

EAST RENFREWSHIRE COUNCILAUDIT AND SCRUTINY COMMITTEE8 August 2024Report by ClerkNATIONAL EXTERNAL AUDIT REPORT
LOCAL GOVERNMENT BUDGETS 2024/25**PURPOSE OF REPORT**

1. To provide information on the Audit Scotland report on *Local Government Budgets 2024/25*.

RECOMMENDATION

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

BACKGROUND

3. A copy of the Audit Scotland report [Local Government Budgets 2024/25](#), published in May 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 Morrison.

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 [Local Government Budgets 2024/25](#)

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EAST RENFREWSHIRE COUNCILAUDIT and SCRUTINY COMMITTEE8 August 2024REPORT BY HEAD OF ACCOUNTANCY (CHIEF FINANCIAL OFFICER)ACCOUNTS COMMISSION BRIEFING: LOCAL GOVERNMENT BUDGETS 2024/25**INTRODUCTION**

1. In May 2024 Audit Scotland prepared their briefing on local government budgets and budget gaps for 2024/25. This report advises members on the Council's position in relation to the findings from the report.
2. This is the first time such a national report has been compiled and the varying approaches to budget setting and reporting across Councils have made some comparisons challenging. It is hoped that data will be produced in a more standardised manner in future.

REVENUE BUDGETS

3. Councils are required by law to set a balanced budget each year. The cost of services is covered mainly by Government grant, with a lesser element funded by Council Tax, other grants and Council fees and charges. Where these funding streams are not enough to cover planned Council expenditure, the "budget gap" is generally closed by applying savings and/or using reserves or fiscal flexibilities.
4. Whilst Scottish Government grant funding to Councils rose by 5.7% in real terms in 2024/25, Councils budgets are still constrained as most of this increase was directed to deliver Government priorities (including social care and free school meals) and to contribute towards agreed pay deals. COSLA considers that, excluding these directed elements, the grant settlement represents a flat cash position as against 2023/24. Councils have, however, welcomed a reduction in the ring-fencing of grant funding, as set out in the Verity House Agreement.
5. In addition to the above Government grant funding, Councils also received £147m of recurring funding to compensate them for the 2024/25 Council Tax freeze announced by the Scottish Government in October 2023. This was intended to equate to a 5% increase and in East Renfrewshire the difference was relatively small, with the funding in line with a Council Tax increase of over 4.6%. The unexpected announcement did, however, make the budget setting process more challenging, reducing local discretion and restricting the base for future years' increases.
6. The report states that the 2024/25 total budget gap of £585m for all Councils represented around 3.5% of budget. Exhibit 3 of the report shows that East Renfrewshire's £12m gap was close to this level. Our budget was set, however, before the Government confirmed a late £63m increase in the settlement, so our budget gap may not have been calculated on the same basis as those of some other Councils and actually came in around £11m. The phasing of savings in Councils who planned multi-year budgets also impacted on the comparability of figures across Councils.

7. In common with most other Councils, East Renfrewshire Council closed its budget gap through a combination of savings and the use of fiscal flexibilities (PFI service concession debt adjustment) and reserves.

8. Whilst use of reserves and fiscal flexibilities is not sustainable in the future, the Council has recognised this and factored this into its longer term financial planning.

9. In terms of savings, the Council adopted good practice in minimising unallocated savings and in ensuring that its identified savings were recurring. The report notes that we were one of only 6 Councils who did not consult with residents in the year prior to setting the 2024/25 budget, however it fails to acknowledge that we carried out a full consultation on our 2023/24 to 2025/26 3-year budget plans in autumn 2022.

10. The report notes that Councils raise £1.3bn each year from fees and charges. East Renfrewshire budgeted for just over £10m of such income for 2024/25. Charges are set in accordance with our Charging for Services policy and the average uplift was below the rate of inflation as some charges were not increased for 2024/25. No significant new charges were introduced for this year.

11. Looking further ahead, the report highlights that, when setting 2024/25 budgets, most Councils had also estimated their budget gaps for the next two years. After applying assumed Council Tax increases and use of fiscal flexibilities, these gaps still total some £393m for 2025/26 and £387m for 2026/27 and indicate that Councils will need to find recurring savings or increased income equating to 5% of their budgets over the next two years to be sustainable.

12. In Exhibit 5 of the report, East Renfrewshire's gaps of £8.3m in 2025/26 and £2.2m in 2025/26 represent around 3% of our annual budget and are slightly less than the Scottish average gap, however these figures are indicative only and have been arrived at after assuming Council Tax increases and fiscal flexibilities of £6.8m are applied in 2025/26. Further, the forecast 2026/27 gap has been calculated after a further £2.9m Council Tax increase has been applied and is also dependent on all of the previous year's £8.3m gap having been closed on a recurring basis. Such forecasts are clearly subject to many variables and will be kept under constant review by Accountancy staff.

CAPITAL BUDGETS

13. Overall capital budgets for 2024/25 were slightly higher than for 2023/24 (£3.1bn and £3m respectively) and East Renfrewshire was one of 13 Councils whose 2024/25 plans were less than those of the previous year (ERC capital plans 2024/25 £58m; 2023/24 £72m). This does not indicate a reduction in the Council's capital ambitions, but instead reflects the irregular pattern of major capital projects over time.

14. The report observes that a smaller proportion of capital expenditure is now funded via Scottish Government grants, with a corresponding increase in borrowing. This adds to pressures on revenue budgets, which then have to bear the costs of higher loan charge repayments. This has already been flagged as an issue for East Renfrewshire, where we forecast that loan charges will rise from around 6% of the Council's revenue budget in 2024/25 to 9% by 2029/30 due to the Council's stated capital ambitions.

TRANSPARENCY & CLARITY OF BUDGET PAPERS

15. Councils have adopted a range of organisational structures and reporting styles which make comparisons of budget reports difficult across different authorities. Audit

Scotland are keen to improve transparency in budget reporting across Scotland and, whilst East Renfrewshire already provide detailed analysis in our budget papers, we will work with our external auditors to consider any further local improvements which may be suggested in this regard.

CONCLUSION

16. The briefing provides a high level summary of the main issues facing Scottish Councils in setting their budgets for 2024/25. Almost all of the issues raised are relevant to the Council and it is clear that Councils will face increased scrutiny in this regard in the future.

17. East Renfrewshire will continue to work with our external auditors to explore whether we can further improve the transparency in our budget reporting and thus facilitate comparisons with other Councils.

18. The Accounts Commission and Audit Scotland plan to release similar briefings annually from now on.

RECOMMENDATION

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

Margaret McCrossan, Head of Accountancy, 15 July 2024

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