

EAST RENFREWSHIRE COUNCIL27 February 2020Report by Chief Financial OfficerFINANCIAL PLANNING 2020-2026**PURPOSE OF REPORT**

1. To submit for approval the updated Outline Revenue Financial Plan for 2020-2026.

RECOMMENDATIONS

2. It is recommended that the Council: -
 - (i) notes the increasing budget pressures anticipated in the next 6 years and the mitigating actions proposed; and
 - (ii) approves the Outline Revenue Financial Plan 2020 – 2026

BACKGROUND

3. East Renfrewshire Council has undertaken long term financial planning for many years.
4. Capital planning is undertaken over a rolling 10 year period, reflecting the contents of the Capital Investment Strategy and the need to plan infrastructure over an extended period.
5. The Council plans its detailed revenue budgets over a 3 year time horizon and seeks to align these with the multi-year settlements from the Scottish Government. Despite a recent move to annual budgets by the Scottish Government and significant shifts in the overall budget allocated to local government making long term planning challenging, the Council has continued to prepare and publish a 3 year budget, updating the budget on an annual basis. The Council also maintains a rolling 3 year departmental budget to assist with its Outcome Delivery Plans and produces a Financial Planning document each year, forecasting financial resource levels for the next 6 years. Unfortunately, the Scottish Government's intended move to publishing multi-year settlements from 2020/21 has not been possible due to the unexpected December 2019 general election, however it is hoped that multi-year settlements will recommence from 2021/22 facilitating the Council's revenue planning.
6. The Council budget, which will be set today, will be year 3 of the present detailed revenue budget. The budget proposals for 2020/21 reflect the terms of the Local Government draft settlement, announced by the Scottish Government on the 6th of February 2020. These figures may be subject to further change as a result of the final Scottish and UK budget plans scheduled for confirmation on 5 and 11 March 2020 respectively. The Council's Outcome Delivery Plan and outline multi-year budget plans for 2021/22 onwards will also be refined once the impact of the final figures is known.

7. Future multi-year budgets will align with longer term financial, workforce and asset planning. As recent settlements for Local Government have been on a single year only basis and have been difficult to predict, work has been undertaken by the Corporate Management Team to plan for a number of financial scenarios.

8. Traditionally the longer term financial outlook and the associated financial plans of the council have been presented at the annual budget meeting. This paper updates the Financial Planning document approved on 28 February 2019 and covers the next six years, 2020/21 to 2025/26.

9. It should be noted that financial planning is extremely difficult in the present economic and political situation, with uncertainty on the type of Brexit further complicating matters. Financial markets are uncertain about future economic growth prospects and the impact on the finances available to Scottish local government is very difficult to predict. One year budget settlements and the shortened timescale for the 2020/21 budget are making the situation even more challenging. The Council will have to be prepared to continue to analyse a range of scenarios and be ready to undertake detailed budget planning as the most likely scenarios emerge for future years from future multi-year settlements.

FINANCIAL OUTLOOK

10. In May 2018 the Scottish Government published its Medium Term Financial Strategy for the period from 2018/19 to 2022/23, taking account of the new financial powers provided through the Scotland Acts 2012 and 2016. The Medium Term Financial Strategy was further updated in May 2019.

11. The new powers resulted in a change from Scottish Government funding being supported mainly from UK Block Grant and Non Domestic Rates to the introduction of a Scottish rate of Income Tax, Scottish Landfill Tax, Land and Buildings Transaction Tax, Scottish Air Passenger Duty and the retention of VAT raised in Scotland. UK Block Grant funding is correspondingly reduced to take account of these new powers.

12. The Scottish Fiscal Commission has a key role in forecasting future Scottish tax income but this is very difficult, given the amount of concurrent change, so the Medium Term Financial Strategy contains only indicative figures and instead sets out a broad approach to managing the Scottish budget.

13. The Scottish Government expects spending plans to focus on outcomes in four key areas: Wellbeing; sustainable and inclusive economic growth; tackling child poverty; and tackling climate change. It also expects, however, that non-Health budgets will remain severely constrained. This produces challenges for Councils, with these being exacerbated by the increasing element of ringfencing in recent settlements. COSLA estimate that around 60% of budgets were subject to some form of ringfencing in 2019/20, leaving Councils with full budget flexibility in only 40% of service areas.

14. The Scottish Government has also published a medium term health and social care financial plan which will impact on the Council's forward plans through our contribution to the local IJB.

15. The UK Spending Review in September 2019 covered only one year and indicated a 2.1% real terms (over 4% cash terms) increase in revenue funding for Scotland in 2020/21, but with the largest part of this increase relating to Health. Significant increases in capital

investment were also anticipated, although these were not necessarily planned for local authority projects. Due to the unscheduled general election in December 2019, however, the detailed UK budget will not be announced until 11 March 2020 and a multi-year UK spending review will not take place until autumn 2020, so there remains a large degree of uncertainty in medium to long term financial planning at present.

16. John McLaren of the University of Glasgow has since estimated that, despite the above 2.1% increase nationally, Scottish non-Health revenue budgets may see little in terms of real terms increases for 2020/21. This is due to prioritisation of health and to the impact of other changes relating to areas including tax and block grant. Future years are expected to be slightly less favourable.

17. Projections for 2020/21 and beyond could, however, change substantially as a result of the 11 March 2020 UK budget, the impact of the nature of Brexit and the findings of the UK and Scottish Spending Reviews scheduled for autumn 2020.

18. More broadly, the Governor of the Bank of England has recently stated that he expects interest rates to remain at historically low levels for a prolonged period, due to low growth and demand. This also implies limited inflation pressure in the coming years, with forecast levels remaining close to the 2% target until at least 2023.

19. The Council's Treasury advisers, Link Consultancy, have recently assessed the overall balance of risk to UK economic growth and interest rates as probably neutral. They expect GDP growth to be subdued in 2019 but to begin to recover thereafter, particularly if there is an agreed Brexit deal, with the potential for a series of gentle increases in interest rates being used to manage inflation if required as growth picks up. This aligns with the Bank of England's expectation of ongoing relatively low interest rates.

20. Overall, while the UK Government's fiscal position is now approaching its target balance, potentially allowing for higher settlements, poor economic growth forecasts may result in disappointing increases in some Government budgets and ongoing reductions in other non-protected areas.

21. The draft 2020/21 public sector revenue budget plans announced by the Scottish Government on 6 February 2020 reflected an increase of £495m (4.9%) in cash terms for Councils, but after adjusting for £590m of new commitments included in the settlements COSLA calculated this to represent a £95m (0.94%) cash reduction in core budgets. Most protection and new commitments related to Health and Social Care, to Early Learning and Childcare and to teachers, with a specific requirement for total Council contributions to Integration Joint Boards (IJBs) to reflect a minimum increase of the new commitments above the recurring 2019/20 budget levels. Pay increases of 3% were also agreed for all Council staff for 2020/21, slightly above inflation. All of these factors have reduced the level of resources available for those local government services not afforded such prioritisation.

22. Scottish Budget plans published relate only to 2020/21 and considerable uncertainty exists beyond this due to the type of Brexit, future Scottish tax revenues and the slower than anticipated growth of the UK economy. The Scottish Government has indicated its intention to move to multi-year settlements from 2021/22 and this is to be welcomed as an aid to forward planning.

23. In recent years additional funding has been announced for local government as the Scottish budget progresses through the Parliamentary stages. Final confirmation of the 2020/21 Scottish budget will not be available until all stages are completed on 5 March 2020.

There is also the potential for further changes flowing from the UK budget on 11 March 2020. Figures and forecasts will therefore be kept under review as the position becomes clearer.

24. Consideration has been given to the additional flexibility announced in December 2018 for local authorities in terms of tax raising powers and the ability to reprofile loans fund repayments. The Council's funding forecasts now reflect that the Council has made use of the loans fund flexibility in setting its 2020/21 revenue budget but has no plans to implement a transient visitor tax or a workplace parking levy. More information is required before the potential impact of the increase in powers over Non Domestic Rates discretions can be assessed. This is also the case in relation to the Scottish Government's commitment to explore a replacement for Council Tax.

25. The Council's grant for 2020/21 is £189.4m and produces a cash increase of £6.4m (3.8%) over the 2019/20 comparable grant figure, however recognising that £8.5m of this funding relates to new burdens, including Early Learning and Childcare commitments, the Carers' Act and other substantial new IJB funding pressures, this represents a like for like £2.1m (1.1%) cash reduction. This is very close to the anticipated 1% level of reduction, however the requirement for new IJB ring fenced contributions to be made from a flat cash basis results in the HSCP savings allocation being reduced and more savings having to be found from the other departments.

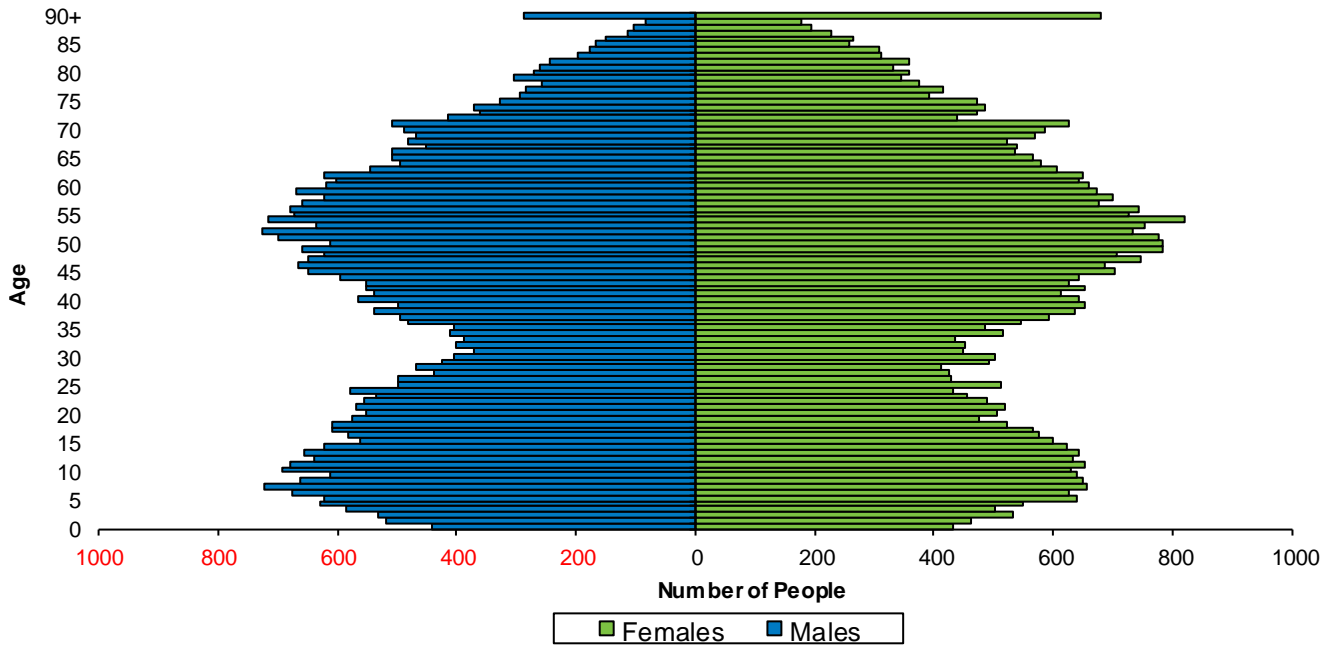
26. The settlement also confirmed that Councils could increase Council Tax by a maximum of 4.84% (3% in real terms), rather than the maximum 3% cash increase previously set.

DEMAND PRESSURES

DEMOGRAPHICS

27. Our Planning for the Future report and Infographic summary provides a comprehensive summary of a detailed analysis of the changing demographics of the East Renfrewshire Area. The report includes trend information from the Census and the use of the NRS mid-year estimates and NRS 2018 population projections. Information which is used to create the Local Development Plan such as service demand, SIMD data and future housing projections and associated infrastructure is also included. The report provides an overview of natural changes in the population such as birth and death rates and incorporates the latest figures released on the significant rise in net migration across the East Renfrewshire area.

28. The population of East Renfrewshire is currently estimated at 95,170. The pyramid below shows the population split by age group and gender. Around 20 per cent of the population is made up of children and young people aged 0-15. The working age population (16-64) accounts for 60 per cent of the population whilst older aged adults (65 and over) make up the remaining 20%.



Source: NRS 2018 Mid-Year Population Estimates

29. By 2041 the population of East Renfrewshire is projected to be 110,044, an increase of 17.3 per cent compared to the population in 2016 (base year for projections). The population of Scotland is projected to increase by 5.3 per cent between 2016 and 2041. Over the 25 year period, the age group that is projected to increase the most in size in East Renfrewshire is the 85+ age group.

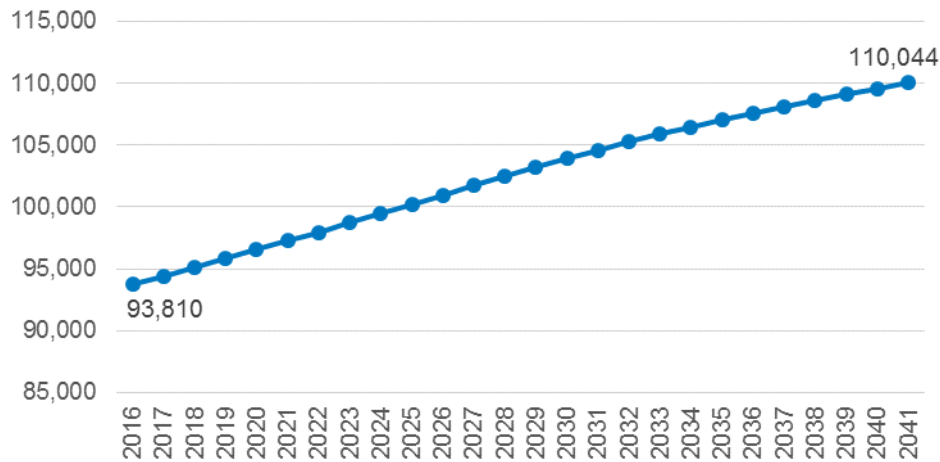
30. The growth in the population of children, those of working age and older people is shown in the table below.

Age group	2016 population (base year for projections)	Predicted 2041 population	Population growth (%)
0-15 years	18,662	21,991	17.8%
Working age (16-64)	56,795	61,598	8.5%
65+ years	18,353	26,455	44.1%
Total population	93,810	110,044	17.3%

Source: NRS 2016-Based Population projections, published March 2018

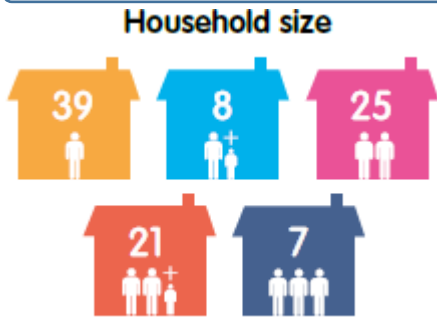
31. It should be noted that a significant proportion of the growth in the 65+ population is accounted for by those aged 85 and over. This has an impact on our services because the number of people aged 85 and over is expected to grow at a faster rate than the rest of the population. On this basis we can expect the number of people with a need for home care or care home support to steadily increase year on year.

East Renfrewshire Population Projections
2016-2041



Source: NRS 2016-Based Population projections

Predicted household size in 2041



32. The total number of households in East Renfrewshire is predicted to increase from 38,581 in 2016 to 47,649 in 2041.

33. It is predicted that single adult households (all ages) will account for almost 39% of all households in East Renfrewshire by 2041 (compared to 32% in 2016). Over a third of these single adult households will be occupied by someone aged 75 or over. Correspondingly, the average household size is expected to decrease from 2.42 people per household in 2016 to 2.28 in 2041. (Source: NRS 2016-Based Household projections, published March 2018)

34. While single adult households will increase significantly, the proportion of households with dependent children is predicted to stay around the level of 29%. (Source: NRS 2016-Based Household projections, published March 2018)

35. The average household size is projected to decrease from 2.42 in 2016 to 2.28 in 2041.

36. In East Renfrewshire, from 2016 to 2041, households headed by people aged 75+ are projected to increase in number by 78 per cent as the older population grows.

The next 5 years

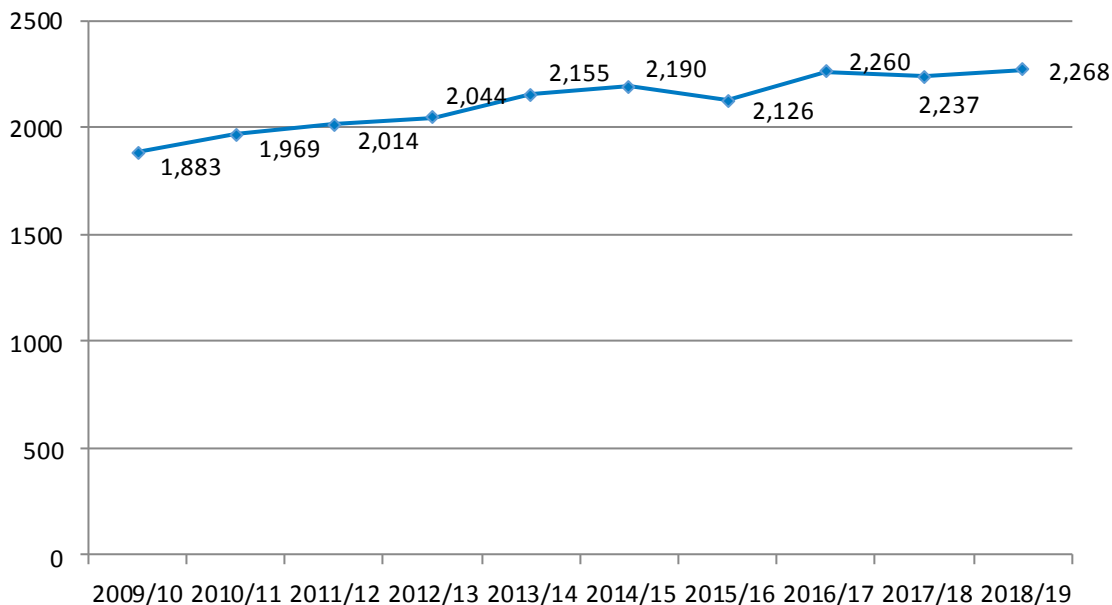
37. Over the next 5 years (2020- 2025), a number of changes have the potential to create financial pressure.

38. The number of households is projected to increase by more than 1,700 which represents a 4.5 per cent increase. This increase in households will create additional demand for the full range of council services especially waste management, road maintenance, parking, money advice, customer services, early learning, childcare and education, employability, schools, health and social care, leisure and transport.

39. The pattern of more people entering East Renfrewshire than leaving is expected to continue. The largest proportion of entrants mostly tends to come from the Glasgow City Council area each year.

40. In East Renfrewshire there has been a rise in population of children under 15 years old. From 2011 to 2018, the number of children under the age of 5 increased by 3.8 per cent and the number of 5 to 9 year olds increased by 16.8 per cent. The number of young people aged 10 to 14 increased by 5.7 per cent during this period. The proportion of 5 to 14 year olds as a percentage of the total East Renfrewshire population is the highest across Scotland. This suggests that those moving into the area do so with young families.

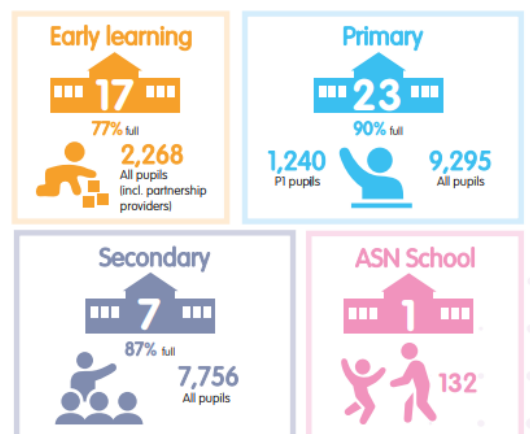
41. Projections also show the children and young people cohort continues to grow over the next 25 years, which produces increasing demand for early learning and childcare, primary and secondary school places. The chart below shows that increasing trend in the number of 3 and 4 year olds in East Renfrewshire attending Council and partnership providers early learning and childcare facilities over the past 9 years, an increase of 19 per cent.



Source: Education Management Information Service (East Renfrewshire) June 2019

42. The annual school census figures of the actual number of pupils in our schools shows that the total number of primary pupils has steadily increased by over 14% between 2011 and 2018. In particular, the number of East Renfrewshire resident children in the primary sector has increased over this period by 18%. This will impact on secondary school pupil numbers in subsequent years as these pupils move through the year stages. In recent years, the school census shows an increase in the number of East Renfrewshire resident young people coming through our secondary schools.

43. As at March 2019, the Council's early learning and childcare provision was 77 per cent occupied. Variations in demand for early learning and childcare places do exist across the Council area. Overall the



occupancy rates in the primary and secondary school sector are at 89% of available planning places. There are varying rates across schools, but there are several establishments with very high occupancy levels.

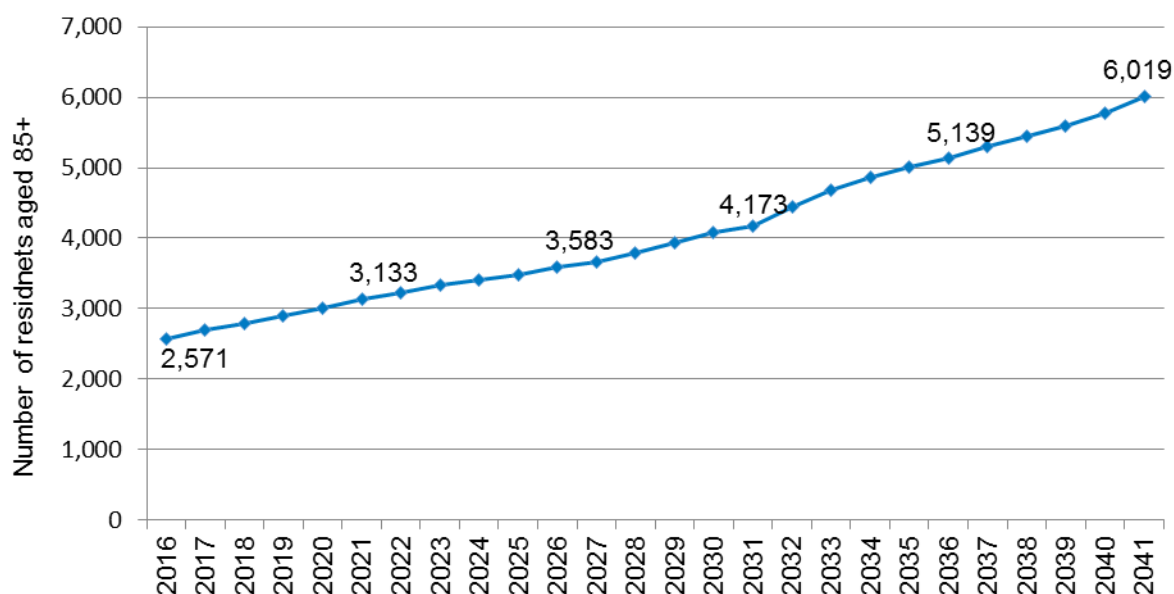
44. Further new education places will be required as a consequence of ongoing and planned new residential development. In addition there is the need to increase places from the private, voluntary and independent sectors and childminders to provide additionality in early years' provision as a consequence of a new statutory duty as noted later in the report on the increased entitlement to 1140 hours of free ELC for 3 and 4 year olds and eligible 2 year olds.

45. The number of looked after children has been reducing, by on average, 15 children a year since 2013 and there are currently 110 looked after children in East Renfrewshire. The majority of children are cared for away from their family home however there is a significant proportion on home supervision and growing numbers in kinship care. The need for residential accommodation continues to remain small in East Renfrewshire as we strive to develop more nurturing and supportive family type placements.

46. Foster care has accounted for over 25% of placements in recent years and demand for this will grow as more young people will need to be supported on their journey into young adulthood. In anticipation of this demand and the increasing complexity of the needs of children we have been actively working to increase our pool of foster carers. These changes are likely to place additional demand on services for children and families. Overall the local implementation of the national PACE (Permanency and Care Excellence) programme has ensured that we have reduced the number of children being in care for lengthy periods of time enabling them to move onto more stable and secure home environments. As such we will continue to see a reduction in numbers of children on supervision although this is forecast to level out as the programme is completed.

47. Between 2017 and 2018 East Renfrewshire experienced a 3.6 per cent decrease in the number of births, decreasing slightly from 886 in 2017 to 854 in 2018. The number of births across Scotland declined by 2.9 per cent over the same time period. The East Renfrewshire death rate decreased by 2.6 per cent between 2017 and 2018. East Renfrewshire has amongst the highest life expectancy rates in Scotland for both men (80.7) and women (83.6).

48. East Renfrewshire already has an increasing ageing population. By 2041, almost one quarter of East Renfrewshire will be aged 65 or over. In recent years, the number of people aged over 85 needing key services has been rising. This has an impact on our services because the number of people aged 85 and over is expected to grow at a faster rate than the rest of the population. On this basis we can expect the number of people with a need for home care or care home support to steadily increase year on year.



Source: NRS 2016-Based Population Projections, National Records of Scotland

49. All of these changes will lead to increased pressures for both the Council and local health services so close partnership working with the IJB will continue to be important.

50. The Council would expect to receive additional income from Council Tax due to an increase in the number of dwellings. However any increase would be in part compensated for by a decrease in Government Grant as an estimate of Council Tax income is part of the calculation of General Revenue Grant from the Government.

51. The Council's General Revenue Grant is primarily made up of Grant Aided Expenditure (GAE), former ring fenced grants and redeterminations (of new grants since 2008) with GAE the most significant contributor to our overall grant from the Government. The general revenue grant is also impacted by grants for loans repayments, the floors mechanism, "changes" which reflects the Council's share of any overall funding increases (or decreases) made available to local government and estimated changes to Council Tax income.

52. Whilst population is an important factor in calculating GAE, the calculation is extremely detailed and takes into account the age profile of the population, the number of schoolchildren and levels of deprivation as well as rurality. GAE is built up from a detailed analysis of the pressures on each service the council delivers. This year the calculation of GAE has undergone significant change with a number of former ring fenced grants and redeterminations now being included in the GAE calculation. In addition the formula used to calculate our GAE allocation for planning and economic development is now focussed on deprivation rather than population size, leading to a significant reduction.

53. For many years East Renfrewshire Council's share of overall GAE had been steadily increasing as our population has grown. However larger increases in population in other areas, particularly in the east of Scotland, have meant that East Renfrewshire's growth rate is now nearer average. The population has grown by 0.43% against a Scottish average of 0.25% with many areas growing significantly faster e.g. Midlothian (1.4%), Glasgow (0.9%) and Renfrewshire (0.5%). The number of houses in East Renfrewshire has grown at 0.62%, lower than the Scottish average of 0.83%. This change and an increasing focus on

deprivation and other factors have reversed the growth trend for GAE in 2020/21, with the Council's share of GAE falling very slightly in the last year. The Council now has a 1.97% share of the overall GAE, still significantly higher than the population share of 1.75%.

54. This high share is as a result of the relatively high number of pupils at our schools which is in part due to larger than average family unit sizes and in part due to the level of placements at our schools. Our share of Education GAE at 2.3% is well in excess of our population share and, as education GAE is the highest weighted part of GAE at over 53%, the effect on the council's budget is significant.

55. In overall terms it is estimated that the high pupil numbers will increase our expenditure by in the region of £30m as compared to an average council of a similar population and this is taken into account by the Government in estimating our budget needs.

56. Our share of social work GAE is slightly below our population share at just under 1.69% but this too has been steadily growing over recent years primarily as a result of our ageing population with the calculations giving us a high premium for those over 85 years of age who are likely to be in the most need of care at home or a residential place. However for 2020/21 the GAE for older people shows a slight reduction which goes against the previous trend.

57. The other determinants of funding, i.e. former ring fenced grants (FRFG) and redeterminations, have stayed largely unchanged with the exception of our funding for Community Safety, which has been significantly reduced due to a change in the formula used. The formula now focusses on crime rates rather than simply population.

58. These changes to our grant calculations mean that instead of an increase in GAE and other grants as we had previously been planning for, it would be prudent to plan for a slightly reduced level of funding until the new trends, particularly in relation to house building across Scotland, are more established.

CAPITAL INFRASTRUCTURE

59. In terms of the capital infrastructure required to service our population's demands, the Council has produced a Capital Investment Strategy to inform investment priorities. It has also extended its Capital Plan to cover 10 years, rather than 8, and will continue to utilise its Capital reserve provision and forecast developers' contributions to provide for the investment required in relation to population growth in the coming years.

60. Provision of new early learning and childcare facilities to deliver the statutory increase in entitlement to 1140 hours per year, additional school facilities to meet demands from new house building, and the need to replace assets nearing the end of their lives, will all require an increase in borrowing with a resultant impact on future years' revenue budgets for loan charge repayments

61. More detail of the Council's plans to address future capital needs are set out in the Capital Investment Strategy report, also on today's agenda.

CITY DEAL

62. Work continues to progress on the Council's £44 million of City Deal investment. In Newton Mearns, this has produced opportunities for business startups and networking at the new facility at Greenlaw. At Barrhead North the remediation of the former Nestle site will

provide exciting opportunities for retail and business and will create employment opportunities. The City Deal investment also includes significant projects which will improve the transport infrastructure to regenerate areas, link the communities of Barrhead and

Eastwood and create access to employment. Proposed projects at this stage include a new railway station at Barrhead South, improvements to Balgraystone Road, improved road links from around junction 5 of the M77 to Barrhead, the straightening of Aurs Road and the establishment of a Dams to Darnley Country Park visitor centre with appropriate infrastructure.

63. Whilst the majority of the funding of City Deal investment will be provided by both the UK and Scottish Governments, the Council will be required to contribute £6.2m as well as fund the cash flow over an extended period as most of the grant support will not be received until well into the future. This will require an increase in loans charges of £2.2m per annum by 2022/23.

LEGISLATIVE CHANGE

Entitlement to 1140 hours of Early Learning and Childcare provision

64. There is a new statutory duty to increase the entitlement to free early learning and childcare from 600 hours to 1140 hours per year for all 3 and 4 year olds and eligible 2 year olds by August 2020. An overview of the capital consequences of this are contained in the separate paper concerning the Capital Investment Strategy at today's Council meeting.

65. To meet anticipated uptake and provide flexibility for families the Council has developed a range of delivery models which has demanded building new and extending some existing early years' provision alongside increasing ELC places provided by the private, voluntary and independent sectors and childminders.

66. Expansion to 1140 hours by 2020 requires a transformational increase in the early years' workforce, which presents a significant challenge over a short period of time in addition to significant revenue resources to take forward an acceptable model to locally address the principles of quality, flexibility, accessibility and affordability.

67. Whilst additional capital and revenue funding is being made available from the Scottish Government towards the costs of this new burden for the 2020 delivery date, this does not fully cover the Council's plans. East Renfrewshire Council nurseries and family centres have always been very popular with parents and at present there is a reasonable level of flexibility and accessibility, including full day provision for families, within their own geographical community. This level of flexibility and accessibility is at risk if the Council's resources continue to be restricted and planned delivery models may need to be reviewed in light of resources made available.

68. The Children and Young People (Scotland) Act 2014 requires local authorities to consult on early learning and childcare every 2 years. This will include seeking to address the changing needs of families with regards flexibility and choice and changes in provider status, reflecting available resources.

Education governance: Empowerment

69. The governance of Education in Scotland continues to undergo change. In June 2018 the Education Reform - Joint Agreement between the Scottish Government and Local

Government was published. The Joint Agreement is based on the key principles that schools are empowered to make the decisions that most affect outcomes for their children and young people. This drive to an empowered system will include devising a new scheme for Devolved Management of Schools (DSM) to be ready for implementation in April 2021. We await further details on what is the potential impact for the council budget.

Educational Attainment

70. The 2020/21 settlement includes ring fenced funding via the Attainment Scotland Fund. This national fund currently comprises Scottish Attainment Challenge monies allocated to specific Council areas with the highest levels of deprivation and monies distributed to all local authorities via the Pupil Equity Fund (PEF). This funding is aimed at improving outcomes across Scotland and closing the poverty related attainment gap, helping to address excellence and equity for all learners. East Renfrewshire schools are expected to benefit by £1.323m in 2020/21 with funding distributed directly to schools in line with the policy objectives. This spending must be additional and spend determined by head teachers in consultation with their school community including staff, parents and pupils; accordingly the Council is not at liberty to control any of this funding.

71. Nationally, the overall ring fenced funding to help raise attainment and close the poverty related attainment gap is under review and it is likely that the total funding will be allocated using a different distribution model. Councils await the outcome of what this will mean for their future allocations.

Participatory budgeting

72. In October 2017 COSLA Leaders endorsed the Community Choices Budgeting Framework (mainstream Participatory Budgeting), which commits Councils to a minimum of 1% of their budget (£1.86m in East Renfrewshire) being allocated through participatory methods by the end of financial year 2020/21.

73. During 2018/19, the Council linked a successful participatory budgeting (PB) process to the locality planning areas of Auchenback and ADD2 Barrhead, Neilston and Thornliebank. Over 1,300 residents across the four areas took part in voting events and £100,000 was distributed to 33 community organisations delivering a range of projects. The locality PB process is being further developed in 2019/20 in partnership with the Linking Communities steering group comprising local residents. Linking Communities is a constituted group in contract with the Council and taking lead responsibility for designing the process and allocating a further £100,000.

74. Grant-making PB processes have built readiness and engagement in communities for the 1% Community Choices Budgeting Framework. In principle, the Council defines mainstream PB as when we cede elements of control or decision making to communities; can attach a specific monetary value to it and communities recognise that they had the power. In the previous two years the Environment department has planned and delivered park improvements in Neilston, Barrhead and Newton Mearns involving local people in different ways to decide on designs and equipment. Town centre fund projects are being developed and delivered alongside community organisations. Design processes for Maidenhill Primary and the Joint Faith Campus have also been characterised by open sessions and opportunities for parents, carers and other stakeholders to define how the schools look and operate. The expectation on local authorities is that PB does not become an exercise in top slicing budgets to “do PB”. Local authorities are expected to embed policy and processes for local people to have a direct and active role in mainstream budgetary decisions.

Welfare reform

75. The reform of the Welfare System has led to changes in the responsibilities of councils and the levels of financial support available to residents. The Council has allocated a contingency fund to cope with these changes.

WIDER POLITICAL, SOCIETAL AND ECONOMIC CHANGEBrexit

76. The full impact of the decision to leave the European Union is still not known and will require to be monitored carefully after the leaving date of 31 January 2020. The most obvious local impact will be the loss of European funds to the council which account for an average annual income of more than £100,000 over the last few years, although the UK and Scottish Governments may well offer some degree of equivalent funding in future. In the shorter term, however, the nature of the UK's departure will also impact upon many aspects of Council activities including procurement, workforce and legislative frameworks. A dedicated co-ordinator has been appointed and contingency planning is well advanced for the range of scenarios.

Economic uncertainty

77. Brexit and political changes around the world have led to uncertainty on world markets and growth projections for GDP remain low. Interest rates are, however, expected to stay low for the next few years and inflation is close to the 2% target level. The UK government's September 2019 spending announcements indicated a potential short term fiscal stimulus but longer term impacts will remain more difficult to forecast until the shape of the UK exit plan becomes clearer. Any economic detriment and related poverty would increase the demand on council services.

OUTLINE REVENUE FINANCIAL PLAN

78. The Council's agreed financial policy states that "*The Council will make spending decisions based on an assessment of medium to long-term needs and consequences and will seek to avoid taking a short-term outlook in its policy making, service planning and budget setting decisions.*" Over the last number of years the Council has considered and set multi-year budgets. This has assisted in managing extremely difficult financial circumstances and is a demonstration of the value of adopting a longer term approach to financial planning. It is proposed that the Council continues to adopt this longer term approach in future.

79. Despite the UK budget being deferred until 11 March 2020, the 2020/21 provisional Scottish Council settlement figures were announced on 6 February 2020.

80. The latest local government settlement figures are slightly less favourable than originally forecast with a like for like cash reduction of 1.1% for East Renfrewshire. The position has, however, been exacerbated by the restriction on the level of savings that can be applied to IJB budget contributions as this has increased the savings which need to be found instead from other departments.

81. The impact of the settlement on the Council results in a shortfall for 2020/21 of £8.065m. This is after applying both the detailed savings and the indicative 3% Council Tax increase anticipated for 2020/21 following the budget consultation exercise in autumn 2017.

82. Detailed proposals to address this shortfall will be presented to Council later on today's agenda.

83. Looking further ahead and taking account of future pay, inflation and population pressures currently foreseen, together with the impact of no longer being able to reduce savings pressures by utilising reserves from 2021/22 onwards, Table 1 below illustrates how varying grant levels could require savings of £3.155m to £16.194m per year from 2021/22 until 2025/26. From 2021/22 onwards the estimated savings requirements have been calculated on the basis that a 3% Council Tax increase is applied each year. The savings requirement for 2021/22 is significantly higher than the later years' gaps, mainly because the 2021/22 shortfall includes savings previously deferred by use of reserves. Assuming annual grant reductions of 1% in cash terms, an average savings gap of £8.723m per year is forecast over the next 5 years. As such, officers must continue to update and develop long term financial plans and options for consideration within our multi-year budgeting approach to ensure that these can be factored into business/service planning, together with workforce and asset plans. The move to multi-year settlements at a national level will assist with this.

Table 1

FORECAST ANNUAL BUDGET GAP	CASH MOVEMENT 2021/22 ONWARDS				
	+1%	0% (FLAT CASH)	-1%	-2%	-3%
	£M	£M	£M	£M	£M
2021/22	8.618	10.512	12.406	14.300	16.194
2022/23	4.826	6.739	8.614	10.451	12.251
2023/24	3.852	5.784	7.641	9.423	11.131
2024/25	4.218	6.169	8.007	9.735	11.356
2025/26	3.155	5.126	6.946	8.620	10.157

84. Whilst the outlook for the 5 years beyond 2020/21 is illustrated in Table 1, our planning will also flag up and take account of any other major longer term issues impacting on financial forecasts over an even longer time horizon. Such items might include future expiry of PFI contracts, repayments of major tranches of loan charge debt or significant planned legislative change. This will be updated to take account of any proposed changes to local government funding arrangements once the alternative to the current Council Tax system is determined.

MITIGATING ACTIONS

85. The Council has always taken a long term approach to financial planning. Whilst the scale of the budget cuts and the time period over which they would be implemented could not have been foreseen in 2008, the principles behind the approach to long term financial planning have stood the test of time. The focus has been on developing a very clear strategy to allow priorities to be identified and a very ambitious long term transformation programme to maximise all possible efficiencies in the Council.

COMMUNITY PLANNING AND THE COUNCIL'S STRATEGY

86. In light of the changes to community empowerment legislation East Renfrewshire Council and its community planning partners have developed a revised approach to the outcomes in our key strategic plans:

- East Renfrewshire's Community Plan covers our 5 overarching strategic outcomes:-
 - **Early Years & Vulnerable Young People**- All children in East Renfrewshire experience a stable and secure childhood and succeed.
 - **Learning, Life and Work**- East Renfrewshire residents are healthy and active and have the skills for learning, life and work
 - **Environment & Economy** - East Renfrewshire is a thriving, attractive and sustainable place for residents and businesses
 - **Safer, Supportive Communities**- East Renfrewshire residents are safe and live in supportive communities
 - **Older People & People with Long Term Conditions** - Older people and people with long term conditions in East Renfrewshire are valued; their voices are heard and they enjoy full and positive lives.
- Fairer East Ren, our Local Outcomes Improvement Plan, is part of our Community Plan which is focused on tackling inequality and closing the gap between communities of place and interest. Fairer East Ren will be the main way in which all our Community Planning partners will work together to reduce the embedded inequalities in East Renfrewshire.
- Additionally we have four Locality Planning areas which are co-producing individual Locality Plans with communities who are experiencing poorer outcomes than Scotland or the rest of East Renfrewshire.

87. We will work together with local communities to ensure that our decisions are based on socio-economic analysis as part of the Fairer Scotland Duty and we will integrate this with our other equality and human rights duties to consider the impact of strategic decisions at the right time.

88. The Council's strategy and plans are based on our overall Community Plan and articulate the role of the East Renfrewshire Council family (the Council, the HSCP and the ERCLT) in delivering the Community Plan. Conversations have been taking place in recent months to update the Council's "Vision for the Future" strategy and a new draft is included as a separate item on today's agenda. The new draft's general theme is "connections", including physical connections across East Renfrewshire via greenspace development; transport connectivity and active travel routes such as cycleways; connections within and between our communities; and also connections between our services and their users. "Vision for the Future" sets a long term vision and direction for the Council and as such does not have its own action plans. The aim is to develop this vision over time, in conversation with a range of stakeholders and in tandem with important processes such as Local Development Planning and wider City Region work, with a particular initial focus on the themes of the environment/climate change and building communities.

89. Within “Vision for the Future” our clearly stated vision is to be a “Modern, Ambitious Council creating a Fairer Future with all”. As part of our strategy, we focus on developing our 5 capabilities i.e. prevention, empowering communities, data, modernisation of how we work and digital. We aim to be excellent in each of these capabilities and then use them to redesign our services to make them more effective and more efficient

90. These capabilities have formed the basis of our transformation programme over the last 5 years. The many service improvements and savings that the council has achieved have been enabled by the 5 capabilities and these capabilities will continue to drive improvement in the future.

MODERN AMBITIOUS COUNCIL PROGRAMME (MAP)

91. Whilst significant savings have already been achieved, the very difficult financial circumstances facing councils are expected to continue for the foreseeable future so the scale of change will need to be maintained. MAP is working towards creating and implementing the modern, digitally enabled organisation that we want to be, based on an evolving picture of what our future council might look like. It is building on the 5 capabilities, particularly focusing on the areas of digital, data and modernising the way we work, whilst enabling future savings contributions.

92. Under the banner of our MAP programme we are implementing a range of “enabler” projects and service redesigns which will help us achieve significant savings in future years. A total of close to £11.8m (67%) of the 2018-21 agreed savings (including almost £4.4m (59%) for 2020/21) arise from efficiencies, through the Council’s MAP programme or as a result of our focus on the Council’s 5 capabilities.

93. Savings plans for the next three years will be developed by the Corporate Management Team on the basis of the Scottish and UK 2020/21 budgets and will be reviewed to take account of any multi-year settlement information subsequently published. Each department in the Council, through its own change programme to modernise and digitise services, contributes to the delivery of the overall MAP programme and to the Council’s savings targets. Whilst it is recognised that it will become progressively more difficult to identify efficiencies in future, it is the Council’s aim to identify at least £3m of savings per year through efficiencies or change projects. This target will be reassessed on an annual basis.

94. East Renfrewshire Council has a policy of always taking a prudent approach to the calculation of savings. Savings are only included in formal budgets once we have a high degree of confidence that they can be achieved (and in many cases are already in place through work in previous years).

95. The key principles behind the programme that will lead to budget savings are:

- Continue implementing our Digital Strategy, with more digital transactional services which are easy for the customer to use and which will reduce administration costs
- An increased focus on user engagement in service design and more community empowerment to provide services which put customers at the heart of provision, improving services and potentially lowering costs
- A long term direction to invest in prevention activity to reduce the cost of services in the longer term
- Improving the sharing and management of data across the organisation

96. There are significant programmes of work underway moving at a considerable pace right across the Council and HSCP and there are cross-cutting programmes for digital and core systems, with a further programme around data now emerging. These are covering some complex and challenging areas which challenge the most fundamental building blocks of how we operate (e.g. our financial and HR systems and core business platforms). These are resource intensive areas of work but, given the right input and commitment, have real opportunity to transform our processes and deliver efficiencies for the future.

PARTNERSHIP WORKING

97. The Council has already benefitted from joint working with other bodies in providing services and has delivered savings through the early adoption of integrated management of health and social care services in 2006, the establishment of the Integration Joint Board in June 2015 and through initiatives such as sharing Renfrewshire Council's Non Domestic Rates system. We anticipate further savings from this approach in future, e.g. through participation in the Clyde Valley Waste project, and we will continue to seek further opportunities to maximise efficiencies in this way.

SERVICE REDUCTIONS

98. Given the likely continuing constraints in cash terms on the Local Government budget over the foreseeable future and the increase in demand for services, it is very unlikely that the MAP programme will be able to deliver the full scale of budget savings required. It is likely that a reduction in service levels will be required to ensure a balanced budget. The strategy for service reductions will be heavily influenced by the policy and manifesto commitments of the administration of the Council. The present policy can be summarised as follows:

- Service cuts will only be taken once all possible efficiency savings have been taken, with an expectation that officers will deliver an ambitious programme of savings based on the 5 capabilities.
- Services will be maintained at statutory levels
- Any conditions of Scottish Government grant will be met e.g. teacher numbers, IJB funding
- Outcomes for our most vulnerable residents will be protected where possible
- Staff will be treated fairly and compulsory redundancies avoided where possible

99. To date, even where there have been significant changes to service provision the outcomes achieved for residents have, in the main, been protected and key performance measures have continued to increase. However if future budget cuts are as high as predicted, this will not continue and a more radical programme of future service cuts will be required.

INCOME GENERATION

Council Tax

100. In 2020/21 Councils are free to increase Council Tax by up to 4.84% (3% in real terms) without a penalty to the Grant settlement. The Council has already committed to increasing Council Tax by 3% in 2020/21 in setting out its 3 year budget plans on 2 March

2018. A further increase to 4.84% in 2020/21 would provide additional income of around £1.035m for the Council in that year. At present it is unknown whether future grant settlements will continue to impose a cap on increases.

Charging For Services

101. Each year the Council reviews charging for services. In general an inflationary rise is applied but market conditions are also taken into account, especially when there is alternative provision available to residents. During 2015 Sports and Leisure services were transferred to a Culture and Leisure Trust, allowing the management team to take a more commercial approach, to access additional sources of funding whilst still working as a charity for the residents of East Renfrewshire. Other sources of income generation will also be explored by the Council for future years, including new income generation and commercialisation opportunities. The new options set out in the 2019/20 settlement have also been considered but the Council does not propose to implement a Transient Visitor Tax or a Workplace Parking Levy.

USE OF RESERVES

102. The Audit Scotland Financial Overview 2018/19 paper noted the level of usable reserves had fallen in half of Scottish councils by the end of the year as financial pressures continue to build. Forecast levels of this Council's usable reserves, including graphical illustrations of trends, are considered as part of the Revenue Estimates report later on this agenda.

103. Due to the Council's prudent long term approach to financial planning, a range of reserves have been built up over a number of years to assist with expected and unexpected pressures. Should a budget gap remain after the application of savings measures and income generation the Council may consider the short term measure of drawing down on some of these reserves.

104. The Local Authority Accounting Panel (LAAP) Bulletin 99 on Reserves and Balances provides guidance to Chief Financial Officers in the area of using reserves to fund recurrent expenditure as follows:

"It is not normally prudent for reserves to be deployed to finance recurrent expenditure. CIPFA has commented that Councils should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is taken, this should be made explicit, and an explanation given as to how such expenditure will be funded in the medium to long term. Advice should be given on the adequacy of reserves over the lifetime of the medium term financial plan, and should also take account of the expected need for reserves in the longer term"

105. It is important that members understand that any use of Reserves is a short term, one off measure and is only justifiable to address non-recurring pressures or on the basis that there will be a fundamental review of Council budgets over the next year.

106. As at 31 March 2020 the Council forecasts holding unallocated General Reserves of £7.864m (3.13%). The Council's aim has previously been to hold 4% of our revenue budget as a general reserve. Auditors broadly consider reserves of between 2 and 4% to be prudent. Should it be decided to meet any of the gap from reserves in 2020/21, these would have to apply only to one off items or the savings would simply be deferred to future years. Should members wish to utilise reserves to help balance the budget in the short term, it is recommended that this should be kept to a minimum and used as far as possible only to cover one off or short term spending pressures or where recurrent savings are expected to be identified in the near future.

Future Workplan

107. Accountancy staff have been reviewing financial pressures and funding levels for the coming year and finalised budget proposals for 2020/21 are contained later on today's agenda for approval. Work will continue in updating budget scenarios for the period to 2026 with a view to continuing with multi-year budget planning in future.

108. The timescales for submission of the Council's financial plans are listed below:

Plan	Approval
Financial Plan 2020/2026	Council, February 2020
Capital Investment Strategy	Council, February 2020
10 year Capital Plan 2020/2030	Council, February 2020
Revenue Budget 2020/21	Council, February 2020
ODP 2020/21 to 2022/23 (including 3 year draft budget figures)	Council, June 2020
Financial Plan 2021/2027	Council, February 2021
3 Year Revenue Budget 2021/24	Council, February 2021

CONCLUSIONS

109. In view of the significant financial and demand pressures facing the Council over the current and next six years it is essential that the Council's financial plans are updated regularly for consideration by the Council. This is in line with the Council's agreed financial policy of basing decisions on an assessment of medium to long term needs and consequences.

RECOMMENDATIONS

110. It is recommended that the Council: -

- (i) notes the continuing budget pressures anticipated in the next 6 years and the mitigating actions proposed; and
- (ii) approves the draft Outline Revenue Financial Plan 2020 – 2026

Further information is available from M. McCrossan, Head of Accountancy, telephone 0141 577 3035.

KEY WORDS Revenue Estimates, Council Tax, Reserves and Balances, Financial Planning

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