Renfrewshire Council

To: Council

On: 30 June 2022

Report by: Chief Executive and Director of Finance and Resources

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Heading: Financial Sustainability and General Fund Financial Outlook

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1. **Overview and Key Messages**

1.1 The Council's financial outlook is subject to increasing risk over the short and medium term as the Council continues to support both community and organisational recovery from the COVID19 pandemic; however the financial position in the current financial year remains stable.

1.2 The Scottish Government Resource Spending Review (RSR) outlines the priorities that the Scottish Government will support over the next 5 years of the current Parliament ie reform to improve outcomes for children living in poverty; achievement of the just transition to a net zero and climate resilient society; continued recovery from the Covid-19 pandemic and transformation of the economy to enable growth, opportunity and a sustainable outlook. The RSR is not a Budget - the annual budget process will remain. This will provide more detailed final data and will confirm annually revenue and capital financial settlements for local government which may ultimately differ from that outlined in the RSR. However, it should nevertheless be noted that the RSR does constitute the Scottish Government's best estimate at this stage of what they forecast to be their medium term financial position and planned expenditure across the public sector in Scotland.

1.3 The RSR outlines a position of increasing financial constraint for the Scottish Government, with slowing economic growth, higher inflation and increasing spend in demand-led areas of the budget eg health and social security; leaving unprotected budgets being squeezed. It is estimated around 90% of the anticipated increase in income to the Scottish Government over the RSR period is allocated to health and social care and social security; resulting in practically all other areas planned to receive a flat cash settlement or a cash terms reduction.

1.4 The future local government settlement is forecast by the Scottish Government as flat cash, which based on forecast inflation rates would suggest an estimated 7-8% real terms reduction over the RSR period. The RSR also commits to build on a new deal for local government, with finalisation of work on a fiscal framework for local government and a new Partnership Agreement. The RSR suggests greater flexibility over financial arrangements being matched with increased accountability for the delivery of national priorities.

1.5 The Cabinet Secretary has stated that given the financial constraints being faced by the Scottish Government, there is a need to prioritise spending, and to reset growth in the public sector, with a focus on efficiency and innovation. The Cabinet Secretary also outlines a need for a sharp focus on structural change and collaboration. The RSR outlines a range of efficiency measures which will be taken by the Scottish Government including efforts to contain pay growth, public sector reform, income maximisation and improved public sector procurement.

1.6 While there is now relatively greater certainty with regards the overall forecast quantum of future local government settlements, the forecast allocation to individual councils will be subject to the updating of the distribution process and factors within that. Notwithstanding, the Council's medium term outlook has been revised to reflect the flat cash projection outlined in the RSR; noting the downside risks should there be increased pressure in the Scottish Government budget to fund for example further increases to the NHS or social security.

1.7 Despite there being now relatively greater certainty in terms of future grant settlements, the prospects for pay and supplies spend are now much more volatile, linked to current exceptional levels of inflation. Therefore, the forecast financial gap as previously reported to members, while not significantly differing from previous forecasts in absolute terms, does have a different context in that the main drivers for the gap relate to spend pressures. Importantly, the profile of the gap is also more immediate – predominantly being related to near term pay considerations and high inflation levels.

1.8 It is therefore recommended the Council agree to develop at pace a portfolio of work aimed at ensuring future financial sustainability (and shorter term financial stability) is prioritised; and that savings of £35m are targeted over the next three years in order to close the forecast financial gap outlined above and allowing for a degree of flexibility to manage risks associated with challenges in delivery of savings at this scale and over this period. Proposed workstreams are outlined in Section 6 of the report.

1.9 The combined impact of financial savings arising from the application of accounting flexibilities and service transformation will not be sufficient to close the financial gap the Council is facing, meaning a range of other financial sustainability measures will require to be explored. It is recommended that the portfolio of measures be developed by Directors over the summer period. with appropriate future board reporting, and note that in line with practice in previous years regular financial update reports will be brought back to future Council cycles as appropriate to outline key changes in the Council's financial outlook, confirmation of key announcements from the Scottish Government over the coming months and the impact of savings arising from progress achieved in relation to the financial sustainability and transformation programme.

It is also considered that the project management and support arrangements for the transformation programme will require to be revised so they clearly align with the financial sustainability portfolio outlined above.

1.10 The shift in the scale and nature of the financial risks outlined above reinforce the need for the Council to be decisive in order to fully commit to the delivery of the significant change and transformation which will be required over the short to medium term.

1.11 In relation to the capital programme, significantly higher risk in relation to construction inflation has been emerging. Energy, supplies and labour shortages are being experienced which is driving inflation in the construction sector higher, along with increased demand as backlog maintenance is tackled and new projects commence as the public sector emerges from the worst of the pandemic. The Scottish Government have taken the opportunity to revise their capital spending in light of these pressures, but also in light of the reduced capital settlement compared to what had been expected from the UK Government. Revised spending allocations have been published by the Scottish Government alongside their Resource Spending Review (RSR).

1.12 The capital grant allocation for the portfolio containing local government in 23/24 is £60m less than in 22/23, dropping by a further £30m in 24/25 before recovering slightly in 25/26 but still to a level below that allocated in 22/23. This allocation exacerbates the pressures the Council will experience in its capital investment programme; in addition to supply and price pressures. In order to maintain current levels of contingencies and risk mitigation within the capital programme, and faced with extraordinary levels of price inflation, some revision to the capital plan is required.

2. Recommendations

2.1 It is recommended that members:

- Note the update provided in the report with regards the Scottish Government's Resource Spending Review, including measures related to public service reform

- Note the update to the Council's medium term financial strategy, the estimated financial gap the Council is facing over the medium term and the increasingly heightened financial risk environment the Council is facing in the shorter term

- Agree that officers progress a range of financial sustainability and transformation workstreams with appropriate future board reporting; and note that in line with practice in previous years regular financial update reports will be brought back to appropriate future Council cycles to outline key changes in the Council's financial outlook, confirmation of key announcements from the Scottish Government over the coming months and the impact of savings arising from progress achieved in relation to the financial sustainability and transformation programme.

- Note the capital programme update; and agree the revisions to the capital plan as outlined in section 7

3. **Revenue Update**

Current Financial Position

3.1 The outturn position for the 2021/22 financial year is reported within the annual accounts report elsewhere on the agenda for this meeting, with a broadly breakeven position being delivered, after the application of reserves of £16m.

3.2 As approved by Council, unallocated reserves have been maintained at a minimum of £10 million moving into 2022/23 - approximately 2.3% of the Council's net revenue expenditure. This prudent step has increased the immediate financial resilience of the Council and is reflective of the heightened financial risks the Council will continue to face from the pandemic, in terms of its ongoing impact, legacy risks and the recovery period, but also from the wider impact on the Council's financial strategy and additional financial risks caused by the disruption to the council transformation programme.

3.3 Council agreed the 2022/23 budget on 3 March, including the utilisation of non-recurring revenue grant funding of £3.982m and the use of reserve funding of £1.650m to generate an in year breakeven budget position. While still early in the financial year, owing to the current cost of living crisis and extraordinary levels of inflation being experienced, it is anticipated that the 2022/23 financial position will come under pressure as the year progresses. However, currently there is no firm data on which a forecast outturn position could be based with the exception of a forecast overspend related to childcare, where exceptional levels of demand driven by mental health crises amongst a significant number of young people is being experienced. Key risks will be in relation to the 2022/23 pay award which remains to be agreed, and as mentioned above, the cost of living crisis will be a significant factor in determining the level of pay award. National pay negotiations are ongoing and are anticipated to be challenging given affordability constraints facing local government. As was the case in 2021/22, the level of pay provision which has been incorporated into the 2022/23 base budget may require to be adjusted depending on the concluded outcome of the negotiations.

3.4 In summary in relation to the current year financial outlook, there is still expected to be some reliance placed on COVID19 non-recurring resource to meet exceptional costs still being incurred, particularly in relation to childcare, waste management and soft FM services. As the Council moves towards recovery and new ways of working are developed there is also the potential for some cost to be incurred in relation to the transitioning of both workplace accommodation and ICT provision to a post-Covid environment that remains suitable and appropriate to facilitate safe and efficient working practice. It is anticipated again these costs would be funded from Covid-related reserve balances. In addition, and as outlined in previous reports to members, increasing pressure is being experienced in the council's capital investment programme owing to high levels of construction inflation. Further detail on this issue is provided later in this report.

4 Scottish Government Resource Spending Review

4.1 The Scottish Government Resource Spending Review (RSR) was published on 31 May 2022, outlining its spending plans for the remainder of this term of Parliament. The Scottish Government also published an updated Medium Term Financial Strategy and updated Capital Spending Allocations. At the same time, the Scottish Fiscal Commission published updated economic and fiscal forecasts.

4.2 The RSR covers the period from 2022/23 to 2026/27 – providing forecasts for a period two years after the current UK spending review period which runs to 2024/25. Therefore, the final two year period of the RSR is based on projected block grant income figures as opposed to those confirmed by the UK government.

4.3 The RSR includes forecast spend at "level 2" in the Budget, which is a relatively aggregated level and does not provide detailed data for each public body, but rather for portfolios of spend. The RSR is not a Budget, and the annual budget process will remain which will provide more detailed data with regards revenue and capital spending, and tax decisions; however the RSR does provide an indication of the prioritisation of spend by the Scottish Government within an increasingly constrained financial envelop. In this regard, the RSR provides welcome financial planning context over an extended period and is the first multi-year review of this nature to be published in a decade.

<u>Scottish Government Resource and Spending</u>

4.4 The total Scottish Government revenue budget is anticipated to increase from £41.8bn in 22/23 to £47.5bn in 26/27, based on both known and assumed levels of block grant increase from the UK government. The block grant is anticipated to increase marginally in real terms over the current UK spending review period to 24/25 as has been previously outlined to members, with a slight increase anticipated in the later 2 years of the RSR period. Funding from the Scottish Income Tax is projected to increase from £13.6bn to £17.5bn over the RSR period, likely based on SFC assumptions of no inflationary increases to higher rate thresholds over the full RSR period, and no decision on the current UK government commitment to reduce the basic rate to19p in 24/25. The RSR also makes an assumption that in 23/24 and 24/25 additional Barnett consequentials of £250m and £400m respectively will be received over and above the block grant figures confirmed by the UK government to date.

4.5 The pressures facing the Scottish Government budget over the current Parliament are detailed in the publication, with significant spending commitments from previous decisions flowing through the projections, particularly in relation to health and social care where a manifesto commitment to increase the NHS front line budget by 20% over the course of this Parliament is detailed. Even at this level of increase (equating to a 2.6% real terms increase over the RSR period), there is likely to be pressure to grow NHS resources beyond this planned level given the position with waiting times and the ongoing recovery from the pandemic. The commitment to create a new National Care Service is reaffirmed, with an increase of 25% in social care investment – some £840m – to strengthen self-directed support, improve prevention and increase community based support.

4.6 The significantly increased level of spend on social security is also outlined, with spend anticipated to increase from £3.9bn in 22/23 to £6.4bn in 26/27, reflecting increased spend in relation to the Scottish Child Payment and adult disability payments. The level of funding from the UK government in relation social security increases over the RSR period, but not to the same extent as anticipated spend due to more generous allowances and eligibility in Scotland as opposed to rUK.

4.7 Broadly speaking, around 90% of the anticipated increase in income for the Scottish Government over the RSR period is allocated to health, social care and social security; resulting in practically all other areas planned to receive a flat cash settlement or a cash terms reduction. This impact is outlined in the table below which illustrates the degree of real terms movement from 2022/23 as the baseline index year:

£ million	2022-23	2023-24	2024-25	2025-26	2026-27
Constitution, External Affairs and Culture	100	95	87	86	84
Crown Office and Procurator Fiscal Service	100	98	96	94	92
Deputy First Minister and Covid Recovery	100	98	96	94	157
Education and Skills	100	98	96	95	109
Finance and Economy	100	96	95	94	102
Health and Social Care	100	100	101	102	103
Justice and Veterans	100	98	96	98	96
Net Zero, Energy and Transport	100	97	98	101	115
Rural Affairs and Islands	100	97	96	94	93
Social Justice and Housing	100	117	128	134	139
Local Government	100	98	96	94	93
Scottish Parliament and Audit Scotland	100	98	96	94	92
Total	100	101	102	102	104

Source: Scottish Fiscal Commission, based on Scottish Government information.

<u>Local Government Settlement</u>

4.8 The RSR outlines a planned **flat cash** position for the local government core settlement from 2022/23 to 2025/26, with a £100m increase in 2026/27. This includes baselining the £120m previously included in the 2022/23 settlement on a non-recurring basis. In the context of forecast inflation levels over this period, this suggests an estimated real terms reduction in future revenue funding for local government at 7-8% over the RSR period. The RSR also outlines a commitment to continue at existing levels transfers from other portfolios in relation to health and social care, early learning and childcare and additional teachers; but not other transfers.

It should be noted however, while the quantum may not change, the application of updated indicators to the distribution of actual funding across the local government sector will still be applied, meaning the Council's future financial settlement will be impacted by distributional effects and the Council is not therefore guaranteed to access its existing share of overall local government funding over this medium term period. By way of example, the Council is likely to receive a reducing share of early learning funding in the coming years as a revised distribution methodology is phased in.

4.9 The RSR also commits to build on a new deal for local government, with finalisation of work on the fiscal framework (which has been ongoing in discussion with COSLA for some time) and a new Partnership Agreement. The RSR suggests greater flexibility over financial arrangements being matched with "increased accountability for the delivery of national priorities". Exploring discretionary revenue raising is mentioned (workplace parking and the visitor levy); as well as a commitment to explore digitising the administration of NDR.

4.10 COSLA, supported by Directors of Finance, have been exploring with the Scottish Government a range of financial flexibilities which would assist in addressing in particular Covid-related spend, but there has also been discussion with regards service concession accounting arrangements – in effect how local government accounts for long term contracts such as PPP or other long term leases. The local government proposed approach has been agreed to; however this is contingent on a full capital accounting review to be chaired independently. A substantial review was carried out in 2021, led by CIPFA Directors of Finance and COSLA so it is not clear what a further review will aim to achieve; although worryingly there is comment in the RSR about a "phased approach towards alignment with the CIPFA Code of practice" which potentially suggests a phased removal of statutory mitigation – this could have major financial implications for councils which could outweigh any benefit from the change to accounting treatment for service concessions. COSLA officers are clarifying the position with the Scottish Government. A letter from the Cabinet Secretary to the COSLA President has also confirmed that a previously suggested financial flexibility whereby capital receipts could be used to mitigate the impact of Covid costs has not been agreed by the UK Government and is therefore no longer permissible. The Council had no plans to utilise this flexibility.

<u>Budget constraint and cost reduction</u>

4.11 The Cabinet Secretary has stated that given the financial constraints being faced by the Scottish Government, there is a need to prioritise spending, and to reset growth in the public sector, with a focus on efficiency and innovation. The Cabinet Secretary also outlines a need for a sharp focus on structural change and collaboration. The RSR outlines a range of measures which will be taken by the SG over the coming months and years:

- Returning the size of the public sector workforce to pre-pandemic levels (a reduction of 6-8%) in order to hold pay bill costs at 22/23 levels
- Continued hybrid working, linked to an estate rationalisation programme based on increased co-location and collaboration
- Consideration of the range and number of public sector bodies, and an expectation that public bodies will deliver annual efficiency savings of at least 3%

- An increased focus on income maximisation
- Programme of digital reform and digital transformation of public services allied to inclusion and connectivity
- A reformed approach to procurement building on increased collaboration and value for money (building on current sectoral centres of expertise to realise financial efficiencies)
- Allowing public bodies to try approaches that may involve more risk but which could deliver greater reward ie increased innovation and commercialisation
- Identifying ways to recover more costs through alternative charging regimes
- Encouragement of shared services and common digital platforms
- Improved management of grants, including additional conditionality and evaluation

4.12 With regards public sector pay, as mentioned above the RSR proposes to hold the public sector pay bill (as opposed to pay levels) at 22/23 levels whilst returning the overall size of the public sector workforce to broadly pre-Covid levels by 26/27. Discussion with trade unions (excluding local government given their separate responsibilities and negotiating arrangements) will include greater flexibility on rates of pay, terms and conditions, and reshaping and reprioritising public services. There is also suggested a greater focus on absence and an aim to reduce this across the public sector through a greater focus on employee wellbeing

4.13 In summary, the RSR outlines a forecast position of increasing financial constraint for the Scottish Government, with slowing economic growth, higher inflation and increasing spend in demand-led areas of the budget eg health and social security; leaving a continued squeeze on unprotected budgets such as local government over the medium term future.

5 Updated Financial Outlook

5.1 As outlined in previous reports to Council, the financial plan of the Council over the medium term suggested a financial gap in the range of £25m-£58m, with a central planning assumption of a gap of £41m over the three year period 2023/24 to 2025/26. This forecast is prior to any decision on council tax. Assuming a 3% uplift in council tax in each year, the cumulative gap would reduce to a range of £18m-£50m. These forecasts were based on projections of revenue grant, which can now be updated to reflect the forecast flat cash settlement outlined in the RSR. However, there remain a number of key risks to the medium term financial position which are further detailed below.

Government Grant

5.2 The section above outlines the forecast position for the local government settlement ie a flat cash position, with a marginal uplift in the final year of the RSR. Based on estimated inflation levels this would be equivalent to a forecast 7-8% reduction over the RSR period, and this projection may be at the lower end of the scale given the very high levels of inflation currently being experienced.

The information in the RSR outlines the core local government settlement, however there is an added complexity in that in recent years there has been transfers from other portfolios (notably health & social care and education) for specific priorities which local government is mandated to deliver eg increased teacher numbers. In 2022/23 these transfers amounted to 15% of the total funding available to local government – circa £1.5bn. Therefore while there is welcome clarity in relation to planned core revenue settlement, this is not the case for all these other elements, with only transfers in relation to health and social care, early learning and additional teachers being confirmed.

5.3 In addition, while there is now relatively greater certainty with regards the overall quantum of the local government settlement, the allocation to individual councils is subject to the updating of the distribution process and factors within that. The Council is already aware of future pressure on the early learning funding as the agreed distribution is embedded within the overall settlement.

5.4 In general terms however, the medium term outlook has been revised to reflect the flat cash projection outlined in the RSR; noting some downside risk should there be increased pressure in the Scottish Government budget to fund for example further demand led funding increases to the NHS or social security.

Pay

5.5 The pay settlement for 2021/22 was agreed at a level which exceeded the budget provision made in setting the 2021/22 by £2.2m. This position was addressed in setting the 22/23 budget, with further provision for 2022/23 being incorporated based broadly on the parameters set out in the Scottish Government public sector pay policy. The very high levels of inflation being experienced and the associated impact on household finances has resulted in an environment where agreeing the 2022/23 pay award is going to be extremely challenging. This is clearly demonstrated in the current balloting by Trade Unions of members with regards industrial action following their outright rejection of a 2% pay offer from COSLA.

5.6 Current forecasts for inflation suggest further rises may be possible, (peaking at up to 11% by the end of 2022) this should be followed by a relatively steady decline over the next 18-24 months (the Bank of England forecast a fall to 2.1% by Summer 2024). In this context, the outlook for pay settlements is increasingly challenging in terms of affordability; and in terms of a history of relatively low increases over the past decade. This is clearly demonstrated by the information within the SFC publication which suggests a significant fall in real household disposable income – an effect which is disproportionately experienced by low income households.

5.7 The impact on the council budget strategy however, is higher forecast cost pressures in the immediate term which the Council has limited flexibility to address without the utilisation of reserve balances. The financial strategy response to this altered outlook is explored later in this report.

COVID19 longer term impact

5.8 It is expected that there will be longer term costs incurred in relation to the pandemic or from decisions the Council has taken in order to respond and to support communities and the organisation recover.

These costs continue to evolve but it is expected that there will be permanent behavioural and societal changes which will demand a service response and which may manifest themselves in terms of both increased cost and/or reduced income. Examples of this include increased levels of household waste, longer term hybrid or remote working, increased cleaning requirements and ongoing support to communities – in particular children and families where demand for mental health support is increasing. The longer term impact on council tax collection levels will also require to be closely monitored with there still being some uncertainty as to how collection levels will be affected. Collection rates have encouragingly held up well over the course of 2021/22 although the impact of the developing cost of living crisis in 2022 may yet have a negative impact on future collection rates.

Other medium term financial issues

5.9 There are a range of other considerations for the financial strategy which are likely to impact over the medium term and which are summarised below:

- HSCP – the National Care Service proposals which are being considered for implementation over the course of the current Parliament will potentially impact on the Council's financial arrangements, but more significantly on the HSCP. The practice of requiring ring-fenced elements of the local government revenue grant to be passed through to the HSCP is anticipated to continue, with the Council's budget assumption being that no further contribution from Council resources will be made.
- Education recovery – the Council has received specific resource from the Scottish Government to support education recovery, with costs being incurred on additional teaching staff and pupil support; and also on devices which enable remote learning. It is expected that this funding will continue to be utilised over a number of academic years to ensure ongoing recovery and additionality of teaching resource; however there are likely to be recurring costs which arise and endure after the current funding has been utilised which the Council will require to fund.
- Council Commitments – as previously reported to Council, the financial plan includes provision for the recurring impact of existing commitments including City Deal investments and schools investment; and will require to reflect longer term impacts which may emerge from service changes required to support current initiatives in regard to Tackling Poverty, Social Renewal, Alcohol and Drugs and Climate Change. The updated Council Plan currently being developed will be a key determinant of these potential costs. The current high levels of inflation will also manifest themselves in unavoidable cost pressures in some long term contracts where annual contractual uplifts are linked to inflation indices eg the schools PPP contract and some ICT contracts.

5.10 The Council's medium term financial plan is continually updated in light of new information as outlined above and in response to evolving views on uncertainties linked particularly to grant and pay. While there is now relatively more certainty in terms of grant, the prospects for pay and supplies spend are now much more volatile, linked to current exceptional levels of inflation.

The updated outlook continues to consider a range of scenarios which suggest that over the next three year period, the Council will without doubt require to deliver significant budget savings to achieve a balanced budget. Since the previous update in March, the scale of these has remained broadly consistent and likely to fall within a range of £29 million - £61 million, with a central forecast of a deficit of £44m over the three year period. These estimates are prior to the impact of any decision with regards council tax increases in each year. Members will recall that council tax provides a critical but limited avenue to increase resources. For illustrative purposes these lower and upper forecasts would reduce to circa £16 million - £49 million after adjusting for an exemplar 3% per annum increase in Council Tax levels each year, with a central forecast gap of £31m.

5.11 This three year forecast continues to represent a wide variation in potential optimistic and pessimistic planning scenarios and it is probable that over the three year period the actual outcome has a greater likelihood of falling closer to the central scenario of a financial gap of circa £44 million (circa £31 million after adjusting for the illustrative Council tax increase).

5.12 This updated position, while not significantly differing from previous forecasts in terms of total gap, does have a different context in that the main drivers for the gap relate to spend issues – grant income now being relatively more certain. The profile of the gap is also now more immediate – predominantly being related to near term pay considerations as have been outlined above. The Council will therefore need to act decisively at the required pace to secure the future financial stability and sustainability of the Council moving forward. In this context it is recommended the Council agree to develop at pace a portfolio of work aimed at ensuring financial sustainability (and short term financial stability) is prioritised; and that savings of £35m are targeted over the next three years in order to close the projected financial gap outlined above and allow for a degree of flexibility to manage the risks associated with the challenge to deliver this scale of savings over a relatively short period.

6 Financial Strategy Response

6.1 The Council has a history of sound financial management as evidenced in annual audit reports from Audit Scotland. This position has in the past been underpinned by the Council prioritising key financial decision making, whereby the financial sustainability of the Council was protected by adopting a medium term perspective and taking savings decisions early and in good time relative to the forecast requirements outlined in the medium financial plan. As well as ensuring continued financial stability, this strategy has also in many years provided the financial capacity to support investment decisions – usually on a non-recurring basis – which support Council agreed priorities such as Tackling Poverty and addressing climate change.

6.2 The Council’s main route to delivering recurring savings has been through its long term transformation programme, branded Right for Renfrewshire in its latest incarnation. The three year financial strategy 2020 – 2023 was underpinned by a requirement for the transformation programme to support the delivery of £25 million of recurring revenue savings over the medium term period to 2023.

An initial phasing assumption of savings of £7 million, £13 million and £5 million was made for each financial year through to 2023. Members will however be aware that, at the onset of the coronavirus pandemic, a decision was taken to formally pause the programme, recognising the capacity of the Council was required to be fully diverted to support the emergency response. As has been outlined in previous update reports, the longer term impact of this decision is that the Council's pipeline of associated savings has now fallen behind the requirements to secure overall financial sustainability – a position which needs appropriately addressed at sufficient pace.

6.3 The approved Council budgets over the 2020/21 to 2022/23 financial years have included £6.5m of recurring savings agreed from Right for Renfrewshire service redesigns. In line with the original savings objective, there would remain approximately £18.5m of associated savings yet to be delivered through the Council's transformation programme as a contribution to the £35m target outlined above. However, the approach to target setting within the programme has previously been based on an assumed level of saving being deliverable from "influencable spend" ie those council budgets for which there is a reasonable degree of management influence over how those budgets could be deployed – with the target saving being in the region of 15%-20% of current spend. In reviewing the programme and associated council budgets in light of the experience and demands of the past two years, it is now considered that the original £25m target will need to be revised, and it is suggested that a balance of savings from transformation activity be realigned to £15m. It is also considered that the project management and support arrangements for the programme will also require to be revised so they clearly align with the financial sustainability portfolio outlined above.

6.4 Council has been previously advised that there remains a significant risk that even once fully remobilised and restarted, the pace at which transformation work can progress may continue to be hampered and constrained by the capacity of the organisation, and therefore the use of capital financing flexibilities would be required in order to balance the financial position in the short term. Council agreed in setting the 2022/23 budget to use these flexibilities to bridge the savings gap over the medium term. This approach will result in higher borrowing costs in the longer term, and this will require to be met through appropriate base budget adjustments in the coming years and the release of long-term flexibility resources. The required support to the Council's 2022/23 budget from this approach was significant at £7.5 million, and this position will require to be unwound over the medium to longer term. Any further potential for efficiencies from this approach will continue to be explored, as will any potential for savings from the revised accounting arrangements for service concession arrangements agreed by the Cabinet Secretary and announced as part of the RSR outlined above.

6.5 However, the combined measures from accounting flexibilities and transformation are together not going to be sufficient to close the forecast financial gap the Council is facing, meaning a range of other financial sustainability measures will require to be explored. It is recommended that Council agree a portfolio of additional measures be explored and developed by Directors over the summer period with appropriate future board reporting as to the savings potential from each of these. It is proposed the portfolio would comprise the following programmes (many of which mirror the approach being taken by the Scottish Government):

a. Strategic Property Review and new ways of working

- Review of all property assets being utilised by the Council (owned or leased) with the aim to assess and identify rationalisation options and an overall reduction in the Council's property holdings increasing utilisation rates and focusing activities in better quality assets; development of core principles for property management; consider opportunities from new ways of working in a post-pandemic environment eg hybrid working and the subsequent impact on property demand, particularly office accommodation and utilisation; develop simplified arrangements for the management of property assets, including those related to management, maintenance, and associated charging; consider any commercial opportunities in terms of property holdings

b. Charging, fees and commercialisation

- Assess and benchmark the current level of fees and charges relative to peer councils and cost of service delivery, considering the potential impact on service users and demand; review the corporate concession policy (last agreed by the General Management and Finance Policy Board March 2011) to ensure it remains fit for purpose; review the current level of internal charging and assess both whether charging levels are appropriate; explore any further opportunities for increasing income or increasing the council's commercial approach to service delivery eg EV charging, advertising or other options as may be permitted by the Scottish Government

c. Review of council risk tolerance

- An assessment of the position council services practice with regards risk mitigation and tolerance; and where this potentially may be adjusted to secure cashable efficiencies eg insurance premiums; consider where an alternative position on risk may allow the council to change the way it delivers services or operates as an organisation

d. Strategic review of procurement

- Assessment of the Council's purchasing patterns, processes and areas for improvement (potentially with support from Scotland Excel based on their knowledge of carrying out similar reviews in other local authorities); Consideration for reduced scope of purchased items/standardised options for purchases; reduced volumes of purchases/stockholding (always considering the management of supply risks for key services); consideration of increased use of national contracts across both revenue and capital areas; and other contract optimisation opportunities

e. Review of local policy position

- o Review of current policy position in terms of service delivery, including an understanding of service delivery standards or obligations, to assess where the council delivers a standard/quantity/quality of service which is above comparative benchmarks or national minimums; develop an understanding of costs involved in service provision due to local policy position across services and potential saving options which may be generated from an alternative approach; including current costs and potential inflationary forecasts from current service provision standards

f. Review of management grades and structures

- o Review of management structures across the council to understand the current structures and grades of staff, spans of control etc; consider the impact of specialist skills on grades and structures and whether these require to be reflected in alternative standards for spans of control/structures etc; develop standard principles for management structures and suggestions for implementation recognising the current/recent reviews of service undertaken under the transformation programme which have resulted in revised management structures in some services.

g. Connected communities

- o Consider potential areas where continued development and expansion of community participation/ownership of council-delivered services or council operated assets may release service efficiencies in line with community empowerment objectives; assess potential for increased levels of participatory budgeting which may inform future service delivery decisions; assess overall levels of grant support to community groups from across council services; and council procured services from the third sector

h. Digital strategy

- o Review the council digital strategy for areas of investment or redesign which will focus on generating longer term efficiencies and/or improved customer service or internal process improvement; develop a prioritisation framework for digital proposals which bases investment decisions on a clear business case

i. Council tax and tax policy

- o Review the current council tax base for any potential scope to increase the level of budgeted income through increased housebuilding and a risk based review of prospective collection rates; develop options for consideration of other local taxes in line with Scottish Government proposals

6.6 Indicative potential savings for each workstream will also be developed, based on the work to be undertaken over the summer period, and these will be reflected in future reports. The proposed workstreams are likely to be accompanied by tactical reviews of discretionary spend across departments; with a view to an overall savings programme being developed totalling an estimated £20m over the next three years, which is in addition to the £15m targeted from service transformation and will culminate in a total financial sustainability portfolio savings of circa £35m as recommended above.

6.7 In addition, the Council will need to consider how it can flexibly utilise reserves to assist managing the financial risks associated with the challenge of delivering future savings at this scale on over a relatively short period of time, or from spending pressures which manifest themselves at a level above that anticipated; always considering the overall levels of financial risk and longer term financial sustainability.

6.8 Members should remain aware that securing £35m of financial savings represents a very significant challenge for the organisation, not just reflecting the scale of savings but in the context of the Council being required to do so after such a long preceding period of similar financial challenge having been in existence. The Council has been delivering financial savings at significant scale since 2011/12 following the onset of the austerity agenda across the public sector (with savings predominantly secured from non-protected areas of service such as corporate functions, community based services and financial flexibilities) and reflecting the cumulative impact of long term cost pressures over the past decade or so. It was long expected that the scale of required medium term savings would gradually soften with an eventual return to growth in local government spending capacity as we progressed into 2020 and the new decade. However, following the economic impact of major global events such as the pandemic and current Ukrainian crisis the outlook for the public expenditure landscape has shifted very materially in a short period of time. In this context, it should be recognised that following the recent Resource Spending Review announcement by the Scottish Government, local government in Scotland and the Council is expected to be moving into a distinctly new phase of heightened financial challenge and risks where delivering high levels of financial savings is likely to have greater implications for the delivery of future services and outcomes than it has over the past decade.

6.9 The financial risks outlined above reinforce the need for the Council to be decisive, and to make substantial decisions at a greater scale than over recent years in order to fully commit to the delivery of the material change and transformation which will be required over the medium term. This is likely to require the lower level of resources at the Council’s disposal to be focused on those areas of greatest need and priority.

7 Capital Investment Programme

7.1 Previous reports to Council have outlined the impact that COVID19 has been having on the capital programme, with initial lockdown measures severely delaying progress with investment projects since 2019; and subsequent supply constraints continuing to impact progress with projects since then.

7.2 In addition to delays however, a significantly higher risk in relation to construction inflation has been emerging. Energy, supplies and labour shortages are being experienced which is driving inflation in the construction sector higher, along with increased demand as backlog maintenance is tackled and new projects commence as we emerge from the worst of the pandemic. The war in Ukraine is exacerbating these constraints. Key materials such as steel, timber, roof tiles and copper are experiencing both significantly increased costs and supply shortages. The Office for National Statistics is tracking construction inflation generally at 8%; with the UK Government Department for Business, Energy and Industrial Strategy index for material prices tracking at 21% in March 2022.

7.3 The Scottish Government have taken the opportunity to revise their capital spending in light of these pressures, but also in light of the reduced capital settlement compared to what had been expected from the UK Government. Revised spending allocations have been published by the Scottish Government alongside their Resource Spending Review (RSR), which also updates allocations to reflect the priorities set out in the RSR, particularly in terms of investment in infrastructure to support the transition to net zero carbon emissions.

7.4 The detail published in the review is at budget level 2 portfolio which includes social justice, housing and local government together, so it is not possible to ascertain exactly what the impact is for the local government capital settlement alone, however, the allocation in 23/24 is £60m less than in 22/23, dropping by a further £30m in 24/25 before recovering slightly in 25/26 but still to a level below that allocated in 22/23. This allocation exacerbates the spending pressures the Council will experience in its capital investment programme, potentially requiring an increased level of borrowing which simply translates into further revenue pressures. This is a particular concern in terms of schools investment under the LEIP programme, where the Scottish Futures Trust have confirmed there is unlikely to be any expansion to the overall funding available, so any increase in allocation for Phase 2 projects (which includes the new Paisley Grammar Community Campus) would simply reduce funding available for Phase 3 (which the Council plans to bid for in relation to Thorn Primary School).

7.5 Members will recall that the current level of capital grant funding 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 now represents the most significant tool 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.

7.6 The impact of inflationary price rises is now being increasingly experienced in both live Council projects and as Council projects are coming to the market. Council has previously been advised that it 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.

Council has previously agreed to earmark £5 million of COVID19 resources for this purpose in the first instance, however is increasingly apparent that this sum is insufficient given increasing prices of two commodities in particular – steel and bitumen. European steel prices have increased from an average £500 per tonne in early 2021, peaking at nearly £1,200 per tonne in late summer 2021, before falling back slightly to around £950 per tonne currently. In particular, the high energy usage required to produce steel is a factor, as is the overall production capacity as many European plants are based in Ukraine. A separate report to this Council meeting seeks approval to ringfence £10m of reserve balances in order to address anticipated pressures which continue to emerge across the live capital programme.

7.7 In assessing the impact of these inflationary pressures on the overall capital programme, and with regards in particular to those projects which have a significant exposure to steel commodity price increases, an emerging risk in relation to the Council funded element of City Deal projects has become evident – in particular with the live Clyde Waterfront and Renfrew Riverside (CWRR) project. The Council's long-term financial commitment in relation to the delivery of these projects extends to the element of investment that requires to be funded outwith the national government grant contributions. This is funded by the Council via prudential borrowing which ultimately results in a long term annual debt servicing cost charged to the revenue budget. In this regard, a level of provision has been built into the Council's revenue planning arrangements for some time to ensure this financial requirement is appropriately accommodated. Council agreed in December 2020 that the borrowing required deliver the projects be set at £37 million. This requirement could be comfortably accommodated within the existing revenue provision that has already been built into the Council's financial plans through matching the Council's borrowing to those elements of the projects with the longest asset life coupled with a low interest rate environment that currently exists.

7.8 In order to maintain current levels of contingencies and risk mitigation within these projects, and faced with the extraordinary levels of price inflation as outlined above, a revised level of provision is required, estimated at £49m. A reassessment of the level of borrowing which could be accommodated within the existing revenue provisions incorporated into current financial plans; again based on the principles outlined above, confirms capacity to deliver a further £8m of borrowing. In addition, it is proposed that £4m of funding from within the Covid construction ringfenced provision set aside in closing the 2021/22 financial year be allocated to the CWRR project; with appropriate revision being made to the capital plan.

Implications of the Report

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

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

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

4. **Legal** - none

5. **Property/Assets** – the report outlines a proposal to undertake a strategic review of property which will aim to ensure the Council's asset base remain effective and efficient

6. **Information Technology** – the report outlines the need to ensure the Council Digital strategy support ongoing financial sustainability; with any digital developments being underpinned by a robust business case

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

8. **Health & Safety** - none

9. **Procurement** – the report outlines a proposal for a strategic review of procurement practice in order to support the Council's ongoing financial sustainability.

10. **Risk** – as outlined in the report, the Council's financial risk exposure both in the immediate term and over the medium term remains high.

The report outlines ongoing uncertainty as well as a range of key measures to be implemented as part of the medium term financial planning arrangements to protect the Council's immediate financial stability and resilience but also continue to progress toward medium term financial sustainability.

11. **Privacy Impact** - none

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

13. **Climate Risk** - none

Author: Alastair MacArthur, Director of Finance & Resources