Renfrewshire Council

To: Council

On: 12 December 2024

Report by: Director of Finance and Resources

Heading: General Fund Financial Update

---

1. Summary

1.1 Successive financial update reports to the Council have highlighted the ongoing and increasingly challenging financial and economic environment the Council is facing. This report seeks to update Members on the impact of the UK Government Autumn Statement on 30 October 2024.

1.2 The draft Scottish Budget was announced on 4 December 2024. However, details of the local government grant settlement are not expected to be with officers until 12 December 2024. The draft Budget is expected to be subject to ongoing clarification between COSLA and the Scottish Government, therefore a full update on the implications of the Budget for the Council's financial position will be provided to a future Council meeting.

---

2. Recommendations

2.1 Note the details of the UK Government Autumn Statement outlined in the report;

2.2 Note the update provided in relation to the current financial year, and current financial risks;

2.3 Approve the recommended adjustments to the capital plan outlined in section 6.

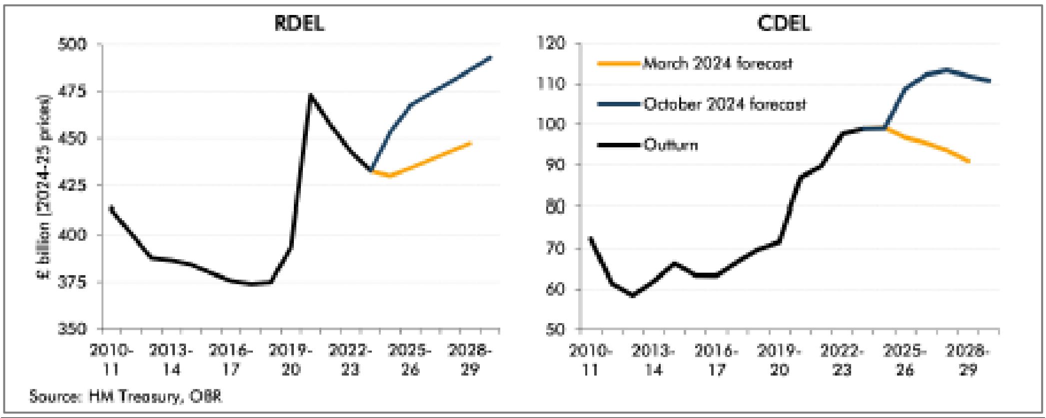
3. UK Government Autumn Statement

3.1 The main event which provides context for the current and future economic outlook was the UK Government Autumn Budget which was published on 30 October, accompanied by economic and fiscal forecast updates from the Office of Budget Responsibility (OBR).

3.2 The main policy objectives set out by the Chancellor in the Autumn Budget were to promote economic growth, and invest in the NHS. To this end the Chancellor announced policies that increase spending by almost £70 billion over the next five years. Around half is expected to be funded by increased taxation. The OBR has indicated that while these budget policies will boost productivity in the short-term, the scale of the combined impact on GDP after 5 years is negligible.

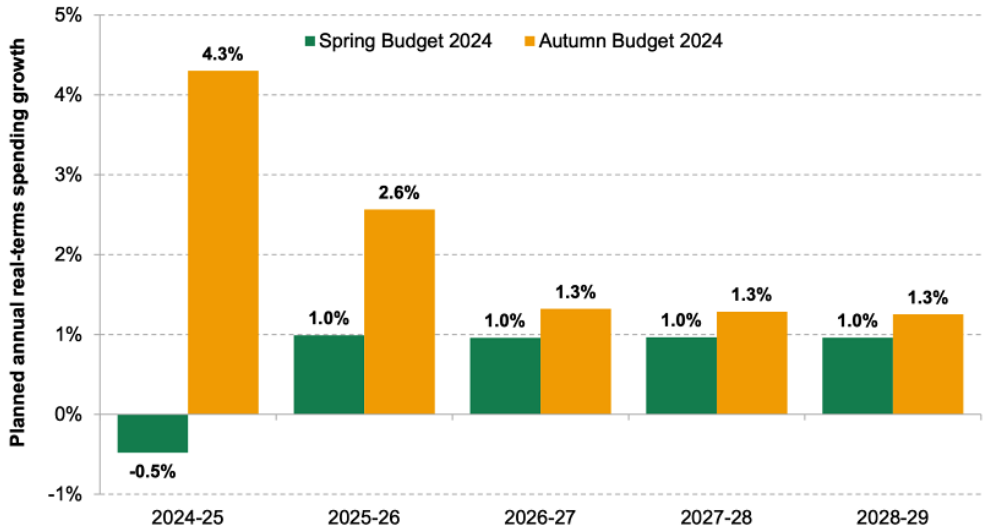
3.3 In terms of inflation, the UK budget policies announced in the Autumn Statement are expected to increase CPI inflation by around 0.5% at peak, meaning that CPI is forecast to rise to 2.6% in 2025 before gradually falling back to target.

3.4 The chart below shows total actual and forecast spending on revenue (RDEL) and capital (CDEL) following the budget policy announcements.



3.5 While from the funding announced there is an increase in public spending suggested in the short term, it should be noted that in future years the Budget suggested that spending growth would be broadly in line with that announced in the Spring Budget, as detailed in the chart below. The Spending Review – set to be published by the UK Government originally in Spring 2025, but now pushed back to Summer

2025 – will provide further detail on spending plans over the medium term.



3.6 As part of the taxation measures, the Chancellor announced an increase in National Insurance contributions (NIC) for employers, raising the rate of contribution from 13.8% to 15% and dropping the threshold at which NIC is paid from £9,100 to £5,000.

3.7 This is estimated to cost Renfrewshire Council General Services over £6 million in 2025/26. The UK Government has advised that compensatory funding will be provided to ‘shield’ the public sector from the additional cost of this change; however, this has yet to be formally confirmed. It is likely however, that the compensatory funding received in Scotland will be insufficient to meet the actual costs. This is because the public sector is proportionally larger in Scotland (and better paid) than in England and Wales, therefore assuming the allocation of compensatory funding is based on Barnett principles, the allocation to Scotland would be insufficient. The UK Treasury has recently informed the Scottish Government the allocation would be £295–330 million; well below the Scottish Government’s initial estimate of £500 million.

3.8 It should be noted that there are likely to be indirect costs associated with this NIC change, with contractors and other suppliers passing on this cost through higher prices. This is currently estimated to be c2.5% above usual inflationary increases, and will predominantly impact on construction and maintenance programmes; and commissioned childcare and social care provision.

3.9 Turning to impact on the Scottish Budget, there will be additional funding for the Scottish Government through the Barnett formula of

£1.5 billion in 2024/25, and £3.4 billion (£2.8 billion revenue and £0.6 billion capital) for 2025/26. The main measures generating revenue consequentials for Scotland in 2025/26 are:

- Additional funding for the NHS in England in 2025/26, which generates £1.6 billion;
- Investment in Education and skills, including new foundation apprenticeships and relaunching Lifelong Learning Entitlement, as well as schools funding, which generates £0.5 billion;
- Real-terms increase in settlements for local government in England, generating £0.3 billion.

While the Scottish Government is free to spend this money where it chooses, it is likely that health-related consequentials will be ring-fenced for the NHS in Scotland based on the pattern of pervious similar decisions taken by the Scottish Government.

3.10 Members should be aware that there is no requirement for the Scottish Government to pass through any local government related consequentials to councils in Scotland. In the event that these consequentials are passed through to local government, it may be the case that the Scottish Government would mandate – as has been the case in previous years – that funding growth is passed directly to health and social care partnerships; or funding may come with additional new obligations in terms of local government delivery of Scottish Government priorities.

4 2024/25 Financial Position

4.1 Members are aware the recent very high levels of inflation experienced in the economy over the past few years have driven cost increases that are impacting on families and household finances, as well as the Council and associated bodies, community organisations and businesses. While the outlook for inflation has eased significantly since its peak of 11% in 2022, the most recent CPI figure of 2.3% indicates an upturn, indeed the OBR suggests it will rise again to around 2.6% before returning to its target 2.0% in 2025. It should be noted that the legacy of the very high rates recently experienced is still being felt, with many contracts continuing to be the subject of high and increasing prices. And of course lower inflation does not mean a reduction in cost – simply that the rate of increase in costs in slowing.

4.2 As has been previously reported, the Council continues to face cost pressures in other areas – residential care, transportation and diesel costs. Vehicle parts costs are increasingly an issue, while building and construction cost pressures remain an ongoing concern.

4.3 The Council Overview finance report to the recent Finance, Resources and Customer Services Policy Board outlined a 2024/25 projected overspend (excluding the overspend projected in adult social care) of £0.1 million. High levels of inflation and other cost pressures are mitigated by an expected increase in investment income in the current year, given prevailing high rates of interest. This projection is exclusive of a number of other risks, as follows:

- The 2024/25 pay award has been agreed for teaching staff at 4.27%, with a quantum of funding of £29m confirmed by the Scottish Government. The distribution of this across councils has yet to be confirmed, so there is a risk that the Council, having budgeted 3%, may incur costs in excess of distributed funding.
- An increase in employer pension contributions for teachers that came into effect from 1 April 2024 is expected to be fully funded by the Scottish Government. Again, the quantum of funding has been indicated, but distribution to Renfrewshire Council is not yet confirmed. The cost of the increased rate for the Council is c£3.0m per year.
- The Council budgeted in 2024/25 for receipt in full of the £4.8m funding associated with teacher numbers. The Council has not (in line with every other council in Scotland) accepted the terms of the specific grant funding, therefore there remains a risk this funding will not be received.
- The projection does not include any variance relating to the collection of Council Tax. Current forecasts suggest collection rates are holding up in line with budget, however this will continue to be closely monitored for the remainder of the financial year.

5 Renfrewshire Health and Social Care Partnership

5.1 The Council Overview finance report to the recent Finance, Resources and Customer Services Policy Board also outlined a 2024/25 projected overspend in adult social care of £6.7m, slightly less than the planned overspend anticipated when the 2024/25 budget was set.

5.2 At the September meeting of the Renfrewshire Health and Social Care Integration Joint Board (IJB), members were advised of the combined position of health and social care spending pressures, noting that the current overall estimated recurring funding gap for 2024/25 is £10.7m.

This is forecast to increase to £22.9m in 2025/26, rising to £34.9m in 2026/27.

5.3 The current balance of IJB unallocated reserves is £10.1m. As noted in the report, should the IJB be unable to agree a balanced budget for future years, the Integration Scheme states that the IJB would be required to seek additional funding from its Partner Bodies. In the absence of significant savings proposals being agreed, IJB reserve balances are expected to be insufficient to cover the 2025/26 projected funding gap.

6 Capital Plan 2024/25

6.1 The Council has an ambitious capital programme, incorporating the delivery of significant investment in cultural venues and wider infrastructure linked to City Deal projects and Levelling Up Funding; as well as major improvement and expansion projects in the school estate.

6.2 Within this overall programme, the Council has been undertaking an ambitious programme of investment in its cultural and heritage assets. As reported to the Economy and Regeneration Policy Board on 5 November 2024, construction and refurbishment works in historic buildings are intrinsically subject to a higher degree of cost volatility due to the nature of the works and the fact that the complexity and detail of the works required are in many instances not fully known until the works are in progress and the building condition is fully understood.

6.3 Paisley Museum Reimagined will be a world-class destination telling the inspirational stories of Paisley’s people and pattern and showcasing its internationally significant collections. This project includes repairing and renovating all buildings on the museum campus delivering a 20% increase in the overall usable area. The construction also includes a new extension housing a visitor reception and café, the installation of new mechanical, electrical and plant systems, as well as the introduction of a public courtyard. Importantly, this work enables an increase in the interpretation of the collections and number of objects on display, with a strong focus on digital interpretation.

6.4 The project consists of three key phases – Main Contract dealing with construction, followed by Exhibition Fitout to prepare the infrastructure for the display systems, completed by Object Install. Once the main contract is complete, this will allow the second and third stages of the project (exhibition fitout and object install) to be completed. A revised programme to completion of Phase 1 was received from the Main

Contractor, Kier Construction Ltd in October 2024. They are currently reporting progress against construction programme forecasting contract completion in July 2025. This completion date is well beyond the initial estimated completion when the project commenced, due to the complexity of the works, as well as the project being significantly impacted by the pandemic construction shut down, subsequent restricted working conditions, and labour and materials shortages in the period following the pandemic – all of which resulted in extreme levels of construction cost inflation which is only recently beginning to moderate.

6.5 As is expected in a heritage building such as the museum, coupled with many decades of underinvestment and lack of maintenance, a significant level of inherent building defects were planned for an informed by a range of survey work as part of planning for the project. Notwithstanding such preparatory survey work and planning, as the construction project has progressed many issues have been significantly worse than anticipated and a range of unforeseen defects have also been uncovered. Such issues have involved major areas of the building structure including rotted roof joists, dry rot, wet rot, asbestos, extensive plasterwork repairs that have hampered and delayed progress on site, historic drainage failures and for which Keir have been entitled under the contract to additional extensions of time to remedy and complete the project. In addition to costs associated with providing Keir with approved contractual extension of time to complete the project, the cost to remedy such issues have been greater than anticipated based in early survey work or were unforeseen costs at the outset of the project and which cumulatively have cost more than the general risk contingency for the project. This is further compounded by other contractor issues and delays to progress on site. The OneRen PMR project team including external Project Managers are working with Kier to establish mitigation measures to try to accelerate this anticipated completion date by including suggested improvements to resource and sequencing of works. However, there have been substantial delays and additional unanticipated works experienced in the project, which have led to significant entitlement of claims for additional costs from the main contractor. These claims continue to be worked through with support from the Council's technical advisers, and while the Council views elements of the overall claims to be a contractor risk, there remains a possibility that should the claims be adjudicated, that the Council could be found liable in part which would result in additional cost.

6.6 In February 2024, recognising the additional costs which were expected to be incurred in undertaking the works outlined above, Council agreed to increase the capital budget for the project by £6.6 million through the reallocation of funding set aside for public realm works in Paisley town centre and the release of funding from the investment capital fund. Council also agreed in June 2023 that within the wider programme of resource agreed by Council in September 2017 to invest in cultural venues and town centre infrastructure that those elements of the programme not in progress (predominantly the town centre public realm improvements) would be paused in order to release resource within this programme to those projects which were experiencing cost pressures. There remains a balance of £3.5 million within these wider workstreams which has been paused, and it is planned that this balance is reallocated to the Paisley Museum Project.

6.7 Due to the delay in the museum becoming operational, the revenue resource which the Council has allocated within the loans fund to fund the borrowing costs associated with the project over 2023/24, 2024/25 and 2025/26 could also be utilised to provide a CFCR contribution to the project totalling an estimated £6.0 million. It is further recommended that £3 million of unallocated capital receipts also be ringfenced to support the completion of the project and allow for a risk contingency allowance. Should this funding not be required then it would be returned to the capital receipts reserve for reallocation to other Council investment priorities.

6.8 The net additional funding outlined above totals £12.5 million and it is recommended that the capital plan is adjusted to reflect this position. This proposed approach to funding adjustment mitigates any impact on any other aspects of the Council's overall capital programme and does not increase the overall borrowing associated with the project, ensuring the long term revenue impact of completing the project remains within planned limits. Members should remain aware that there remains 12-18 months of works to be completed in the project and while a significant contingency risk allowance has been factored into the proposed increased allocation outlined above, further cost increases cannot at this stage be ruled out.

Implications of the Report

1. **Financial** - the report highlights the impact of the UK Government's Autumn Budget, and notes the short and medium term financial challenges facing the Council. The report also outlines proposed

amendments to the capital plan to reflect anticipated increased costs in relation to the paisley Museum Reimagined project.

2. **HR & Organisational Development** - none arising directly from this report.

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

4. **Legal** – none arising directly from this report.

5. **Property/Assets** - none arising directly from this report.

6. **Information Technology** - none arising directly from this report.

7. **Equality & Human Rights** - none arising directly from the recommendations in this report.

8. **Health & Safety** - none arising directly from this report.

9. **Procurement** – none arising directly from this report.

10. **Risk** - as outlined in the report, the Council's financial risk exposure over the medium term remains high. The report also outlines increasing financial risks for the Renfrewshire IJB as well as the impact of this on the Council. The proposed amended funding for the Paisley Museum Reimagined project includes a contingency risk allowance.

11. **Privacy Impact** – none arising directly from this report.

12. **Children's Rights** – none arising directly from this report.

13. **Climate Risk** – none arising directly from this report.

14. **Cosla Policy Position** – none arising directly from this report.

Author: Alastair MacArthur, Director of Finance & Resources