Renfrewshire Council

To: Council

On: 26 September 2019

Report by: Director of Finance and Resources

Heading: Financial Outlook 2020 - 2023

1. Overview and Key Messages

1.1 This report provides an update to the Financial Outlook previously outlined to the Council in September 2018, and the updated financial position as presented to Council on 28 February 2019.

1.2 The Council's financial outlook continues to be characterised by considerable and ongoing uncertainty, is fluid and subject to potentially material change over even a short-term time horizon. In the context of the wider economic and public spending environment across both the UK and Scotland and in particular the increasing uncertainty developing around the impact of the outcome of the UK's negotiations to withdraw from the European Union in October 2019, the Council's financial outlook over the short to medium term continues to have the potential to move into a period of heightened uncertainty and change.

1.3 Key influential areas continue to relate predominantly to future levels of government grant support, future pay awards and a range of demand related service pressures. It was previously anticipated that moving into 2020/21, the Council would be transitioning into a period of greater certainty, with known pay award levels in place up to and including 2020/21 and the expectation of a UK Comprehensive Spending Review in November and three year grant settlement for local government being provided from the Scottish Government towards the end of 2019. Due to the ongoing political and economic uncertainty at a UK level, the UK Government will provide only a single year budget settlement for the UK which in turn is likely to constrain the ability of the Scottish Government to provide a multi-year financial settlement for local government. It is therefore anticipated that the Council's medium term financial outlook will continue to be underpinned by uncertainty and at continued risk of being subject to ongoing change and material movement.

1.4 As a consequence, the Council's financial planning arrangements will remain subject to active review and in line with previous years, continue to be founded upon a scenario-based approach, in recognition of the scale of variability in the potential financial outcomes for the Council as uncertainties resolve and greater certainty emerges over future years.

Key Messages

1.5 The Council's current financial position remains stable and within the financial planning parameters established when the Council set its budget for 2019/20. Audit Scotland has recently completed their audit of the 2018/19 accounts and the audited financial position remains in line with that reported to Council in June 2019.

1.6 In setting the 2019/20 budget, the Council committed to approximately £7.7m of non-recurring spending, reflecting the temporary spending capacity that was available, predominantly due to the more positive outcome on grant confirmed as part of the Scottish Government's budget for 2018/19 and subsequently in 2019/20.

1.7 Notwithstanding this positive outcome for 2019/20, it represents only temporary respite and it is recognised that the Council will continue to face significant medium term financial challenges to maintain its financial stability, sustainability and capacity to redirect a reducing resource base to invest in key priorities.

1.8 A summary of the Council's medium term financial outlook is outlined below which provides the financial context for the Council's new phase of transformation and change which has been outlined to the June and September cycles of the Leadership Board:

- After taking account of the of the non-recurring spending in 2019/20, a net budget gap of between £26 million - £67 million over the three year period 2020 – 23 is currently forecast.

- For financial planning purposes, the financial strategy is progressing on the basis of a central financial planning scenario with an estimated forecast budget gap of approximately £45 million to be addressed over the three year period.

- In the absence of material disruption to the economy and public finances that may accompany a no deal Brexit scenario, greater certainty would be expected to emerge in each of the key areas of influence on the Council's financial outlook moving into and over the course of 2020.

    - In relation to pay pressures, these are known with a degree of certainty given the three year pay deals secured for 2018/19 – 2020/21.

    - Scottish Government Grant prospects remains the biggest single area of uncertainty. At present the financial outlook is framed upon Government Grant each year falling somewhere between a best case scenario of flat cash and a grant cut of 2.5% - the value between the upper and lower range being £23 million in total over the three year period.

- As outlined in detail in the report, the absence of a Comprehensive Spending Review from the UK Government is likely to result in a continuation of single year financial settlements for local government in Scotland. The early spending announcement by the UK Government in September, which was characterised by a loosening of previous spending constraints, confirmed an increase to the Scottish Block of £1.1bn (2.1% real terms increase). This would suggest the Scottish Government is likely to have a greater level of resources to spend in 2020/21 than they may have been previously planning.

- However, despite this more positive announcement for Scotland, this represents only an element of the overall factors which underpin the Scottish Government's budget under an increasingly devolved environment and as previously reported to members, it is anticipated that the Scottish Government budget will over the next three years be subject to negative adjustments as part of the operation of the fiscal framework, which will impact negatively on the Scottish Government's spending capacity.

- In this context and coupled with the need for the Scottish Government to fund growth in spending across a range of existing commitments, it is too early to make an assumption that the more positive UK spending announcement in September will necessarily result in local government receiving a more positive settlement in 2020/21 and beyond than that previously forecast.

- In this regard, issues in relation to the ongoing uncertainty around Brexit are finally resolved and the expected Scottish Government budget announcement in December, will be critical milestones in providing a greater degree of clarity in the likely prospects for the Council's future grant settlements.

1.9 In these circumstances as in previous years, it is important that the Council continues to adopt a sustainable medium-term perspective in developing and delivering the financial strategy and budget planning for 2020/21 – 23. In this context, it is recommended that the Council progresses its financial strategy on the basis of planning to target the delivery of the majority of savings in years 1 and 2 of the three years to provide a prudent and appropriate level of financial flexibility for the Council over the course of this medium term period of uncertainty. This will ensure that as a clear position emerges over the coming months for 2020/21 and potentially the direction of travel beyond, the Council is well placed to adequately and sustainably address the overall budget gap without being forced to respond over a short period of time, recognising there may again be comparatively limited time between announcement of government grant and statutory dates by which the Council is required to set its budget and Council tax.

1.10 In seeking to secure net budget savings to address the estimated £45 million budget gap over the three year period, it is recognised this will be progressed through a range of measures. For planning purposes, it is estimated that potentially up to £20 million of net saving/cost mitigation measures can be secured over the three year period through a combination of the following measures that are explored in more detail in the main body of the report:-

- Corporate Financing Savings - it should be noted however, that any such opportunity will be materially smaller in scale than previous years, restricted potentially to circa £2 million.

- Service Based Efficiencies and Budget Reallocation – similar to previous years, work will be progressed with service Directors to develop and deliver a range of smaller scale service led efficiencies along with work to identify budget reallocation opportunities.

- IJB Financial Planning - similar to the approach adopted for the first time in 2019/20, it is proposed to maintain a core financial planning assumption that the maximum cash growth applicable to the IJB delegated resources will be approximately 2% per annum (this may be subject to assessment against any specific grant conditions set as part of the financial settlement from the Scottish Government).

- Council Tax – the option of annual Council tax increases are anticipated to remain available to the Council as part of their annual budget setting considerations.

1.11 Taking into account the detail outlined above and as outlined in recent reports provided to the Leadership board, the next phase of the Transformation and Change Programme – Right for Renfrewshire - is progressing on the basis of targeting to deliver sustainable and recurring savings of up to £25 million over the next three years.

1.12 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 2020/21 budget but also over the medium term through to 2022/23 and beyond. In this context, the Corporate Management team remain available to advise and work with political groups and elected members to assist in the development of budget strategies for 2020/21 which remain flexible, sustainable and focused on the delivery of key priorities detailed in the Council Plan. 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.

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2. Recommendations

2.1 Note the update regarding the Council's current financial position.

2.2 Note the updated financial forecasts for the medium term, the range of potential funding issues facing the Council and the requirement to continue to plan for further significant budget gaps in the period through to 2023.

2.3 Approve the Councils ongoing commitment to the financial planning principles outlined in section 8 of the report.

3. Current Financial position

3.1 The Council's current financial position remains within the financial planning parameters established in the setting of the 2019/20 budget. Audit Scotland have completed their audit of the 2018/19 annual accounts which has confirmed that the audited financial position remains in line with that reported to Council in June. Unallocated reserves remain at approximately £7 million and there is currently no dependence on these reserves as part of the 2019/20 budget approved in February 2019, where it was also agreed that unallocated reserves be retained at a minimum of £7 million during 2019/20. Budget monitoring for 2019/20 to date confirms spending across all services remains broadly within existing budgets. The Council's immediate financial position remains stable and consistent with existing financial and service plans notwithstanding the significant financial challenges which the Council will face in future years.

4 Financial Outlook 2020 -2023

4.1 The Council's medium term financial outlook continues to be characterised by considerable and ongoing uncertainty, is fluid and subject to potentially material change over even a short-term time horizon. In the context of the wider economic and public spending environment across both the UK and Scotland and in particular the increasing uncertainty developing around the impact of the outcome of the UK's negotiations to withdraw from the European Union in October 2019, the Council's financial outlook over the short to medium term has the potential to move into a period of heightened uncertainty and change.

4.2 Key influential areas continue to relate predominantly to future levels of government grant support, future pay awards and a range of demand related service pressures. Current forecasts in relation to the future financial impact of each of these factors are to varying degrees subject to risk of ongoing change and movement.

4.3 As a consequence, the Council's financial planning arrangements remain subject to active review and continue to be based upon a scenario-based approach, in recognition of the scale of variability in the potential financial outcomes for the Council as uncertainties resolve and certainty is established, but also to ensure the Council remains pro-active in managing this key strategic challenge and that decisions are anticipated well in advance of required actions. It is important therefore that the Council continues to plan for a range of potential outcomes across the key financial risks and challenges as they are currently understood. The information in the following sections of the report outlines these key risks and the potential impact these could have on the financial sustainability of the Council, and any requirement to budget for savings.

4.4 The current range of forecast outcomes across key variables is summarised in Appendix 1. Given the current scale of uncertainty, a scenario based approach continues to be adopted in line with previous years practice where potential outcomes have been categorised into a lower, central and upper forecast position; where the lower forecast outlines a more optimistic outlook, while the higher forecast indicates the outcome should pressures transpire to be at the upper end of current forecasts. Table 1 below summarises this central forecast position before any mitigating action has been taken, however members should recognise the significant range possible as outlined in Appendix 1.

Table 1 – Gross budget pressures (Central forecast)

	2020/21	2021/22	2022/23
General inflationary and contract pressures	£3.0m	£3.0m	£3.0m
Impact of agreed Investment commitments	£3.0m	£1.0m	£0.5m
Social Care Pressures	£2.250m	£2.250m	£2.250m
Strategic Waste	£1.250m	£0m	£0m
Pay pressures	£7.400m	£6.600m	£6.800m
Revenue grant loss	£3.750m	£3.750m	£3.750m
Total budget pressure	**£20.650m**	**£16.6m**	**£16.3m**
Range of Total Budget pressures (per Appendix 1)	**£14.1m - £27.4m**	**£9.3m - £23.7m**	**£9.4m - £22.9m**

5 Government Grant prospects

5.1 Previous financial outlook reports have outlined the increased risks to both the Scottish Government's block grant position and consequential risks to the local government settlement arising from the impact of both the overall level of budget available to the Scottish Government, and their policy choices.

5.2 The level of funding available to the Scottish Government is increasingly influenced by the Fiscal Framework which came into place following the Scotland Act 2016, the associated enhanced borrowing and tax raising powers available; and importantly, the performance of the Scottish economy relative to that of the UK as a whole.

5.3 In the context of the ongoing political disruption at a UK level, the planned UK Comprehensive Spending Review (CSR), which would have set out three year spending plans from 2020, has been postponed. Earlier this month, the Chancellor of the Exchequer announced the UK Government's spending plans for 2020/21. This announcement fell short of a full budget as there was no accompanying economic assessment or tax decisions. This early spending announcement by the UK Government, was characterised by a loosening of previous spending constraints, and which confirmed an increase to the Scottish Block of £1.1bn (2.1% real terms increase). This was an increase on previous expectations and would suggest the Scottish Government is likely to have a greater level of resources to spend in 2020/21 than they may have been previously planning.

5.4 However, despite this more positive announcement for Scotland, this represents only an element of the overall factors which underpin the Scottish Government budget under an increasingly devolved environment. Firstly, and as outlined above, the UK Government have yet to announce economic assessment and taxation decisions which would form part of a full budget announcement and play into the workings of the fiscal framework. As such, the

Scottish Government do not as yet have all the necessary information at their disposal to form a firm view of their settlement from Westminster for 2020/21. Further, the postponement of a three year CSR at a UK level, is likely to constrain the ability of the Scottish Government to meet its commitment to provide local government in Scotland with a three year financial settlement from 2020/21.

5.5 In addition, and as previously reported to members, it is anticipated that the Scottish Government budget will over the next three years be subject to negative adjustments and risks as part of the operation of the fiscal framework, which will be a constraining factor on the Scottish Government's spending capacity. This developing position is underpinned by the slower growth rate in income tax per head in Scotland relative to that of the UK as a whole. The impact of this is a growing area of concern and risk for the Scottish budget and is manifesting itself in two key ways:

- Firstly, as underlying growth in devolved Scottish Tax revenues is lagging that of the UK as a whole, the Block Grant adjustment (which replicates what the Scottish budget would have benefited had fiscal devolution not been in place) is expected to grow at a faster rate than devolved taxes. The implication of this is that the Scottish Budget's spending capacity is less than it otherwise would have been under pre-fiscal devolution conditions. It is forecast that the impact of this growing divergence by 2020/21 will almost offset the additional £500 million being raised through devolved tax decisions taken by the Scottish Government over the past two years. Therefore, growth in devolved tax revenues for Scotland as a result of devolved decisions, although growing the absolute spending capacity of the Scottish Government's resources, is expected over the medium term will in effect act as a compensating factor to fill the developing divergence from the faster growing block grant adjustment.

- Secondly, the fiscal devolution framework is underpinned each year by the use of income tax forecasts for that year and a subsequent reconciliation process as finalised outturn tax revenue figures emerge at both a UK and Scottish level. Once completed, this process can result in the flow of funding either to or from the Scottish Government's budget as a reconciliation adjustment. It takes several years for this process to be finalised and 2020/21 represents the first year in which the process will begin to take effect with the reconciliation outcome for financial year 2017/18 being finalised. As detailed in the Scottish Government's Medium Term Financial Strategy (MTFS) in May, based on current forecasts the Scottish budget may be subject to reconciliation adjustments which will require a repayment from the Scottish Budget to the UK Budget totalling £1billion over 2020/21 – 2022/23.

5.6 As previously outlined for members, although the Scottish Government's latest MTFS is lacking in any detail as regards spending plans, the previous spending commitments outlined by the Government, suggest that the outlook for the core local government grant over the medium term is likely to be subject to reductions in spending as the biggest of the unprotected areas of the Scottish Government's budget. In addition, and importantly, existing Scottish Government commitments to a range of priorities that sit within the local government budget will require additional new funding approaching £0.5bn in 2020/21. An increase in overall resources at this level is therefore the minimal level of additional growth in funding that is required just to protect the core budget in cash terms, and consequently a cash increase below this level will represent in effect a cut to the core grant.

5.7 Further, there remains the obvious and potentially significant uncertainty in relation to how the ongoing Brexit situation is finally resolved. It is almost certain that the outlook at a UK, Scotland and Scottish local government level will necessarily be impacted by the form of Brexit which is finally agreed between the UK Government and the EU and that this may impact over both the short as well as the longer term.

5.8 Therefore it is too early to assume that the more positive UK spending announcement in September will necessarily result in local government receiving a more positive settlement in 2020/21 and beyond than that previously forecast. The current anticipated timetable for the key announcements which will inform the position is the UK Government Autumn Statement during November, subject to any impact from a potential general election. Following this the Scottish Government Budget is expected to be announced on or around 12 December, at which point it is expected the Scottish budget and local government settlement will again be for a single year, with prospects of multi-year grant settlements not emerging until next year at the earliest.

5.9 For context, the like for like movement in the level of government revenue grant received in previous years by the Council is summarised below:

Table 2 – Historic revenue grant movement

	2015/16	2016/17	2017/18	2018/19	2019/20
Draft Budget announcement	+0.1%	-3.4%	-4%	-0.8%	-1.4%
Final position following Parliamentary approval	-	-	-2.65%	+1%	-0.5%

It is should be noted that in 2018/19, the Scottish Government utilised devolved tax raising powers to raise additional funding which was utilised to provide a better than anticipated financial settlement for local government and which was reflected in an improved settlement when compared with 2017/18. The Scottish Government have previously made clear that they do not intend to implement any further tax changes in the course of this parliament, indicating that the structure of tax in Scotland has been set for this period, potentially limiting policy choices in this regard to provide any further boost in resources. Notwithstanding this position, there remains the possibility of some form of tax decisions being taken that will influence spending capacity in Scotland. For example, should the UK Government take a decision to further increase the rate at which the higher rate of tax takes effect as had been suggested as a possibility, and should the Scottish Government choose not to match this in part or whole in Scotland, the Scottish Budget would receive a cash boost through a reduced block grant adjustment.

5.10 Scottish Government Grant prospects remains the biggest single area of uncertainty in respect to the Council's financial outlook. At present the financial outlook is framed upon Government Grant each year falling somewhere between a best case scenario of flat cash and a worst case grant cut of 2.5% (on a like for like basis) - the value between the upper and lower range building to £23 million in recurring annual resources by 2022/23. In the context of uncertainty outlined above, it is not proposed at this stage to adjust this forecast. The expected announcement of the single year draft Scottish Government budget in December and what is provided for local government will be a critical milestone not just for 2020/21 but will go some way to framing whether the medium term prospects for local government are potentially moving in a more positive direction.

6 Projected cost pressures

6.1 The current projection for 2020/21 includes by necessity a range of assumptions in respect to key cost pressures, which in gross terms total approximately £16.9 million (central forecast), but are estimated to range from £14.1 million up to £19.9 million, equivalent to approximately 3.4% to 4.9% of the Council's net cost base.

Pay pressures

6.2 During the course of 2018/19, three year pay deals were struck across all employee groups, providing certainty of pay increases up to and including financial year 2020/21. As members will be aware, local government sets and agrees its own pay levels through established national bargaining arrangements, however the negotiating procedure for teachers is slightly different, with a tripartite approach in operation involving the Scottish Government. The three year agreements across all employee groups, represented above inflation annual uplifts, providing a degree of restorative awards following a period of pay restraint. A continuation of restorative pay awards is likely to remain a key objective for trade unions moving into a new round of negotiations beyond 2020/21. In this context the medium term outlook is framed upon pay awards of between 2% - 3% set against anticipated inflation rates at circa 2% over this period.

6.3 As ever, pay settlements will need to be balanced within the overall financial context for local government and maintaining pay awards at or above inflation is likely to remain extremely challenging, particularly if overall resources available to councils decline over the same period.

Demographic pressures

6.4 In conjunction with partners in the Renfrewshire Health & Social Care Partnership (HSCP) and Children's Services, the Council has had success in mitigating cost pressures to a degree through investment in a range of efficiencies and service demand moderation measures. While this approach will continue to be developed by the Chief Officer of the HSCP and the Director of Children's Services, it is anticipated cost pressures will continue to emerge linked to both service demand and contractual cost pressures.

6.5 2020/21 will be the fifth year of operation for the HSCP, and over the initial four years since inception, the budget settlement with the HSCP has been largely driven by both Council resources and resources available through the Scottish Government grant settlement process which were conditionally required to be passed through to the HSCP. Based on recent experience, gross cost pressures experienced in Social Care, would suggest that for planning purposes the potential range of £1.5 million to £3 million (excluding pay pressures), prior to the impact of any mitigation and saving measures. The breadth of this range is reflective of the volatility in demand that can fluctuate over relatively short periods coupled with the exposure to external contract price pressures, given the scale of external providers used for both homecare and residential care facilities.

6.6 In the context of the Council's anticipated financial outlook, and the evolving relationship with the Partnership the HSCP is currently progressing its financial and strategic planning arrangements assuming a maximum net uplift in resources of 2% in cash terms per annum (including pay pressures), which is a tighter uplift than recent years and informed by the wider and more challenging financial outlook anticipated for the Council. As in previous years, the actual uplift in delegated resources may be influenced by conditions set by the Scottish Government as part of the overall financial settlement for local government. Set against the potential range of gross pressures that the Partnership will be exposed to, this will require, similar to previous years, a range of cost mitigation and saving measures to be implemented across the service. Such measures will be informed by the HSCP ongoing strategic planning and change programmes.

<u>Other cost pressures</u>

6.7 The Council each year faces a range of other cost pressures related to the renegotiation of contractual arrangements, general inflation and specific service issues. These can be recurring issues and cover for example:

- Above inflationary increases in utilities costs; specific cost pressures relating to particular services such as waste disposal costs, increased compliance arrangements etc.

- As technology markets change, there is an increasing shift from the traditional approach to ICT procurement (ie purchase software licences which is then held on Council owned servers in large server rooms) to the purchase of "software as a service", where many systems are accessed remotely from a cloud-based solution. This approach has many advantages in terms of freeing accommodation, reducing utility costs and improving reliability and resilience of systems. The financial transition is a reduced need for capital expenditure but an increasing need for revenue funding. In this context there is an increasing exposure of the revenue budget to contract related pressures and the continued deterioration of Sterling against other currencies (mainly the Dollar) can exacerbate this as many system providers are based in the United States therefore their costs are incurred in US dollars.

- In addition to external contractual pressures the Council has agreed to future investment commitments which will result in associated debt servicing costs:-

    - City Deal – which represents a significant regional economic programme that will drive economic growth and create jobs across the region. Over £1.1 billion of new investment in infrastructure will be delivered - £275 million within Renfrewshire. This investment is predominantly funded by UK and Scottish Governments, however the Council will contribute just under £18 million which will be funded from prudential borrowing. In addition, due to the phasing of the UK and Scottish Government grant over a 20 year period, there will be a requirement for the Council to temporarily support interest costs associated with a proportion of the infrastructure investment costs. This cost will build incrementally in line with the infrastructure investment, then gradually reduce over the full grant period.

- Prioritised heritage led investment priorities to be delivered over the coming years which will also be a driver for economic regeneration across Renfrewshire. This investment will require both capital and revenue investment in the coming years and suitable provision for these costs requires to be built into the budget pressures forecast over the medium term.

- The financial impact of this range of investment interventions will be largely driven by the actual timing of delivery of the associated infrastructure and facilities but may result in up to an additional £6 million of debt servicing costs emerging. However, as with the Council's wider investment programme, the impact of this will be managed as part of the wider debt smoothing arrangements and opportunities to smooth and dampen the overall impact of this will be continue to be actively progressed.

Government Policy Priorities

6.8 The Scottish Government have a number of times outlined and re-affirmed their major policy and legislative priorities over the course of this parliament, with particular a focus on the early years of a child's life. A range of interventions have been developed, many of which impact on the Council and the way services are delivered for example in relation to the near doubling of early learning and childcare places, measures to improve attainment and specifically close the attainment gap along with workforce policy interventions in teacher pay arrangements. Outwith local government services, the Scottish Government has indicated both through explicit policy direction and funding commitments that the NHS will continue to receive real terms increases in funding. Along with stated commitments to Police funding, the Education sector, implementation of the Carer's Act and free personal care for under-65s, this places the core local government settlement at severe risk of being under considerable pressure and subject to contraction over the medium term.

6.9 At a UK level, the continued efforts to reform the welfare benefits system will have a direct impact in Renfrewshire as the full roll out of Universal Credit continues. A range of service demands flow from these measures such as advice services, housing support services and digital skills; in addition to anticipated increased demand for financial support such as Discretionary Housing Payments and Scottish Welfare Fund grants. The Council has over a number of years invested additional resources to manage and mitigate the impact of this reform programme, however there remains the risk that as Universal Credit in particular continues to be rolled out across Renfrewshire, sustained medium to longer term service demands and associated cost pressures may emerge. It is also recognised that demand for such services would most likely come under even greater pressure in a potential post no deal Brexit scenario.

6.10 Reforms and changes to public sector pension schemes has been an ongoing UK and Scottish Government agenda over a significant period of time as part of achieving longer term financial sustainability of pension arrangements for public sector workers. Recent case law, referred to as the McCloud/Sergeant case has ruled that transitional protections introduced as part of UK wide pension reforms in 2015, designed to protect older workers nearer retirement, were unlawful principally on age discrimination grounds. As yet, the resolution to this issue has still to be established, however it will require some degree of financial recompense to those deemed to have been discriminated against which will represent a cost to public sector pension funds. This therefore raises a very real risk that this may ultimately manifest itself in higher employer contributions in the future.

6.11 More locally, the Council has agreed a range of investments utilising temporary funding capacity in areas such as Tackling Poverty, employability programmes and environmental improvements. These investments are scheduled to complete over the medium term and there will be a requirement to consider the future delivery of these services, set against the strategic priorities of the Council at that point.

6.12 In terms of new Council priorities, the budget pressures detailed at Table 1 above does not provide for any capacity for new investment in council priorities. The generation of any such capacity would require to be linked to sustainable savings and agreed in line with the Council Plan. The delivery of core services requires to be balanced with the desire to invest in strategic priorities; therefore it is important that the underlying financial strategy continues to adopt a medium term approach whilst recognising the ambition of the Council to invest in direct interventions which support the delivery of key outcomes.

7 Financial Strategy and “Right for Renfrewshire”

7.1 The Council’s current financial position remains stable and within the financial planning parameters established when the Council set its budget for 2019/20. In setting the 2019/20 budget, the Council committed to approximately £7.7m of non-recurring spending, reflecting the temporary spending capacity that was available at that time. Notwithstanding this positive outcome for 2019/20, as outlined above, it is anticipated that it represents only temporary respite and that the Council will face significant medium term financial challenges in each of the following three years, with uncertainty in respect to the overall scale.

7.2 After taking account of the of the non-recurring spending in 2019/20, a net budget gap of between £26 million - £67 million over the three year period 2020 – 23 is currently forecast. For planning purposes, the financial strategy is being progressed on the basis of a central planning scenario with an estimated forecast budget gap of approximately £45 million to be addressed over the three year period.

7.3 Given the current uncertainty both politically and economically at a UK level in respect to Brexit, it is now clear the prospect of a multi year Comprehensive Spending Review at a UK level has been postponed for at least a year. This in turn is expected to constrain the opportunity for the Scottish Government to meet its commitment to local government of providing three year financial settlement from 2020/21. Greater certainty would be expected to emerge in relation to the Council's Scottish Government Grant prospects for 2020/21 only in line with the completion of a single year UK budget announcement in the Autumn and subsequent Scottish Government Budget announcement planned for December. The Council should however be alert to the prospect the as a result of the current political uncertainty at a UK level, there remains the risk that this anticipated timetable may be disrupted and which could delay the Scottish Government providing a draft financial settlement to beyond the end of the calendar year. Such a scenario would provide very little time for the Council to respond prior to statutory deadlines to set a budget and council tax levels for 2020/21.

7.4 In these circumstances as in previous years, it is important that the Council continues to adopt a pro-active and sustainable medium-term perspective in developing and delivering the financial strategy and budget planning for 2020/21 – 23. In this context, it is recommended that the Council progresses the strategy on the basis of planning to target the delivery of the majority of savings in years 1 and 2 of the strategy to provide a prudent and appropriate level of financial flexibility for the Council over the course of this medium term period of uncertainty. This will ensure that as a clear position emerges over the coming months for 2020/21 and potentially beyond, the Council is well placed to adequately and sustainably address the overall budget gap without being forced to undertake reactive decisions a short period of time in response to a potentially late financial settlement being confirmed.

7.5 As outlined earlier, it is proposed to progress the financial strategy on the basis of seeking to secure net budget savings of £45 million over the three year period. It is recognised that in line with previous years, the Council will be required to progress addressing this budget gap through a range of measures in addition to the reliance that will be place on the Council's transformation and change programme. For planning purposes, it is estimated that up to £20 million of net saving/cost mitigation measures can be secured over the three year period through a combination of the following

- Corporate Financing Savings - as outlined previously to members, the existing debt smoothing strategy has in effect been completed in terms of releasing medium term savings. Recent statutory accounting changes have opened up the opportunity for a fresh review of the Council's long term debt/loans fund arrangements. This is anticipated to provide an avenue to generate a fresh tranche of annual debt savings to support the 2020/21 budget position. It should be noted however, that any such opportunity will be materially smaller in scale than previous, restricted potentially to circa £2 million.

- Service Based Efficiencies and Budget Reallocation – similar to previous years, work will be progressed with service Directors to develop and deliver a range of smaller scale service led efficiencies along with work to identify budget reallocation opportunities. Both these measures seek to create headroom within existing service resources to offset the financial impact of new emerging budget pressures on service across the Council. This approach has proved successful in previous years in mitigating on a net basis the impact of new unavoidable budget pressures albeit it is recognised this is likely to become increasingly more challenging for Directors.

- IJB Financial Planning - similar to the approach adopted for the first time in 2019/20, it is proposed to maintain a core financial planning assumption that the maximum cash growth applicable to the IJB delegated resources will be approximately 2% per annum (this may be subject to assessment against any specific grant conditions set as part of the financial settlement from the Scottish Government). In contrast to the forecast reduction in Council revenues (net movement in grant and Council tax), this would continue to represent a significant positive redirection of resources by the Council to protect the long term year on year cash growth in Adult Social Care Service resources to meet increasing demographic demand and cost pressures. Despite this, it remains probable in the context of the scale of annual cost pressures that the IJB has experienced over recent years, it will be required to progress its own service change, efficiency and transformation agenda managed through the IJB Board governance arrangements in order to secure savings and efficiencies to maintain a balanced and sustainable budget.

- Council Tax – the option of annual Council tax increases are anticipated to remain available to the Council as part of their annual budget setting considerations, with the operation of a cap set by the Scottish Government continuing to be a probable feature of future grant settlement arrangements (previous caps have ranged between 3% - 4.79%).

7.6 As outlined to the Leadership Board earlier this month, taking into account the detail outlined above, for planning purposes the Right for Renfrewshire programme, will be progressed on the basis of targeting to deliver sustainable and recurring savings of up to £25 million over the next three years. An initial planning profile for delivering savings over the three year period of £7 million / £13 million / £5 million has been established, albeit this is likely to be subject to change and flex over that period and there will be a need to keep under close review both the required scale and shape of this proposed saving profile as greater certainty emerges on the Council's financial challenge moving forward.

7.7 The Council has had considerable success in delivering change and transformation at scale since 2009 which has been critical in delivering savings as well as mitigating anticipated cost and demand growth for services. The change delivered to date has been both considerable and wide ranging, from deploying new technologies and digital capability, to innovating on a range of fronts with new delivery models including for example the expanded Leisure Trust arrangements, Health and Social Care arrangements as well as key collaborative projects covering for example strategic waste and indeed the City Region arrangement. Financial benefits have been realised through opportunities to reconfigure both Council structures as well as discrete services and functions, streamlining of the size and shape of the workforce has been significant over the past 10 years as well as rationalising the scale of the Council's assets utilised to deliver services.

7.8 As outlined to the September Leadership Board, there is an increased reliance being placed upon the Right for Renfrewshire programme to deliver a greater level of financial savings than has been delivered over recent years. In this context, as well as recognising the long term journey of change the Council has already been on since 2009, the Right for Renfrewshire programme is adopting a fresh approach to developing and designing change and transformation moving forward in order to avoid the risk of responding to an intensifying financial challenge by simply reducing costs within the context of current service models.

7.9 In approaching this challenge, it is important that the Council is able to begin to articulate a vision and blue print of what it is envisaged will characterise and define the Council's future state in 3 – 5 years. Detailed below are some of the key attributes that undoubtably exist today but which are envisaged will become significantly stronger features of the Council as it moves forward and transforms through this period:

- The Council will be leaner and more efficient, a digitally leading public sector body, doing the right things well, responsive to citizens changing needs and expectations and which prioritises more limited resources to where it can make the biggest positive impact on peoples' lives across Renfrewshire.

- The Council has a much clearer focus on its core purpose and what it is best placed to deliver, facilitate and enable on behalf of communities, partners, staff and businesses.

- The Council has a much more structured approach to designing services, where there is a clearer basis which underpins the service scope, standards, quality and cost of services that exist.

- The Council is better organised to have more adaptable structures where roles, teams and functions are designed to deliver excellent universal services for all communities whilst focusing our specialist resource on more complex customer needs.

- The Council works better with communities and recognises that the Council's role will be as much about building capacity to allow communities to play a bigger direct part in tackling the issues that affect them the most and where the Council enables communities to reach their potential and understand their needs.

- The Council will develop improved collaborative practice with partners to better achieve common goals for Renfrewshire and collectively invest our energy and resources where they make the most impact

- The Council has a workforce focused on where they will make the biggest impact, where all have opportunities to develop careers along clear pathways and feel motivated and positive about being part of the Council. The Council will be a leader in attracting and retaining talent and staff will be better supported to do their jobs and will be more empowered to innovate and find solutions.

8 Longer Term Outlook

8.1 Given the many variables and risks which potentially impact on the council's financial position, forecasting over the longer term inevitably becomes more challenging. In particular the form of the UK exit from the EU could have significant implications for the Scottish economy and therefore the Scottish Government budget. However, it is incumbent on the Council to continue to adopt a longer term outlook to ensure that risks to the Council's underlying financial sustainability are identified early and that where appropriate long term strategic responses carefully planned, developed and implemented.

8.2 The Financial Outlook report to Council in September 2016 included a Long Term Financial Strategy which set out a range of risks, challenges, approaches and principles which continue to remain valid today. It was intended that this long term strategy would have been fundamentally reviewed towards the end of 2019 to ensure it remained appropriately current and informed, in particular following the UK Government Spending Review publication, the Scottish Government's commitment to three year financial settlements as well as the outcome of Brexit negotiations and the finalised exit route as the potential longer term economic implications. As outlined above, each of these major uncertainties have remained unresolved moving from 2018 into 2019. It is again anticipated that the coming months moving from 2019 into 2020 and over the course of that year will see these issues resolved. It is therefore planned to postpone the refresh of the long term strategy until 2020. Once these issues are gradually resolved, this will provide a firmer basis on which to fully refresh the Council's risk assessment associated with its long term financial outlook.

8.3 As outlined to Council last year, the existing strategy outlined a need for the council to continue to plan services and finances over the medium to longer term on the basis of:

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

8.4 The principles adopted by Council in agreeing the strategy therefore remain valid and will continue to form the basis of the Council's financial planning approach over the medium term:

(i) The Council has an ongoing commitment to efficiency, modernisation of service delivery and prioritisation of resources on the delivery of key strategic outcomes.

(ii) The Council strives to maximise income, grow its tax base and attract external funding.

(iii) Investment in service transformation and early intervention/ prevention, including lifecycle maintenance to protect existing investments in our assets is given appropriate priority.

(iv) Any new borrowing decisions taken by the Council are capable of repayment on a sustainable basis and overall debt levels are contained within affordable long term parameters.

(v) The Council's core budget is not underwritten by the use of general reserves or speculative capital receipts.

(vi) Council reserves are maintained at a level which provides appropriate financial resilience to the Council and the core services it provides and should be subject to ongoing annual review in the context of the risk profile faced by the Council.

9 Non-Housing Capital

9.1 The Council's capital grant figures for future years are not known at this point and will not be confirmed until the Scottish Budget is announced in December. As outlined above, it is expected that the Scottish Government will once again provide only a single year set of financial settlement figures for local government. Notwithstanding this, at an all Scotland level, the Scottish Government have forecast in their own medium term financial strategy for the level of capital resources at their disposal to steadily grow over the medium term, at an average rate of between 5%-8% per annum through to 2023/24. Were this growth to be reflected in the local government settlement, there would remain the prospect that capital grant resources available to the Council will expand over the medium term. The outcome of the 2020/21 settlement although only for a single year will provide an indication of the potential direction of travel over the medium term.

9.2 The Council has previously agreed to a number of financial planning principles in order to ensure the capital programme remains sustainable and affordable; including directing capital grant in the first instance to support ongoing lifecycle maintenance and renewals programmes in order to protect the existing asset base; and this principle remains key to the development of future capital plans. Additionally, the capital plan is in a wider context updated to include known resource and investments underpinned by borrowing must be based on business cases which deliver associated efficiencies which support borrowing costs. In this context in considering the capital plan as part of the 2019/20 budget a level of pre-commitment of future capital grant has been made by the Council to aid a longer term investment strategy in the roads infrastructure.

9.3 In this context, it is expected that at the Council budget meeting for 2020/21, budget proposals in relation to capital would be restricted to an update to the capital programme taking account of the confirmed 2020/21 capital grant position.

Implications of the Report

1. **Financial** – the report highlights the financial risks facing the Council over the medium term, and a requirement to continue to make significant financial savings in order to remain financial sustainable.

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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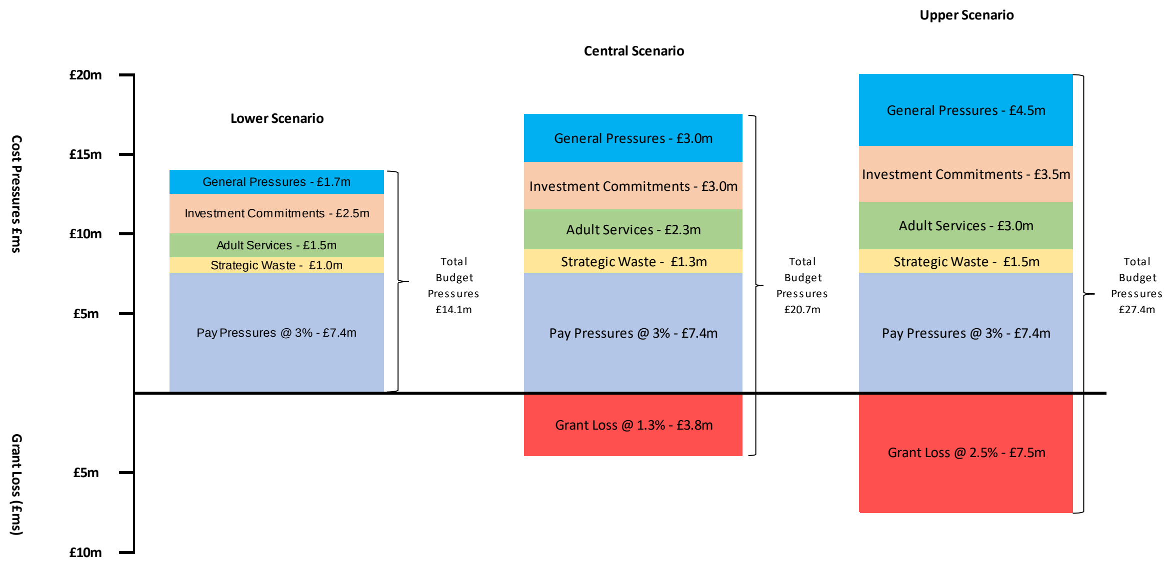
Appendix 1

2020/21



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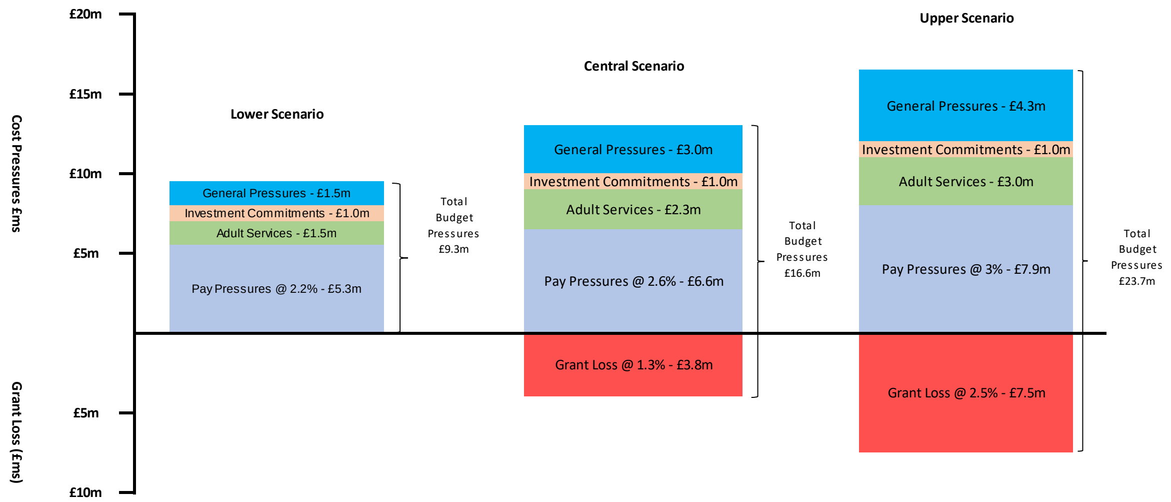

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