

This adjustment will be accommodated through work progressed over the course of this year by the Council's Finance Team to identify final opportunities from the existing debt smoothing strategy. The consequence of this however is that such opportunities are no longer available to provide a final tranche of savings to the 2021/22 budget.

3.15.7 In addition to the corporate financing adjustments above, negotiations have been progressed by COSLA, professional associations across local government and the Scottish Government to identify national financial flexibilities to assist in managing the impact of COVID19 across local government. Full agreement has yet to be secured in relation to the areas where regulation changes and or funding adjustments may be made to provide enhanced flexibility to Councils, how and when such flexibilities may be utilised and lastly whether such flexibilities are only available for 2020/21 to meet immediate COVID19 costs or whether they will extend beyond this period recognising the legacy impact of COVID19 and disruption to transformation programmes that has occurred. Subject to the final detail emerging, it would be proposed that where flexibilities are made available by the Scottish Government, full use should be exercised by the Council of each in order to provide the maximum level of flexibility moving forward. Details in regard to the finalised flexibilities and the associated utilisation will be reported to members at an appropriate future cycle as part of financial updates.

4. Capital Investment Programme

4.1 The Council agreed in March capital investment plans for housing and general services for the period 2020/21 to 2023/24 which included investment totalling £368 million. In the current financial year, it was planned that spend of £130 million would take place.

4.2 As previously reported to members, the short-term cessation of construction sites and subsequent social distancing and other requirements as sites have re-opened has and is impacting on the Council's capital plan over 2020/21 and potentially over the medium term.

4.3 The full impact on the capital programme continues to be subject to considerable uncertainty in relation to both live projects and projects yet to be procured as contractors manage the process to close down and subsequently re-mobilise construction sites and manage the subsequent social distancing and other restrictions.

4.4 As previously reported to members, a significant pro-active exercise was commenced early by officers, with all active contractors to seek early engagement to achieve mutually agreeable adjustments to contract arrangements and avoid potentially expensive, disruptive and protracted legal disputes. This process is significant in terms of both scale and complexity and subject to ongoing management with contractors. It is anticipated it will take towards the end of the calendar year before a clear view is established of the potential financial consequence of this impact on live projects. It is also recognised that voluntary agreements may not be achieved with all contractors and the risk of contractual disputes on individual projects remains a distinct possibility. These issues by their nature may take a considerable period to resolve.

4.5 In addition, the economic impact on the construction sector and supporting supply chains is at this stage unclear and how this may impact on future Council projects as they are procured. Early market engagement suggests that at present contractors are becoming more comfortable with operating arrangements under the new Government guidelines and moving closer to normal productivity levels on site as working arrangements have been adapted. For large tier 1 contractors, in particular, this has been informed through experience gained in England where sites have been operating for longer. The immediate risk of higher construction cost inflation may not at this stage emerge, particularly should public sector projects become more attractive in the short term as commercial investment projects risk being paused and or reconsidered by investors in the light of the COVID19 experience with major city centre office developments being an obvious example. Nevertheless, the outcome in this regard is uncertain and will again take time to emerge and the heightened risk of contractor failures as firms manage through financial sustainably risks remains a potential issue which could risk the dilution of competition and market capacity.

4.6 Although matters at this stage appear potentially less negative than pre-summer, there remains considerable risk that the capital programme as currently constituted will not be deliverable within the previously budgeted financial envelope. In light of this and recognising that it is likely to take a considerable period of time to gain a more complete understanding and indeed the situation may be subject to further change and volatility, it would be recommended that officers progress work over the second half of 2020 to undertake a full review of the existing programme.

4.7 It would be intended that this review identifies options to reschedule existing projects and or identify projects that may be held in reserve status pending greater comfort being attained on the financial impact of COVID19 and the financial deliverability of the existing programme. This structured review would seek to ensure that programme alignment to the Council's most important priorities is maximised whilst ensuring the Council is in a position to mitigate in a managed fashion the risk of cost increases on existing and as yet to be procured projects. It would be proposed that an update in this regard would be included in the financial update report that would be brought to the December Council meeting for member's consideration.

5. Housing Revenue Account (HRA)

5.1 The Covid19 pandemic and the consequential lockdown has resulted in additional costs and a loss of income to the HRA during 2020/21. These additional costs/loss of income are a consequence of the wider implications of Covid19 and reflect the Council's compliance with the various phases and requirements of the Scottish Governments route map out of lockdown, whilst continuing to provide a range of housing services such as emergency repairs to houses, operation of Sheltered Housing/Concierge facilities and support to tenants.

5.2 Officers have completed a detailed review of the HRA taking into account the implications of Covid19 and have estimated that additional expenditure and loss of income will amount to approximately £2.5 million 2020/21. This relates to additional staff costs linked to additional support provided to tenants, additional costs for PPE and other supplies as well as the impact of non-productive time for building services and anticipated loss of rental income.

5.3 Members will be aware that the HRA is a ringfenced account and the Council's financial strategy is to ensure that service delivery can be maintained within the available resources. Equally the financial strategy has also maintained a level of HRA reserves at £6.8m to provide adequate protection to the HRA against the short to medium term impact of the materialisation of any financial risks.

5.4 Whilst officers have sought to mitigate the impact of additional costs during 2020/21 through effective budget management it is likely that the HRA will overspend in 2020/21 due to the net additional costs linked to the COVID19 emergency. This impact will be managed in year through a draw on unallocated balances providing stability for the HRA account on the closure of the 2020/21 financial year.

5.5 Based on current projections it is anticipated that the HRA will carry forward unallocated reserves of approximately £4.3 million into 2021/22. It is anticipated at this stage and subject to ongoing assessment, that this level of reserves would remain appropriate moving forward for the HRA. The higher level of reserves of £6.8 million, that has been carried over recent years reflected a greater risk outlook associated with predominantly the roll out of universal credit. Much of this risk has now dissipated in the intervening period and as such a reduced unallocated reserve position as currently forecast would be assessed as being appropriate. There is therefore no requirement for any replenishment in contrast to that of the general fund, where much more substantial risks are anticipated.

5.7 <u>Housing Capital Programme and future Investment Capacity</u>

5.7.1 In relation to the approved capital expenditure plan for 2020/21 officers have undertaken a review of the planned programme and updated this plan to reflect delays or slippage in capital projects due to the Covid19 disruption. The net financial effect of this is to reprofile a total of £11.234m of expenditure from 2020/21 to 2021/22 and this was reported to the Communities, Housing and Planning Services Policy Board on 18 August 2020. Similar to the General Fund capital programme, ongoing engagement continues with all contractors in relation to the impact the COVID19 disruption and revised working arrangements required by Government guidance. Any implications in this regard and any required re-scheduling of planned investment activities will be fully reported through the normal board arrangements.

5.7.2 As detailed in the March 2020 paper to Council, as part of the full review of the 30 year HRA business plan model it was reported that emerging financial capacity has been identified to support the growth in the long term housing investment programme, as a result of improving financial drivers such as future bad debt levels due to the diminishing risk around universal credit.

5.7.3 Over the summer period officers have revisited this review particularly in the context of the developing impact of COVID19 on the HRA. Appropriate adjustment have been made to the business plan model including the planned use of balances in 2020/21, potential increase in rent arrears, and potential workforce productivity impact and associated increased maintenance and contractual costs as a result of the general economic situation. Appropriate adjustments will be factored into the ongoing financial sustainability planning for the HRA and will be kept under close review over coming months.

5.7.4 Notwithstanding the negative in year position as a result of the immediate impact of COVID, there continues to be capacity for a significant enhancement to the long term housing investment programme. Officers are developing proposals for a targeted programme of investment with the aims of improving the condition, suitability and longer term sustainability of groups of low demand properties, together with investment in new council housing supply in strategic locations to meet current and future housing needs. These proposals will be brought forward to a future reporting cycle by the end of the calendar year. This proposed enhancement to housing investment moving forward has an opportunity to not just deliver an improvement in the HRA housing stock but the opportunity to play a key role in providing a major boost to the local economy in terms of investment activity as well as aligning effectively with the wider regeneration and social objectives being pursued by the Council.

Implications of the Report

1. **Financial** – the report highlights the heightened financial risks facing the Council as a result of the COVID19 emergency. Over the medium term, the requirement to continue to make significant financial savings in order to remain financial sustainable remains, however significantly increased short term risks have now emerged and as outlined in the report this consequently requires in direct response a number of adjustments to the financial strategy improve the Council's financial resilience, flexibility and manoeuvrability.

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.

4. **Legal** - none

5. **Property/Assets** - none

6. **Information Technology** - none

7. **Equality & Human Rights –** n/a at this stage and any implications will be assessed as part of associated proposals taken forward as part of the financial strategy and wider Right for Renfrewshire programme.

8. **Health & Safety** - none

9. **Procurement** – none

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

11. **Privacy Impact** - none

12. **Cosla Policy Position** – none

13. **Climate Risk -** none

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Appendix 1

General Revenue (excluding Education /ELC/Childcare Hubs)

	£ms
Building Services Loss	0.300
Unachieved savings	1.200
Council Tax Loss/CTR increase	5.000
Provision for RL losses	4.300
Provision for SPT loss exposure	0.500
Free school meals	1.500
Children's social care	0.700
Shielding support	1.700
Other staff costs/overtime	0.900
Supplies/PPE/ICT/supplier support	1.500
Other income loss (parking, waste, school meals etc)	3.500
Total (indicative range £20m - £22m)	**21.100**

Scottish Government Funding (exluding Education etc)

	National £ms	Renfrewshire £ms
Hardship Fund	50.000	1.632
UK Govt consequentials (1)	155.000	5.060
Test and Protect	0.520	0.016
Free school meals	15.000	0.532
Food fund	15.000	0.531
SWF top-up	22.000	0.782
DHP Top up	5.000	0.115
Death registration	0.600	0.020
FSM/food fund summer extension	27.600	0.945
UK Govt consequentials (2) ***	49.000	tbc
Council Tax Reduction top-up ***	50.000	tbc
Income Scheme ***	90.000	tbc
SWF top-up 2 ***	23.000	tbc
Total (indicative range £14m - £16m after tbc distributions clarified)	**479.720**	**9.633**

Balance to be Funded by Council (indicative range £4m - £8m after tbc distributions clarified)	**11.467**

*** these funding announcements - totalling £212m - remain subject to confirmation as do Council level distributions. The actual distribution figures may vary materially from the Council's normal distribution share.