To: Council

On: 30 September 2021

Report by: Director of Finance and Resources

Heading: Financial Outlook 2022 - 2025

1. Overview and Key Messages

1.1 As previously reported over the past 12 – 18 months, the Council has faced significant financial disruption due to the COVID19 pandemic and associated emergency response. The financial impact of COVID19 on the Council has been 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. As the 2020/21 financial year ended, significant additional financial support was released to local government over the final quarter of the financial year by the Scottish Government which provided both much needed financial stability to the Council as 2020/21 was financially closed but also a greater level of confidence as to the scale of COVID19 specific resources to financially support the Council during 2021/22 as the pandemic and its consequences have continued to unfold. In this context and as outlined in more detail in the report, the Council's immediate financial stability remains secure, and this is anticipated to remain the case over the course of 2021/22.

1.2 However, moving forward the Council will progress into 2022/23 with an unaddressed structural budget deficit of around £4 million - £5 million from 2021/22, the first time since the austerity agenda commenced that the Council has been in a position where such a deficit has not been addressed before moving forward into the next financial year. In addition, the Council's medium term financial outlook continues to be subject to considerable uncertainty, with future government grant prospects and the scale of pay pressures in future years continuing as the most significant areas of influence and uncertainty. Further, there is inevitably the added complexity associated with both the impact of the ongoing response to COVID19 and the associated recovery agenda as well as longer term financial legacy impacts, the scale of which are at present uncertain.

1.3 The Council continues to be faced with an expectation of an enduring financial challenge of scale to be addressed over the medium term. At present, the central planning scenario forecasts that over the period through to 2025, in gross terms i.e., before any adjustment for council tax rises and savings, a saving requirement of approximately £25 million will be required just to address the forecast structural budget deficit and therefore providing no capacity for reinvestment in service or capital investment priorities. Adjusting for an indicative council tax rise each year at 3% would reduce this forecast saving requirement to around £17 million.

1.5 Members will recall that the Council's medium term financial strategy previously established a central planning objective of securing £25 million of transformational savings from the Right for Renfrewshire (R4R) programme. The initial tranches of transformational change delivered to date through R4R has secured approximately £6 million of savings leaving approximately £19 million of this established financial objective outstanding. In the context of the updated medium term financial outlook, this financial objective continues to be broadly valid at this point in time.

1.6 Notwithstanding, it is recognised that continuing to support the response to the impact of the COVID19 pandemic, supporting the associated recovery agenda as well as recovering as an organisation remains a very significant draw on the Council's capacity and this is expected to continue for some time to come. In this context it is recognised that there will continue to be very limited capacity to progress the transformation programme at scale. The medium term financial planning arrangements and specifically the immediate strategy for the 2022/23 requires to recognise this ongoing constraint.

1.7 As outlined in more detail in the report, the financial strategy moving forward will be progressed based on a relatively limited financial saving contribution emerging from the R4R programme in 2022/23. Approved financial flexibilities put in place by the Council as an immediate response to the developing financial risks and disruption from COVID19 in September 2020 will be deployed to support the Council's budget position moving into 2022/23. These measures will protect the immediate financial stability of the Council, maintain a focus on securing the Council's medium term financial sustainability by securing progress in addressing the structural budget deficit and managing the impact of new pressures emerging in 2022/23, as well as providing an extended window of opportunity for the Council to recover from COVID19 before more significant and unavoidable demands for savings are placed on the transformation programme.

1.8 It is expected that greater financial planning certainty may emerge over coming months should, as currently planned, the UK Government announce a multi year Comprehensive Spending Review (CSR) in the autumn and the Scottish Government follow through on existing commitments to produce multi year spending plans. Should multi year spending plans emerge as expected, this will provide conditions that could support the potential for multi year pay negotiations and agreements in local government which if secured would help put in place much needed foundations to support councils across Scotland to progress medium term financial planning underpinned by a much greater degree of certainty. Key milestone announcements in this respect are expected to emerge over the course of the remaining months of this calendar year and into the early part of 2022 and updates will be provided as appropriate.

2. Recommendations

2.1 It is recommended the Council: -

- Note the update regarding the Council's current general fund financial position, the assessment of the projected net impact of COVID19 over the course of this financial year and the anticipated deployment of COVID19 resources provided by the Scottish Government.

- Note the updated general fund financial outlook over the medium term and the ongoing expectation of the Council being required to continue to plan for addressing significant structural budget deficits in the period through to 2025 albeit the scale of this remains subject to ongoing uncertainty at this stage.

- Note that the remobilisation of the Council's transformation programme continues to be constrained by organisational capacity being deployed to support the response to COVID19 and the developing recovery agenda. Further, to note that a limited level of transformation activity and associated financial savings are anticipated as part of the 2022/23 budget planning arrangements and details in this regard will subject to normal transformation reporting arrangements as the programme is progressed in the coming months.

- Note that as part of the budget planning for 2022/23, the intention to deploy financial flexibility arrangements approved by Council in September 2020 as an early response to the financial disruption caused by COVID19. Further to note that this will assist securing ongoing short term financial stability, assist in partly addressing the forecast medium term structural budget deficit moving forward and will also provide the Council with an extended window of opportunity to recover from COVID19 before being required to fully remobilise the transformation programme.

- Note the update provided in respect to the General Fund capital investment programme and the potential impact from growing price and supply pressures within the construction market. Further to note that in response, a level of provision has been made against COVID19 resources to protect the deliverability of the current capital programme.

- Note the update in respect of the HRA and the relatively more secure long term financial outlook afforded by the greater long term confidence provided by rental income and the underpinning robustness of the 30 year business planning arrangements which will continue to be updated over the course of this year ahead of 2022/23.

3. General Fund Revenue Account

<u>Immediate Financial Position</u>

3.1 The Council's current financial position continues to remain stable and subject to the uncertain position in respect to the 2021/22 pay award as outlined below, remains within the financial planning parameters established when the Council set its budget for 2021/22.

3.2 Members will recall that in setting the 2021/22 budget in March of this year, a recurring budget deficit of approximately £1.7 million was temporarily funded in 2021/22 through a planned draw from COVID19 balances. Additionally, since setting the budget in March, the pay offer for 2021/22 that has been set out to trade unions has been expanded in financial scale as part of the ongoing negotiations beyond what was budgeted for by the Council. To date, the negotiations remain unresolved with no pay deal yet secured.

3.3 It is at this stage expected that the final pay settlement once agreed will increase this recurring budget deficit for 2021/22, pushing it potentially to circa £5 million. As reported through budget monitoring arrangements to date, this deficit position may be partly addressed in year by service-based underspends, reducing the in-year draw on general COVID19 balances to approximately £2 million.

3.4 Excluding resources specifically aligned to education recovery, there are approximately £21m of COVID19 resources that are available to support the Council through the ongoing pandemic response and recovery period and it is currently anticipated these will be fully required to manage the ongoing related consequences over the next 12-24 months.

3.5 The 2021/22 core budget (i.e. excluding COVID19 costs) was set on the basis of an unaddressed deficit of circa £1.7m to be supported temporarily from non-recurring COVID19 resources, albeit it is now projected that around £2 million will be required for this year due to additional pay pressures.

3.6 In addition to this core budget position, it is estimated that non education & non HSCP related COVID19 costs and income loss of £8.6m will be incurred this year and will require to be addressed from the COVID19 resources. Further, there are known issues linked to supporting the organisation to recover from the lockdown periods and adjust to new ways of working as well as tackle areas where unavoidable deferred workloads will now have to be addressed by the Council which will bring with it inevitable financial impacts if the Council is avoid such issues becoming unaddressed backlogs over the long term. The financial consequences of such issues are at this stage uncertain but are likely to become clearer over the coming months as the Council continues to progress the recovery work and establishes a clearer understanding of what will be required.

3.7 Taking all these issues into account and notwithstanding the recognised ongoing uncertainty, it is anticipated that the £21m of COVID19 resources will be fully required with the following indicative breakdown currently forming part of the immediate term financial plan.

Approved Support for 2021/22 Budget	£2m
Approved Commitment to Social Renewal Programme	£2.7m
Provision for Projected COVID Impact (excluding Education and HSCP)	£9m
Provision for Organisational recovery	£2m
Provision for Capital Programme COVID19 Impact	£5m
Total	**£20.7m**

3.8 In relation to Education, there is now significant resources at the disposal of the Council via a range of both temporary and recurring grants that have been made available by the Scottish Government to prioritise and support school recovery, education digital provision, maintaining enhanced cleaning etc as well as now confirmed recurring resources (£145m nationally) from 2022/23 for teachers and classroom assistants. In addition, it is recognised there are enhanced levels of school level resources carried forward under normal school DMR schemes and Pupil Equity Fund arrangements following the disruption arising from the periods of lockdown which again will be utilised at a local school level to support the wider educational recovery process. On this basis, the totality of these resources is expected to provide sufficient financial support to allow Children's Services to progress the education and school recovery process over the next 12-24 months without requiring any draw on wider council resources.

3.9 Similarly, in relation to the HSCP and the ongoing commitment of the Scottish Government to meet all reasonable costs associated with COVID19, financial planning arrangements are progressing on the basis that the HSCP will be fully financially supported through the impact of COVID19 over the course of this financial year by the established Scottish Government arrangements and will therefore require no direct financial assistance from the Council.

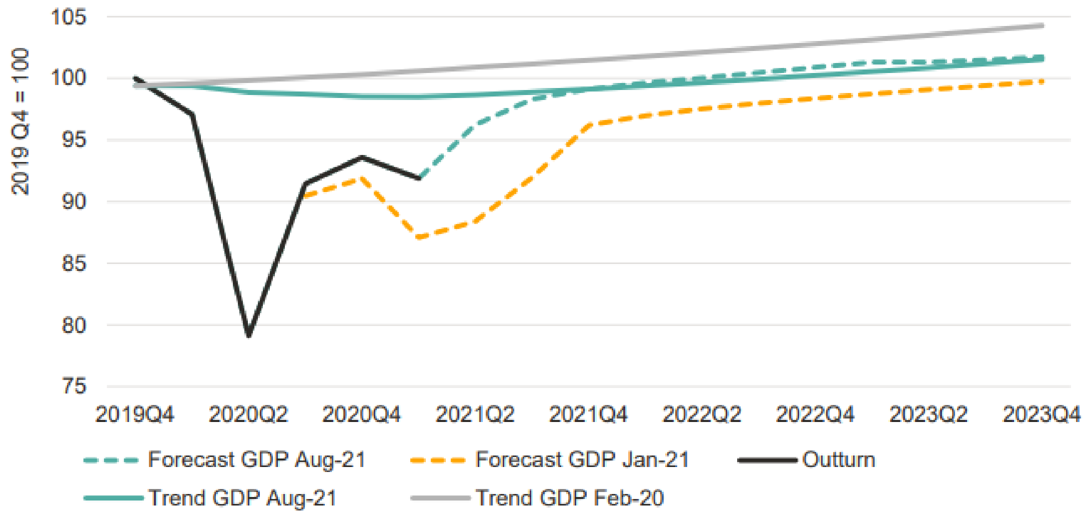
4. Medium Term Outlook

4.1 Economic and Fiscal Outlook

4.1.1 Economies locally, nationally and internationally have experienced unprecedented negative impacts due to the Covid19 pandemic, with significant impacts being felt by individuals, businesses and governments alike. World GDP fell by more than 3.5% in 2020 and in the UK this was more pronounced, with a fall of 9.9% being experienced in 2020 – the largest of any G7 country.

4.1.2 Both vaccine development and the subsequent rapid roll out to initially those at higher risk and subsequently the wider population has allowed a much swifter economic recovery to commence than would otherwise have been possible without the layer of protection that is provided through the vaccine programme. The easing of restrictions over recent weeks and months on the back of the vaccine success has had an immediate impact on supporting the restart of economic growth and in general a greater degree of positive sentiment across the economy than was previously anticipated as business restarts, pent up consumer demand is released into the economy and business confidence to take forward investment strengthens. This better than previously anticipated response across the economy has again improved economic forecast further than that previously forecast – the UK Office of Budget Responsibility in March 2021 forecast that GDP would grow by 4% in the 2021 calendar year , to reach its pre-pandemic level in Spring 2022, a material improvement in comparison to forecast towards the end of 2020. Since this forecast, indicators suggest the level of growth will be higher still although this will not be confirmed by the OBR until their forecasts are updated at the end of October – in time to support the UK Comprehensive Spending Review which is expected over the Autumn.

4.1.3 In Scotland, more recent forecasts by the Scottish Fiscal Commission also outline an improvement in the economic outlook, with forecast GDP growth in Scotland over the 2021/22 financial year being estimated at 10.5%.



Source: Scottish Fiscal Commission, Scottish Government (2021) GDP Quarterly National Accounts: 2021 Quarter 1 (January to March) (link).

4.1.4 The graph above though shows that the pandemic will result in permanent 'scarring' of the economy versus the trend by around 2%.

4.1.5 In order the support the economy, UK and Scottish governments have had to take unprecedented measures including grant support to businesses, support to wages through the furlough scheme and increased support to public services. Spending at this level has been funded through increased UK government borrowing - £355 billion in 2020/21– a peacetime high. Borrowing is forecast to increase further in 2021/22 by around £200 billion – although this may reduce as the economy improves over the course of 2021/22 and tax receipts increase. Total UK government debt will however top 100% of annual GDP.

4.1.6 The future annual financial liability to service and repay this level of debt has been eased by historically low interest rates, however moving forward any rise in rates whilst significant reliance is still being placed on borrowing to balance the fiscal position nationally will put pressure on total government finances as the costs of repayment increase. A possible driver for an interest rate increase would be higher inflation – and indeed this is recognised as a material risk with the CPI level of 2.1% currently forecast by the Bank of England to increase to 4% by the end of the year – albeit only on a temporary basis before falling back to 2.5% by the end of 2022.

4.1.7 Inflation is also being experienced in relation to specific sectors of the economy in different ways, with supply issues pushing up prices for a number of commodities – particularly in the construction sector. The response of the Bank of England to managing this risk whilst balancing the impact any interest rate rise might have across the wider economy will be a key area of interest in the coming months.

4.1.8 Unemployment is also expected to peak late in 2021 as the furlough scheme is fully unwound, along with other government supports for businesses and although still significant it has not reached levels once feared at the outset of the pandemic. However, there is expected to remain pressure to maintain higher levels of public spending, particularly in the NHS to deal with a significant backlog of elective treatment and to mitigate the ongoing impact of the pandemic on service delivery. In all of these forecasts there remains significant downside risk related to the pandemic, with the risk of a fourth wave driven by the highly transmissible delta variant an increasing risk (potentially triggering further lockdown measures); or the risk of further variants developing in areas of the world where successfully delivering the vaccination programme remains a significant and outstanding challenge.

4.1.9 Council has been advised previously of the growing importance of Scottish economic performance relative to that of the UK economy as a whole and how this affects the Scottish block grant through the fiscal framework process. The financial benefit of devolved tax decisions that have been taken by the Scottish Government over recent years under fiscal devolution have been eroded as Scottish economic performance has lagged that of the UK as a whole. Additionally, prior year differentials, where there are differences in actual tax receipts from those forecasts have emerged and require to be repaid by the Scottish Government. Such adjustments have been sizeable in prior years and the Scottish Government has elected to utilise temporary borrowing powers to manage these repayments, which although pushes the financial impact out over the medium term, nevertheless remains a liability that requires to be repaid by the Scottish budget.

4.1.10 In August the SFC produced updated forecast for tax receipts which are improved over their previous position; linked primarily to an improving economic picture. These forecasts are now out of step somewhat with forecasts by the OBR, whose most recent position in March will not reflect the improved economic sentiment experienced over the summer. However as referred to above the OBR forecast update is due in October and is likely to bring the two sets of forecasts better into line. As previously reported to Council in March, updated forecasts by the SFC were the trigger under the fiscal framework for a 'Scotland-specific economic shock' which allowed the Scottish Government to waive the borrowing limits usually applying under the framework for a three year period, permitting an increased level of borrowing in 2021/22. The Scottish Government has stated its intention to continue to utilise its increased borrowing powers provided under this mechanism to manage income tax reconciliations and subsequent BGAs over coming years. Again, although an effective measure in the short term, such borrowing requires to be repaid and therefore it is recognised there is a medium to longer term financial commitment that arises from such decisions.

4.1.11 Income tax in Scotland – now a major influence on the overall Scottish Budget – is expected by the SFC to improve by nearly £7 billion over the next 5 years compared to their previous forecast; linked predominantly to an assumed continued level of economic recovery. This suggests improved revenue prospects for the Scottish Budget, however there remain ongoing risks in terms of the demand on the budget over this same period growing well beyond that which may have been previously anticipated linked to support individuals and businesses, the impact of new policy commitments such as free school meals for all primary pupils and increasing the Scottish Child payment amongst other social security reforms which also require to be funded as well as the emerging commitment from the Scottish Government to increase funding and investment in social care without at this stage being clear on where such resources are to be found.

4.1.12 In addition, as the devolution of social security continues from the UK government, a new support payment – the Adult Disability Payment (ADP) – being introduced from the summer of 2022 will bring further expenditure to the

Scottish Budget. The ADP will replace the current Personal Independence Payment (PIP), and it is currently forecast that due to entitlement differences, the ADP will cost more than is currently provided under PIP. This reflects an expected increase in people entitled to ADP, longer payment durations and higher average awards. It is also expected that spending on the carers allowance will increase as more people become entitled to ADP.

4.1.13 The Scottish Budget has benefitted from additional funding specific to the pandemic - £4.6 billion in 2021/22. This funding is not guaranteed, and late increase or decreases in the financial year (as occurred in 2020/21) can be difficult for the Scottish Government to manage within the limits on how much funding can be carried between years through the Scotland Reserve.

4.1.14 As outlined above, the improving economic prospects in the near future, are encouraging, however the underlying strength of the Scottish economy will be impacted in the longer term by the pandemic over what was (pre-pandemic) a relatively weak growth scenario by long term historical standards. It is this medium to longer term prospect which will influence most significantly the Scottish Budget, in conjunction with Scottish Government policy priorities and commitments as part of the programme for government.

4.1.15 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 over the period through 2023 and potentially beyond. 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.

4.1.16 However, as previously reported to Council, in 2021/22 the Council secured a marginal like for like grant increase of 0.5% and additionally the most recent medium term financial strategy published by the Scottish Government early in 2021 set out a medium term financial planning assumption where the local government budget would be positioned more positively by the Scottish Government relative to other areas of public expenditure. However, it is recognised that such planning assumptions set out by the Scottish Government will be subject to a range of pressures and challenges as well as the impact of commitments that are set out in the programme for government and how these are subsequently developed and delivered over the medium term.

4.1.17 National Government budgets will continue to be subject to a range of downside risks and uncertainties despite the indications emerging of a more positive and stronger economic recovery than was previously forecast. It is expected that the UK Government will set out a multi-year spending review in the Autumn which will go some way to providing a greater degree of certainty over the future shape of public spending in the UK and how this will be targeted at supporting the country and public services recover from COVID19. As ever, this will undoubtedly have an influence on the scale of resources that will be at the disposal of the Scottish Government and consequently the potential prospects for the local government settlement.

4.2 Overview of Updated Outlook

4.2.1 As outlined above moving into 2022/23 it is expected that the budget position will be running a recurring deficit position of approximately £4 million - £5 million carried forward from 2021/22. This represents a seminal milestone for the

Council, being the first time since the onset of the austerity agenda across public services that the Council has been in a position where a structural budget deficit has not been addressed before progressing to the next financial year.

4.2.2 As previously reported to Council, there continues to be material uncertainty in respect to future years, with future grant prospects and pay continuing to be the most significantly influential factors but now with additional uncertainty linked to the legacy impacts of COVID19 that may take a considerable time to be reversed, if at all.

4.2.3 As referred to above, at present the Scottish Government are committing to the publication of three year spending plans and potentially a local government settlement, irrespective of whether the UK Government produces a multi-year Comprehensive Spending Review this autumn. Should a three year financial settlement emerge for local government it would be the first time for many years and would represent an important step in removing a significant degree of uncertainty moving forward.

4.2.4 Subject to the level of detail that may be provided in relation to years two and three, even an indicative high level confirmation of the local government settlement at a national level would provide clearer planning parameters in respect to both the scale of challenge from movement in grant moving forward and whether over the medium term sustainable like for like growth is likely to emerge for local government as has been suggested in the Government's March medium term financial plan.

4.2.5 Further, should local government as an employer secure greater visibility over the medium term prospects for government grant (the most significant source of funding for local government), this would provide conditions that could facilitate a multi-year pay deal, for which there is a developing appetite from both employers and trade unions alike in terms of national negotiations.

4.2.6 The opportunity to secure improving certainty will not emerge until the end of this year at the earliest, with the prospects of a UK Government CSR announcement in the autumn being the first major milestone in this potential journey. In this context the Council is required to progress its financial planning on the basis of forward projections based on a range of assumptions and potential scenario outcomes. The central scenario for the Council's financial update is based on the following key assumptions:

- Grant – it is assumed 1% like for like annual growth will emerge over the following three years, broadly reflecting that experienced in 2021/22. The Scottish Government's last published medium term financial plan suggested an improved positioning of the local government budget which would broadly mirror that movement in the overall Scottish budget – implying a more significant annual uplift than 1% per annum. This however was based a range of significant assumptions nationally and mores significantly provided no detail of what new service growth, responsibilities or commitments may accompany future growth in resources for local government. As reported to members in earlier reports, in previous years significant growth in resources for local government has been accompanied by significant new responsibilities reducing like for like grant change to near flat cash. A 1% per annum growth builds in a cautious degree of improvement from 2021/22 and is therefore considered prudent for the purposes of medium term planning at this stage.

- Pay – with national pay bargaining yet to be settled for 2021/22, it is expected that material pay pressures will continue over the medium term. With inflation expected to progress through a temporary spike over future months before gradually falling back towards the longer term 2% economic target over a period of time, a central assumption for future pay provisions has been set which broadly reflects this expected pattern with a higher provision in year one which reduces over the medium term period. There remains a material risk that like 2021/22 future pay deals may exceed this assumed provision and profile albeit affordability and financial sustainability will remain a major constraining factor and consideration for local government employers in respect to what pay offer can realistically be provided as part of future negotiations.

- COVID19 Legacy Impact – it is expected that longer term financial legacy impacts are likely to emerge for the Council from COVID19 and or from related decision the Council may take, and which will require to be addressed on a recurring financial basis. At present this remains an unknown in terms of both nature and scale but is likely to reflect permanent behavioural changes, areas of longer term compliance etc and therefore will focus on areas of income loss, increased household waste, permanent long-term costs of hybrid working, enhanced long term requirements linked to cleaning, PPE, support to communities etc. Despite the uncertainty a level of future financial provision has been included for such recurring pressures crystalising over the medium term.

- HSCP – in the context of the Feely Review/National Care Service consultation, programme for government commitments to grow investment in social care in the post COVID environment, financial planning is progressing on the basis that the Scottish Government are likely to continue with their approach of “ring fencing” pass through growth in resources linked to social care as part of future financial settlements. It is therefore assumed that this will continue, that such resources will be passed through by the Council to the HSCP to cover all related pressures and there will be no additional contribution from the Council.

- Teacher Growth – as referred to earlier the Scottish Government has confirmed that £145m of funding provided for additional teaching / classroom assistant resources as part of the COVID19 response will now be provided on a recurring basis from 2022/23. For Renfrewshire this is likely to amount to circa £4.5 million of addition recurring teaching resources and it is anticipated that this will be deployed alongside non-recurring resources to support a medium term plan to manage future changes in school rolls as well as support long term additionality of teaching resources as part of the overall programme to support the education recovery for our young people.

- Council Investment Commitments – the medium term financial plan includes provision for the recurring impact of existing investment commitments from the Council ranging from city deal, regeneration, schools investment as well as planning for the financially sustainable long term service changes that will emerge from tackling poverty, social renewal and alcohol and drugs initiatives being progressed by the Council.

4.2.7 Taking all the above key factors into account along with provisions for other general pressures, it is forecast the Council will face a gross budget deficit of approximately £25m in the three year period through to 2024/25 (this includes the existing forecast structural deficit of £4 million - £5 million carried forward from 2021/22). Assuming an indicative 3% per annum council tax increase is applied, this deficit over the three year period would be reduced to approximately £17 million.

4.2.8 As indicated above, this represents the central forecast in what is recognised is a range of potential scenario outcomes. Applying sensitivities to only the key variables of grant, pay and COVID19 legacy impacts, would suggest lower and upper scenarios with gross budget deficits of £16 million to £42 million respectively. Again, applying an indicative 3% council tax increase, the lower and upper scenario budget deficits are reduced to £8 million and £34 million respectively.

4.2.9 It should be noted that these forecasts represent the anticipated minimum level of recurring savings the Council would need to achieve over the medium term to secure a sustainable and balanced budget. This provides for no financial provision to secure the release of resources to support any future investment priorities, which would require to be factored into future transformation plans. Additionally, given the Council already has an existing structural budget deficit of around £4 million - £5 million that will be carried forward into 2022/23, it is recognised there is likely to be more limited prospects of securing temporary non-recurring spending capacity over the medium term period as has been the case in the years prior to the pandemic.

5 Financial Strategy Response Measures

5.1 The Council's financial strategy prior to the COVID19 pandemic had targeted a requirement to deliver £25 million of recurring savings from the Council's Right for Renfrewshire (R4R) programme to address the Council's financial challenges over the medium term. The initial tranche of R4R is on course to secure approximately £6 million of savings which are already incorporated into the Council's existing financial budgets and forward plans. In line with the original savings objective, there would remain approximately £19 million of associated savings yet to be delivered through the Council's transformation programme. In the context of the above financial outlook, this financial target for the transformation programme remains at this stage broadly appropriate in scale.

5.2 As outlined above, there is potential for greater financial planning certainty to emerge over the next 6-9 months in relation to grant and pay. Should this emerge, the scale of financial challenge facing the Council over the medium term could be more confidently forecast and critically a clearer understanding of the scale of financial savings that the transformation programme will be required to deliver to secure financial sustainability of Council services. However, it is recognised that the Council's organisational capacity remains significantly focused on COVID19, supporting the wider recovery agenda as well as recovering as an organisation from the very significant disruption caused by COVID19. It is anticipated that the demands arising from this recovery phase will continue for the immediate future. Similar therefore to this time last year, this context once again presents a position where the Council's financial planning for the forthcoming financial year is unlikely to be in a position where reliance can be placed upon a significant financial contribution to emerge from the transformation programme and the immediate financial strategy should therefore be progressed on this basis. The potential for the COVID19 pandemic and associated recovery period impacting on the Council for longer than was originally envisaged was considered as a possibility when a range of decisions were taken by the Council to reposition the financial strategy in September 2020. The decisions taken at that point have provided the Council, as intended, with greater short term flexibility to respond to the ongoing context of COVID19 and position the financial strategy for 2022/23 with the following key objectives in place: -

- Provide immediate confidence that the Council can maintain short term financial and organisational stability with limited requirements for service & transformation savings to support the budget moving into 2022/23.

- Provide confidence that the Council can respond to the new cost pressures that will emerge in 2022/23 whilst resuming progress to address the structural budget deficit and moving away from reliance on reserves to achieve a balanced budget. Should the Council fail to respond in this manner moving into 2022/23, the organisation would move into a space where immediate financial stability and more significantly recurring financial sustainability would come under very significant risk moving forward.

- Provide the Council with a longer window of opportunity to recover from the wider demands placed on it by COVID19 Council before unavoidably greater demands are placed on the transformation programme to deliver significant financial savings.

- Provide a window of opportunity for greater financial planning certainty to emerge over the medium term on grant, pay and COVID legacy impacts in order that increased confidence can be provided on the scale of financial challenge moving forward for the Council - both the minimum scale of savings to address the structural budget deficit first and foremost but also to establish the scale of opportunity to support a future agenda where resources released through transformation are available to support investment in new Council priorities.

5.3 The following areas will be progressed to support the 2022/23 budget strategy and provide the opportunity to appropriately position the Council's financial position for the forthcoming medium term period: -

- Relative to previous years, a minimal target of £2 million of savings from transformation activities will be planned for in 2022/23. This will be delivered from areas under less immediate demands from COVID19 recovery and where capacity exists to progress R4R transformation and redesign work. Progress on identifying designing and progressing change in such areas will be reported to future Leadership boards as this work progresses.

- The financial planning will be progressed on the basis that long term Corporate Financing flexibility arrangements established early in the

Council's financial response to the anticipated impact of COVID19 will be triggered moving into 2022/23. This will release recurring savings to support the immediate revenue budget position. It should be noted that this saving is financially not a free good and is underpinned by the release of long term flexibility resources indirectly facilitated through increased borrowing to support the capital programme. This creates a longer term recurring revenue cost to support the repayment of the associated borrowing as well as committing the Council to an annual revenue base budget adjustment each year over the long term. The impact of both factors has been incorporated into the Council's long term financial planning arrangements to ensure the action taken now is appropriately and sustainably planned for over the long term. It should be noted that at this stage, flexibilities introduced nationally have offered very limited opportunity reflecting the Council's very specific local financial position.

- Plans to develop a refreshed approach to the transformation programme will be progressed and developed in preparation for the Council emerging fully from the immediate demands of COVID19. This revised approach will be appropriately influenced by the new emerging post COVID environment, key learning from the organisation's experience during the COVID19 emergency period, learning from the rapid deployment and better use of technology as well as opportunities that are available from increased appetite for new ways of working and engaging with the Council that have been shown by communities, businesses, and partners over the course of the past 18 months.

5.4 It is anticipated that over the following months there will be a range of key announcements and changes which will continue to influence and change the Council's financial outlook, both in terms of the immediate short term, looking ahead to the 2022/23 budget, but also over the medium term through to 2024/25 and beyond should multi-year settlements emerge. In line with previous years, reports will be provided to future cycles of the Council as key announcements are released and the financial outlook and strategy is updated and adapted as appropriate.

4. Capital Investment Programme

4.1 The Council agreed in March capital investment plans for housing and general services for the period 2021/22 to 2025/26 which included investment totalling £443 million. In the current financial year, it was planned that spend of £115 million would take place.

4.2 Previous updates to members have outlined the impact, particularly over the course of 2020, that lockdown measures associated with the Covid19 have had on the capital plan and progress with construction projects in particular. The easing of lockdown measures has allowed major projects to be recommenced however social distancing measures have continued to have an impact.

4.3 Aside from the impact on the progress of projects arising from the initial phase of disruption associated with the pandemic, an arguably more significant second phase of risk has emerged and continues to increase in significance over the course of recent months in relation to construction inflation. Recent forecasts have placed this at around 8% for construction materials – significantly ahead of inflation in the wider economy generally. The increase in price is being driven by several factors linked to both supply and demand. As the pandemic continues to impact on the operation of companies globally and affect workforce availability, many suppliers of construction materials have taken time to fully re-start their operations as well as struggling to keep pace with heightening demand. Shortages, elongated supply times and price increases are being experienced with timber, paint, cement, and steel being areas of particular significance. Raw material shortages and labour constraints are also being experienced in other key commodity areas e.g. microchips – with a subsequent worldwide shortfall impacting on the availability of items from vehicles to laptops. Further constraints on supply flow from transportation issues with the impact of the blockage of the Suez Canal still being felt; delays linked to additional administration of imports to the UK following the Brexit vote and the national shortage of HGV drivers all playing a role in supply constraints across the UK.

4.4 Compounding the supply side issue is an increase in demand as lockdown measures are eased and construction sites have reopened. Additionally, the volume of demand has also increased with both domestic (eg house extensions linked to pent up spending power) and commercial and public bodies looking to catch up on backlog maintenance issues and invest in new facilities along with national government interventions accelerating infrastructure investment as part of wider economic recovery measures. Previous concerns highlighted to members in relation to the potential financial sustainability of contractors do not appear to have manifested themselves to any specific degree and conversely what is now unfolding is a level of demand that the construction industry is struggling to keep pace and where labour and skill shortages within the industry are now impacting on overall capacity.

4.4 Reports to members over the course of the current financial year have highlighted the risks of cost pressures on the capital programme linked to the impact of the COVID19 disruption and this has now moved beyond the initial lockdown phase impact to this second phase focused on price increases linked to industry supply and demand mismatch aligned with material shortages. The impact of this is now being increasingly experienced in both live Council projects and as Council projects are coming to the market. The Council will need to keep under careful and detailed review the cumulative impact on both individual projects and the overall approved capital plan as set against available resources and contingencies and remain alert to the prospect of capital projects requiring additional funding to maintain the deliverability of the overall programme. In this context and as referred to earlier, it is proposed that £5 million of the COVID19 resources are earmarked for this purpose in the first instance. The adequacy of this provision will be assessed over the coming months however it should be noted that in the context of the general fund capital programme this represents a relatively limited level of additional financial cover for the Council and further actions may require to be considered.

4.5 Moving beyond the existing capital programme, the level of Scottish Government capital grant the Council can expect in future years has been confirmed by the Scottish Government to remain at current levels over the medium term. Scottish Government capital grant was reduced by around 20% in 2020/21, maintained at this level in 2021/22 and there is therefore no prospect of any recovery in this source of grant funding moving forward. Members will recall that at this level of funding, capital grant resource is able only to support a limited rolling lifecycle maintenance programme across all asset classes. The Council will therefore be required to continue to seek out and pursue alternative capital grant opportunities from government funds and other grant providing bodies as well as recognising that prudential borrowing represents the major lever at the Council's disposal to support major investment. However, prudential borrowing requires to be financially sustainable and underpinned by recurring revenue resources to ensure this is the case. As the Council moves forward and major financial challenges persist for the revenue budget, the capacity to sustainably support prudential borrowing will become an increasing challenge.

5. Housing Revenue Account (HRA)

5.1 The Covid19 pandemic and the consequential lockdown resulted in additional costs and a loss of income to the HRA during 2020/21, incurring a £0.3m overspend which was managed through the application of reserve balances. This overspend was less than had originally been forecast, linked to housing rent income holding better than expected.

5.2 Forecasts for 2021/22 suggest that while pressures on the HRA financial position will remain, these will be containable within the agreed HRA revenue budget. There remain some downside risks to this forecast, including the cessation of the UK government furlough scheme potentially having a knock on negative impact on some tenants ability to maintain rent payments; albeit this risk is mitigated to an extent by the protection offered through Universal Credit and the option of direct payments to landlords.

5.3 Other pressures may also manifest themselves linked to the continuing additional support to tenants through COVID19 being required for a longer period, additional PPE costs and other working requirements, the ongoing impact of social distancing on building services and the associated impact on productivity levels as well as price pressures on construction material increasing costs of cyclical maintenance.

5.4 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 £6.5m to provide adequate protection to the HRA against the short to medium term impact of the materialisation of any financial risks.

Housing Capital Programme and future Investment Capacity

5.5 Council approved a capital expenditure plan for 2021/22 – 2023/24 on the existing housing stock of £58m, including significant investment in the external fabric of buildings. In addition, a further £49m was approved in relation to an ambitious regeneration and new build programme approved by Council in December 2020 – a programme which could see around £100m of new additional investment over the next 10 years, supporting both tenants and local economic recovery.

5.6 The cost of supporting the associated investment is borne by the revenue account through the associated debt charges and therefore maintaining confidence of the long term financial sustainability of the HRA remains critical. In this context officers will continue to closely monitor the HRA revenue position; however given the stability and long term predictability of rental income (which has held up very well throughout the challenges of the pandemic) and the existing prudent reserve balance available, there is continued confidence that the HRA and its future investment plans remain financially sustainable over both the medium term but also over the very long term as set out each year as part of the overall 30 year business model. Appropriate adjustments will be factored into the ongoing financial sustainability planning for the HRA and will be kept under close review over coming months and years.

5.7 As outlined above, construction inflation remains a key area of risk and this applies equally to housing through the impact on major investment programmes as well cyclical and reactive maintenance. The impact of potential additional cost pressures through this area of risk will require to be carefully monitored and considered and where required appropriately factored into the overall investment plans and long term financial planning arrangements underpinning the 30 business planning horizon.

Implications of the Report

1. **Financial** – the report highlights the heightened financial risks facing the Council because of the COVID19 emergency. Over the medium term, the requirement to continue to make significant financial savings to secure financial sustainability remains. However increased short term risks remain as the impact of COVID19 is expected to last on the Council for longer than originally anticipated. In direct response a number of adjustments to the financial strategy are outlined in the report in order to protect the Council's immediate financial stability and prepare the Council to be in a position to sustainably address the scale of financial challenge moving forward.

2.

3. **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.

4.

5. **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.

6. **Legal** - none

7. **Property/Assets** - none

8. **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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