

EAST RENFREWSHIRE COUNCIL
AUDIT AND SCRUTINY COMMITTEE

9 May 2024

Report by Clerk

NATIONAL EXTERNAL AUDIT REPORT – LOCAL GOVERNMENT IN SCOTLAND
FINANCIAL BULLETIN 2022/23

PURPOSE OF REPORT

1. To provide information on the Audit Scotland report, the *Local Government in Scotland - Financial Bulletin 2022/23*.

RECOMMENDATION

2. It is recommended that the Committee considers the report.

BACKGROUND

3. A copy of the Audit Scotland report, the [Local Government in Scotland Financial Bulletin 2022-23](#) published in January 2024, has already been circulated to all Audit and Scrutiny Committee Members. Under the Committee's specialisation arrangements, the Member leading the review of this particular report is Councillor Buchanan.
4. The Head of Accountancy (Chief Financial Officer) has provided comments on the report. A copy of that feedback is attached (Appendix A refers).

RECOMMENDATION

5. It is recommended that the Committee considers the report.

Local Government Access to Information Act 1985

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Background Papers:-

1. Audit Scotland report on [Local Government in Scotland Financial Bulletin 2022-23](#)

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9 May 2024

REPORT BY HEAD OF ACCOUNTANCY (CHIEF FINANCIAL OFFICER)

LOCAL GOVERNMENT IN SCOTLAND: FINANCIAL BULLETIN 2022/23

INTRODUCTION

1. In January 2024 Audit Scotland published a financial bulletin on local government performance in Scotland in relation to 2022/23. This report advises members on the Council's position in relation to the findings from the report.

FUNDING AND OUTTURN IN 2022/23

2. Part 1 of the bulletin considers the level of funding available to Councils in 2022/23 and how they operated against budget in that year.

3. Whilst Councils' overall revenue funding from all sources rose by £757m in 2022/23 compared to the previous year, this represented a real terms reduction of 2.8% after adjusting for inflationary pressures of around 6.7%.

4. The average 2022/23 Council Tax increase amongst Scottish Councils was 4.5%. East Renfrewshire agreed a lower increase of 3.5%, well below the prevailing inflation rate. The report notes that in year collection of Council Tax improved nationally from 95.7% to 96.2%. This was mirrored in East Renfrewshire where in year collection was 97.6% (2021/22 96.8%). It is important to remember that we continue to collect Council Tax after the end of the year, so the final collection rate will be higher.

5. The largest element (around 60%) of Council funding comes from government grants, with core revenue grant rising by 0.7% in real terms in 2022/23, after one-off COVID funding is excluded. However, the report notes that an increasing proportion of this grant (23.7% in 2021/22, against 25.7% in 2022/23) is ringfenced or directed to specific service areas such as additional teachers or pay uplifts for social care staff in commissioned services, resulting in Councils having less flexibility within their own core budgets.

6. The balance of Council funding comes from Council Tax (close to 20%), other grants and charges for Council services.

7. In comparison to other areas of the Scottish budget, local government has been given less priority in recent years. Between 2013/14 and 2022/23 local government's share of the Scottish budget has fallen from 30% to 23%. Whilst the total Scottish budget has increased by 37% in real terms, the local government allocation has remained relatively static in real terms.

8. East Renfrewshire's budget gap for 2022/23 was £9.533m or 3.1% of total revenue costs. This was close to the Scottish average of 2.9%.

9. In common with most other Councils, East Renfrewshire utilised a mixture of recurring and non-recurring savings and a drawdown of reserves to close the 2022/23 budget gap. We did not, however, use any of the available fiscal flexibilities in setting our 2022/23 budget,

choosing instead to consider this approach for the 2023/24 exercise. 45% of the gap for 2022/23 was closed utilising recurring measures (i.e. permanent savings and Council Tax increases) with the remainder addressed by a draw on unallocated general reserves. Unlike many other Councils, however, we were successful in achieving all of our targeted savings during the year.

10. The Accounts Commission recommends that Councils should prioritise recurring savings and avoid reliance on non-recurring measures, so as to improve financial sustainability. East Renfrewshire has recognised this and seeks to address budget gaps by identifying recurring savings and Council Tax increases, before draws on reserves.

11. In terms of capital, East Renfrewshire's expenditure in 2022/23 was £46.189m (2021/22 £35.901m). Like most other Councils, this substantial increase reflected projects catching up after COVID delays, in addition to rising costs due to inflationary and labour pressures.

12. Government grant covered only 37% of Scottish Councils' capital costs in 2022/23, with borrowing covering 39% nationally. The remainder is typically funded from other grants, developer contributions, capital funded from current revenue (CFCR), and capital receipts. Capital grants are lower in real terms than pre-COVID levels and are expected to reduce further in future. This will increase pressure on Councils as the cost of both capital projects and interest payments on borrowing have risen in recent years. This will be a particular pressure for East Renfrewshire as we relied on borrowing to cover 58% of our capital investment in 2022/23, having less scope to access capital receipts and other income than many other Councils.

13. The report also reviews how Councils have reported on their outturn position within the Management Commentary section of their published 2022/23 Annual Accounts. It finds that Councils could improve explanations of their financial outturn positions and progress against savings plans.

14. East Renfrewshire follows the recommended approach of commenting on the reasons for variances against budget and in reconciling the outturn position to the movement on the general fund, however we did not provide detailed comments on the delivery of planned savings. We will review our existing practice with our external auditors to explore how we can increase transparency as we pull together the 2023/24 annual accounts.

COUNCILS' FINANCIAL POSITION AND OUTLOOK 2023/24 ONWARDS

15. The second part of the bulletin considers the outlook beyond 2022/23 and notes that half of all Scottish Councils again increased their overall usable reserves during 2022/23. East Renfrewshire saw a slight increase in such reserves during the year (2021/22 £58.9m, 2022/23 £64.5m), with this increase relating to committed reserves. The Council's total reserves equated to 21% of net revenue expenditure, leaving us slightly below the average position (27%) across Scotland.

16. The establishment of a new Service Concessions reserve of £14.8m, as a result of rescheduling PFI/PPP debt, was the main reason for our increase in total reserves. However this was partly offset by utilisation of over £5m of the non-earmarked general reserve to assist with 2022/23 budget setting and by the drawdown in year of more than £5m from the Unspent COVID grants reserve. We expect our overall General Fund reserves to reduce in future as the remainder of our COVID funding is utilised to mitigate ongoing pandemic pressures and the Service Concessions reserve is applied in full to support the 2023/24 to 2025/26 budgets.

17. In addition to the new Service Concessions reserve established in 2022/23, other smaller new reserves, totalling £2.7m, were set up to support Get to Zero, Workforce Restructuring, Employee Wellbeing & Development and Community Capacity Building plans. These are clearly stated in the Council's annual accounts.

18. Like most other Councils, East Renfrewshire's Capital Reserve increased substantially in year, from £2.7m to £5.4m. This was mainly due to the return of £2.6m of capital resources previously transferred out to meet potential COVID pressures which did not materialise by 31 March 2023.

19. At 31 March 2023 the unallocated element of the Council's General Fund reserve stood at £6.658m (2.3%) which is within the acceptable range of 2 to 4%.

20. The Accounts Commission recommend that Management Commentaries in Councils' annual accounts should provide clearer statements on reserves policy, in addition to setting out the purpose of each committed reserve. Whilst East Renfrewshire has previously listed details of each reserve, we will consider what additional clarification we can provide in the 2023/24 annual accounts.

21. Across Scotland, Councils' total net debt increased by more than 6% in 2022/23, with most Councils, including East Renfrewshire, following this trend. Our debt increased by 11% in comparison to the 2021/22 level, mainly due to increased borrowing to support our ambitious capital plans as capital grants remained constrained.

22. In line with most other Councils, East Renfrewshire's borrowing costs have reduced in recent years due to low interest rates and slippage in capital programmes, particularly during COVID. We would expect this trend to reverse for the Council, however, as interest rates have increased substantially, capital inflation has also risen, and the Council has an ambitious 10 year capital plan.

23. Our loan charges are forecast to rise from around £9m in 2023/24 to some £20m by 2029/30. This represents an increase in the proportion of our general fund revenue budget being used to service debt from the current 6.3% in 2024/25 to a maximum of 9.1% in 2029/30. This, however, is still within the generally accepted good practice sustainability limit of 10% and will continue to be monitored as part of our Local Government Benchmarking Framework (LGBF) sustainability indicators.

24. Whilst the Council used the service concession financial flexibility, available in 2022/23, to reprofile PFI/PPP debt repayments from 2023/24 onwards over a longer period and reduce current pressures on the revenue budget, a report to Council at the time provided assurance that this was also affordable in the longer term [Service Concession Report](#).

25. The Accounts Commission bulletin also considered the 2023/24 Scottish Government settlement to Councils, noting that this reflected an increase in both cash and real terms. Much of this, however, represented funding transferred from the health and education portfolios to support these services within local government. On a like for like service basis, East Renfrewshire's 2023/24 grant increased by 0.7% in cash terms, which was only slightly above COSLA's assessment of the national increase of 0.6%.

26. In recent years, the trend in capital grant to Councils, both nationally and for East Renfrewshire, has been relatively flat, with cash reductions expected in the coming years.

27. The bulletin next examined the challenging future prospects for Councils and reported that almost all Councils' budget gaps for 2023/24, after Council Tax increases, were significantly larger than those for 2022/23, rising from 2.9% of net revenue costs in 2022/23 to 4.2% in 2023/24. For East Renfrewshire, the gap moved from £9.533m (3.1%) in 2022/23 to

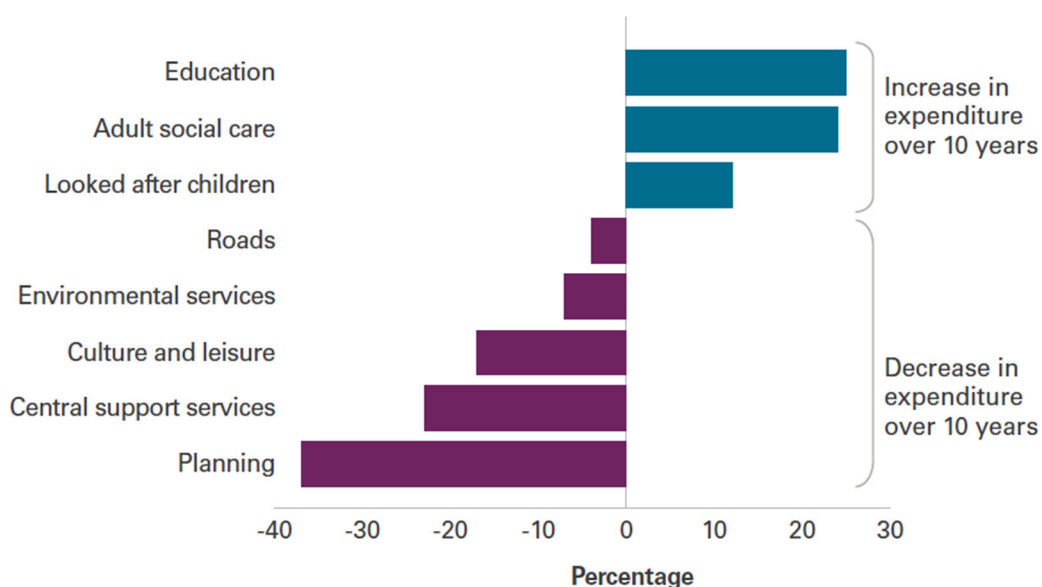
£18.134m (around 5.8%) in 2023/24. Factors contributing to our gap being larger than average include past grant settlements not taking full cognisance of rising demographic demands in the area, and the Council having drawn on reserves in previous years rather than fully closing the budget gap with recurring measures.

28. The Council's approach to closing the 2023/24 gap was broadly similar to that of other Councils. Recurring savings covered 35% of the gap (34% nationally), a 6% Council Tax increase addressed 21% of the gap (18% nationally), a draw on reserves closed 42% of the gap (25% nationally), and other non-recurring savings/other measures accounted for 2% of the gap (23% nationally). Whilst our gap was much greater in 2023/24 than in the previous year, there was an improvement in that 56% was addressed via recurring measures in comparison to recurring measures only covering 45% of the 2022/23 gap.

29. The Accounts Commission recognise the increasing difficulty in identifying and applying recurring savings measures, noting that some Councils have had to reverse savings as a result of public opposition. The report therefore recommends that Councils engage in proper and timely consultation on budget proposals. This, however, is no guarantee of success. In autumn 2022 East Renfrewshire conducted extensive public consultation on its savings proposals for 2023/24 to 2025/26, noting that many respondents expressed a preference for increased charges, rather than cuts in services. When additional garden waste charges were introduced, however, uptake was low and around £280k (50%) of the planned saving was not achieved. Nevertheless, the Council intends to continue good practice in engaging with stakeholders before implementing any new budget measures.

30. The problem of balancing budgets is becoming increasingly acute. The bulletin again states that Scottish Government core revenue support for Councils was relatively static in real terms between 2013/14 and 2022/23, but that an increasing element of this was ring fenced, effectively reducing flexible funding that Councils can use at their discretion. This has resulted in a prioritisation of education and care services and a marked reduction in the remaining "unprotected services", as illustrated in the chart below.

Percentage change in expenditure (in real terms) over ten years, 2012/13 to 2021/22



31. Rising service demands, together with financial constraints, mean Councils must balance short term pressures with longer term financial sustainability. Various tools are

available to measure financial resilience, with most Councils (including East Renfrewshire) using the Local Government Benchmarking Framework. The Council's performance reporting includes indicators on the level of reserves held and the actual outturn expenditure achieved each year as a percentage of budget. In addition, our Treasury Management Strategy and revenue and capital budget planning advise of the ratio of financing costs (loan charges) to the respective General Fund and Housing Revenue Account budgets. This will become ever more important as financial pressures increase.

32. The report recommends that Councils strengthen their public reporting of financial resilience. Whilst we include these measures in our current performance reports and Management Commentary, we will give them a higher profile in future medium and long term financial plans.

33. The bulletin concludes by commenting on two further current financial issues impacting on Scottish Councils.

34. Local Government pension funds underwent their triennial valuations on 31 March 2023, with these revaluations expected to produce financial benefits for Councils. The Strathclyde Pension Fund was confirmed to be funded well in excess of the 100% level and was able to reduce employer contributions from 2024/25 onwards. This resulted in employer contributions falling from 19.3% in 2023/24 to 6.5% in 2024/25 and 2025/26, before rising again to 17.5% from 2026/27. The annual non-recurring benefit to East Renfrewshire in 2024/25 and 2025/26 is estimated to be around £6.3m and the Council has agreed to set this funding aside in a new Investment in the Future reserve to help the Council transition to better address future challenges. The HSCP, Housing Revenue Account, and East Renfrewshire Culture & Leisure Trust will similarly benefit from the reduction in employer contributions.

35. Finally, the report notes that the Verity House Agreement was established between the Scottish Government and COSLA in June 2023 as a means to improve joint working between the two sides. Aims included a reduction in the level of ringfencing of funds, a review of specific grants with a view to baselining wherever possible, and the agreement of a new Fiscal Framework which would provide more transparency and predictability for Councils' financial planning. Whilst this is a welcome development, limited progress has been made to date.

36. The Accounts Commission recommend that Councils work with the Scottish Government to progress development of the Fiscal Framework to improve the clarity and certainty of future budget planning. East Renfrewshire will continue to do this through COSLA, SOLACE, Directors of Finance, and other relevant director forums.

CONCLUSION

37. The bulletin provides a high level summary of the main financial issues facing Scottish Councils in 2022/23 and beyond. Whilst East Renfrewshire is not specifically mentioned in the report, the issues raised are almost all relevant to the Council and it is clear that we will continue to face substantial and increasing financial challenges in future.

38. East Renfrewshire will take the following actions in response to the report:-

- Continue to address budget gaps by identifying recurring savings and Council Tax increases, before draws on reserves. (Para 10 above)
- Review our existing practice with our external auditors to explore how we can increase transparency in the Management Commentary on variances against

budget and the delivery of planned savings as we pull together the 2023/24 annual accounts. (Para 14 above)

- Consider what additional clarification we can provide in the 2023/24 Management Commentary to clarify our reserves policy and the planned use of each committed reserve. (Para 20 above)
- Continue good practice in consulting with stakeholders before implementing any new budget measures. (Para 29 above)
- Strengthen our public reporting of financial resilience by giving these measures a higher profile in future medium and long term financial plans. (Para 32 above)
- Continue to work with the Scottish Government to progress development of the Fiscal Framework to improve the clarity and certainty of future budget planning, through COSLA, SOLACE, Directors of Finance, and other relevant director forums.

39. Audit Scotland plan to release another report on Councils' 2024/25 budget setting in the near future.

RECOMMENDATION

40. The Committee is asked to consider and note the contents of this report.

Margaret McCrossan, Head of Accountancy, 15 April 2024