

EAST RENFREWSHIRE COUNCIL28 October 2020Report by Head of Accountancy (Chief Financial Officer)UPDATE ON COVID-19 IMPACT ON FINANCIAL PLANNING**PURPOSE OF REPORT**

1. In view of the COVID-19 pressures now facing services, this report updates Council on the revenue budget position for the current year and the financial outlook for 2021/22 and beyond.

RECOMMENDATION

2. Council is asked to:
- (a) note the improved financial position for 2020/21;
 - (b) note that the recently announced fiscal flexibilities should allow us to bridge the remaining 2020/21 budget gap; and
 - (c) note the challenging financial position for 2021/22 and beyond and that further reports will be brought as more information becomes available.

BACKGROUND

3. On 24 June Council considered a report setting out a forecast shortfall for 2020/21 of some £8.4m as a result of COVID pressures faced by services. Further reports were presented to Cabinet on 27 August and 22 October, taking account of additional funding streams announced or anticipated to support the COVID response.

4. The latest Cabinet report forecasts a much reduced shortfall of £2.238m for 2020/21. This is made up of £4.503m of unfunded COVID pressures offset by £2.265m of managed Council underspends.

5. Some further funding may be made available to the Council in the coming months to help address the remaining current year shortfall as a result of the pandemic, however the funding outlook for 2021/22 is less certain.

6. As a result of the ongoing uncertainties relating to both the COVID-19 pandemic and Brexit, the planned UK budget did not go ahead this year and the outcome of the UK Spending Review will not be announced until November 2020. It is not yet clear whether this will result in a delay to the Scottish settlement announcement.

7. In view of the level of uncertainties resulting from the COVID pandemic, Council took the decision in June 2020 to prepare only a single year budget for 2021/22, rather than embark on a new 3 year budget exercise. Indicative figures for departmental planning purposes will, however, continue to be produced as part of the Council's Outcome Delivery Plan and 6 year projections will continue to be incorporated into our annual refresh of our long term Financial Planning document.

FINANCIAL OUTTURN 2019/20 AND FUNDING POSITION 2020/21

8. In setting the budget for 2020/21 Members agreed that a sum of £3.500m should be met from reserves and that £1.278m of savings was still to be identified in year. At that point it was expected that some of that shortfall could be covered by a forecast underspend in the 2019/20 revenue monitoring figures and directors were asked to maximise underspend wherever possible in the latter part of the year.

9. A late uplift in the grant settlement for 2020/21 increased our funding by £1.875m, eliminating the need for any further savings to be identified in year.

10. The directors' actions taken to reduce expenditure in 2019/20 were highly successful. The initial 2019/20 budget plans were to draw down £4.312m from reserves to balance the budget, but the final outturn position (still subject to audit confirmation) required only £0.964m of reserves to be utilised - an improvement of around £3.348m.

11. This left the Council's General Reserve (Non-Earmarked) with a balance of £9.590m at 31 March 2020 (3.8% of the annual budgeted net revenue expenditure). This is only slightly below the Council's most prudent target level of 4%. However the balance will significantly reduce as the Council's budget plans involve use of £3.5m of this during 2020/21, bringing the reserve down to £6.090m (around 2.4%) by the end of 2020/21. The recommended target range for this reserve is 2% to 4%.

12. The Modernisation Fund balance at 31 March 2020 has also reduced slightly and is £7.050m, with future plans to use £1m each year to support ongoing transformation projects.

COVID IMPACT

13. All of the above plans were made before the COVID pandemic arose. This has had a severe impact on the Council's finances in 2020/21, bringing significant new expenditure pressures. Although additional government funding has been announced to assist Councils, the full extent of additional grant support is still not clear and a shortfall of around £2.238m is presently forecast for the current year. This comprises estimated unfunded COVID pressures of £4.503m offset by Council underspends of £2.265m as directors seek to avoid all non-essential spend.

14. In recent weeks, some fiscal flexibility measures have been agreed by the UK and Scottish Governments, whereby Councils may use capital receipts or a 12 month loans fund repayment holiday to meet COVID revenue pressures on a one off basis, or can revise their accounting approach to PFI debt repayments to release recurring longer term revenue budget savings.

15. The Scottish Government also expects that Councils will make use of their reserves to help meet the current pressures.

16. Further details on the new flexibilities are still emerging. Accounting staff are currently assessing these flexibilities and expect that these will enable us to address the immediate COVID pressures and close off the 2020/21 budget shortfall. If this can be achieved, we would avoid further depletion of reserves and retain some scope for utilisation of these reserves to assist with the 2021/22 budget pressures. This is illustrated in the table below.

GEN FUND RESERVE FORECASTS	FEB 2019	FEB 2020	OCT 2020
	£m	£m	£m
Actual balance 31/3/2020	10.554	10.554	10.554
Expected use of reserves 2019/20	-4.312	-2.690	-0.964
Expected balance 31/3/2020	6.242	7.864	9.590
Planned use of reserves 2020/21	-1.500	-3.500	-3.500
Expected balance 31/3/2021	4.742	4.364	6.090
Unfunded COVID pressures 2020/21			-4.503
Managed underspend 2020/21			2.265
Est use of flexibilities 2020/21			2.700
Revised balance 31/3/21	4.742	4.364	6.552

FUNDING POSITION 2021/22 AND BEYOND

17. Taking account of the position set out above, and **assuming a 1% cash reduction in grant, together with a 3% Council Tax increase, and typical non-pay spending pressures, an initial budget shortfall of £11.828m was calculated to remain for 2021/22.** This estimate does not include unfunded COVID pressures. Should the grant settlement position worsen and/or the level of pay award increase, the budget shortfall would further increase.

18. This shortfall figure will change significantly as more detailed information on the 2021/22 settlement and spending pressures becomes available and is factored in. This will be closely monitored in the next few months.

19. The forecast position for 2021/22 takes account of the full implementation of the consolidation of the Living Wage into the Council's pay scales from late March 2020.

20. Given the level of uncertainty around the 2021/22 financial position and any ongoing financial support for COVID related pressures, it is expected that a flexible approach to addressing the shortfall will be needed, taking cognisance of the emerging picture on COVID funding support and fiscal flexibilities and considering a range of options:-

- a. Utilisation of reserves, recognising whilst this cannot be regarded as an ongoing solution, there is still some potential to use reserves in the next financial year;
- b. Application of fiscal flexibilities. The flexibilities which are not restricted to addressing COVID related pressures are particularly useful in addressing the shortfall calculated above with restricted flexibilities available for COVID pressures;
- c. Consideration of a Council Tax increase above the modelled 3% level, if this is permitted in the settlement (a 1% increase generates roughly £0.6m);
- d. The application of departmental savings. Directors have been asked to identify savings of up to £11.828m.

21. In the past, the Council has published information on How We Spend Our Money, to help stakeholders understand the Council's spending patterns and the scope for savings. Appendix 1 sets out an updated graphical illustration of the Council's current budget to assist elected members assess the scope for action.

22. The graphs are based on the planned expenditure for 2020/21 as approved by Council in February 2020 and do not reflect the impact of COVID-19 on spending plans.

23. From 2022/23 the outlook continues to be challenging. The Council has already been made aware of the significant rise in loan charge repayments in the coming years due to our ambitious Capital Plan. This position may be exacerbated in future if we apply the available short term fiscal flexibilities in relation to capital receipts and loans fund payment holidays.

24. The Council's capital plans and loan charge position are currently being updated and will be submitted for approval in February 2021.

CONCLUSIONS

25. Finalisation of the 2019/20 accounts has improved the scope for the use of reserves to help address the budget challenges ahead.

26. Although the COVID pandemic has brought significant additional financial burdens in the current year, the recently announced fiscal flexibilities should allow these to be addressed without excessive depletion of reserves. The position for 2021/22 and beyond is less certain but will be clarified in the coming months.

27. Given the continuing uncertainty in relation to the financial outlook, a single year budget should be set for 2021/22 and a flexible approach adopted to closing next year's budget shortfall.

28. The outlook for 2021/22 and beyond remains challenging, however the potential introduction of multi-year settlements in future will help with longer term planning.

RECOMMENDATIONS

29. The Council is asked to:

- (a) note the improved financial position for 2020/21;
- (b) note that the recently announced fiscal flexibilities should allow us to bridge the remaining 2020/21 budget gap; and
- (c) note the challenging financial position for 2021/22 and beyond and that further reports will be brought as more information becomes available.

Margaret McCrossan
Head of Accountancy (Chief Financial Officer)
16 October 2020

East Renfrewshire Council

28th October 2020

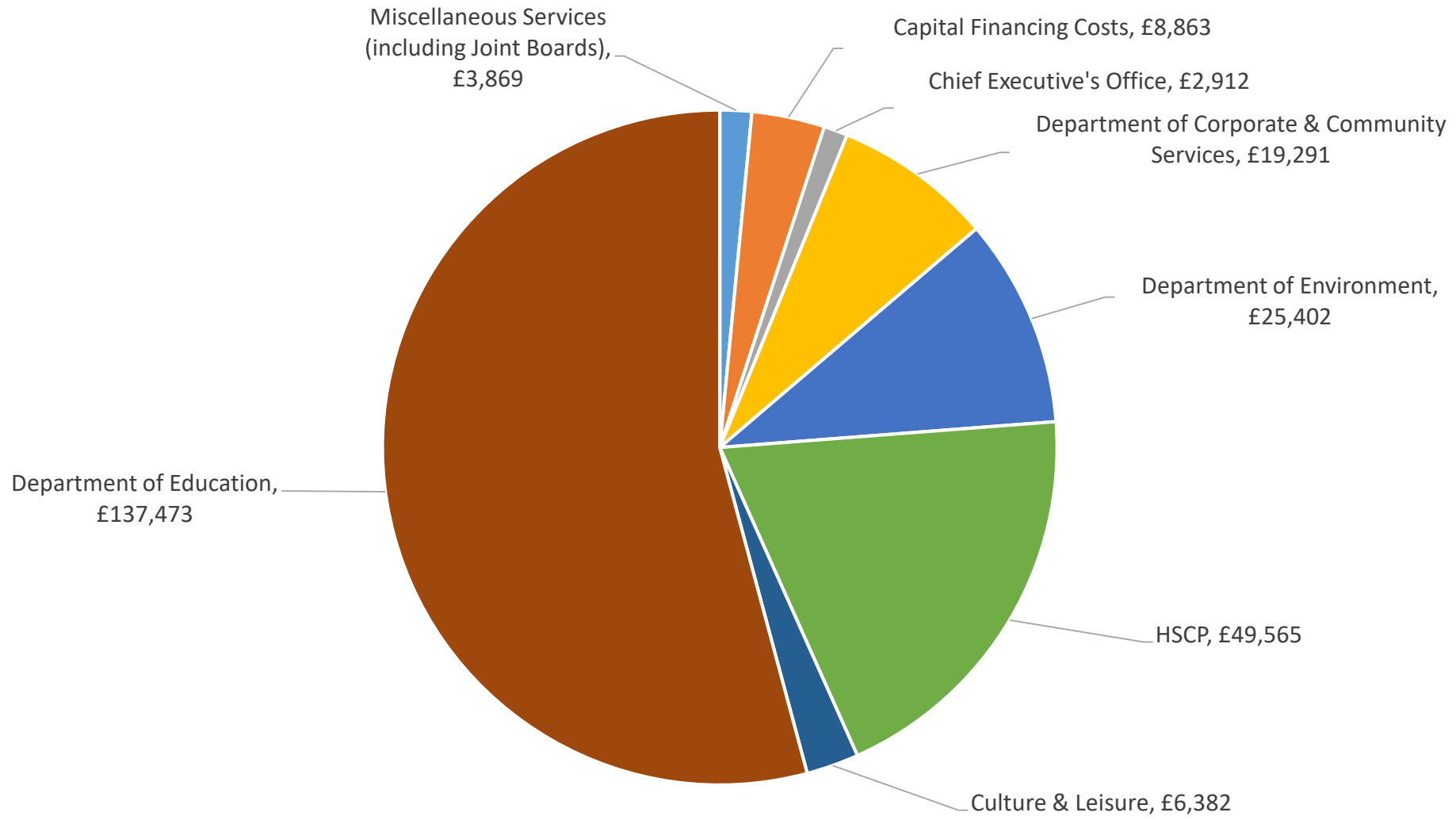
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How we spend money

- In 2014 we prepared a brochure for residents on how we spend our money
- The pie charts which follow are an updated version of the figures in the brochure, based on our planned net expenditure for 20/21 (pre Covid-19)
- The first pie chart breaks down the spend by department
- The following charts break down departmental spend
- Because of the size and complexity of the education spend an appendix is included which breaks down education spend in more detail
- Appendix 2 contains additional HSCP information
- This information provides background for council to support decision making for budget setting for 21/22

East Renfrewshire Council

Total Net Expenditure 2020/2021 (£k)

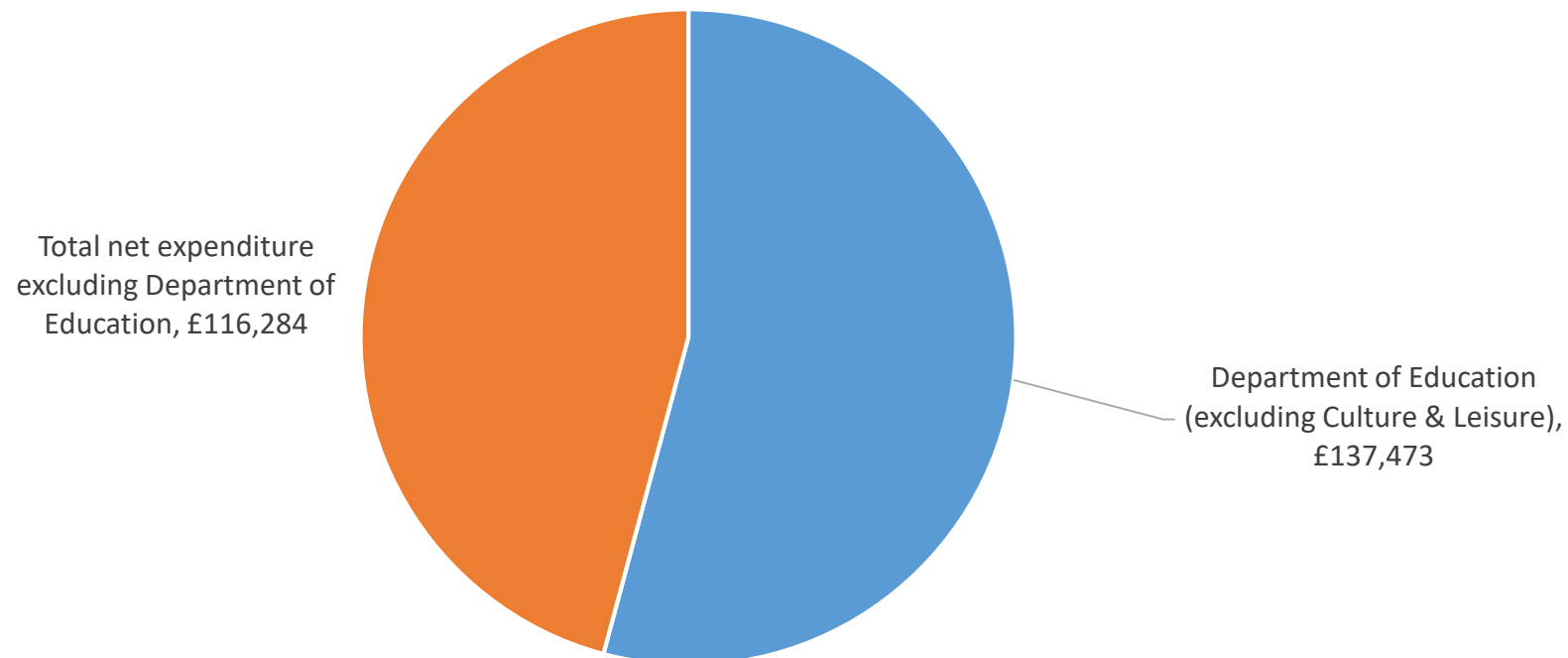


Total East Renfrewshire Council Net Expenditure 2020/2021 (£k) - £253,757

Education and Culture and Leisure

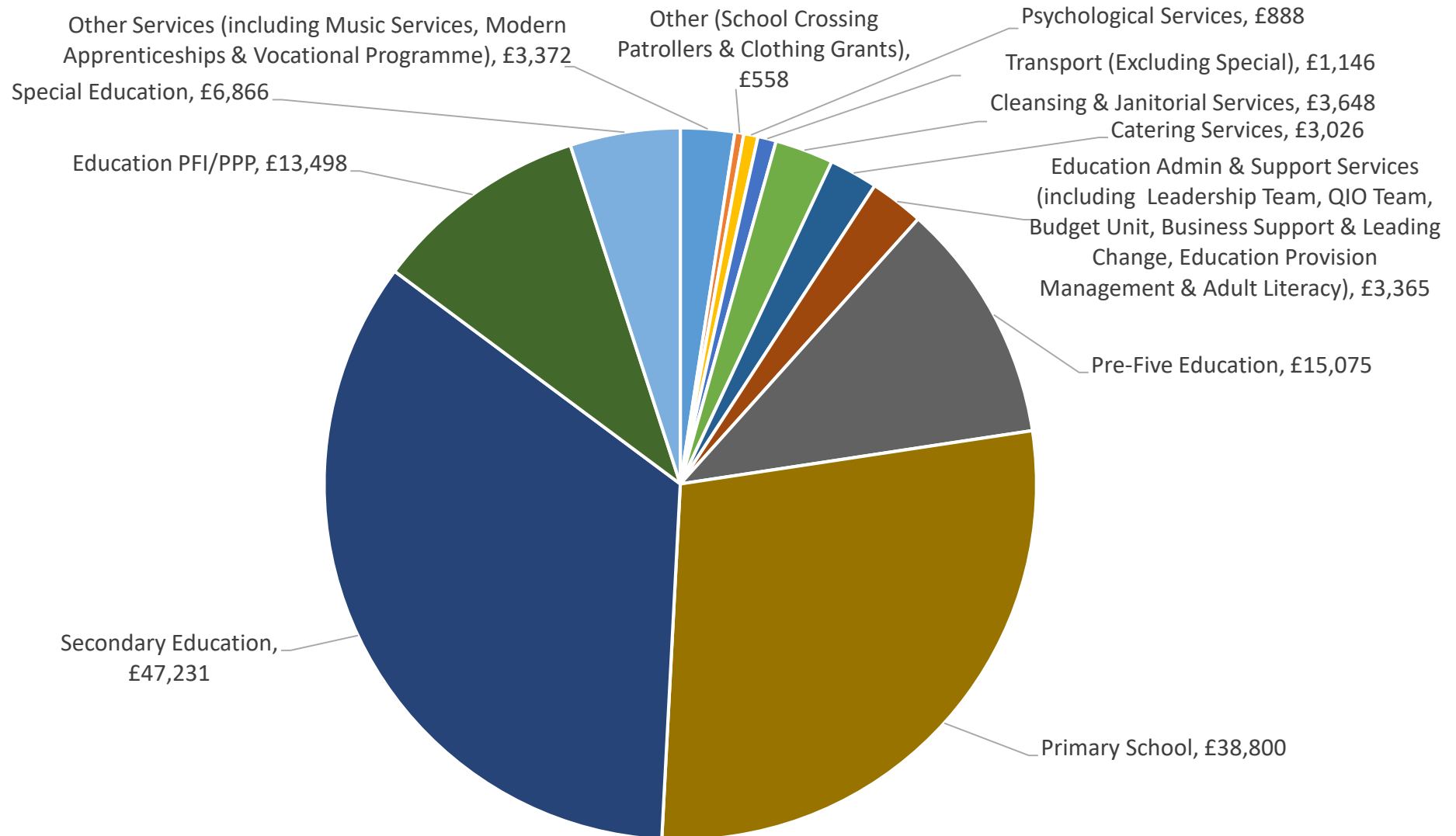
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Department of Education (Excluding Culture & Leisure) Net Expenditure vs Total Net Expenditure excluding Education (£k)

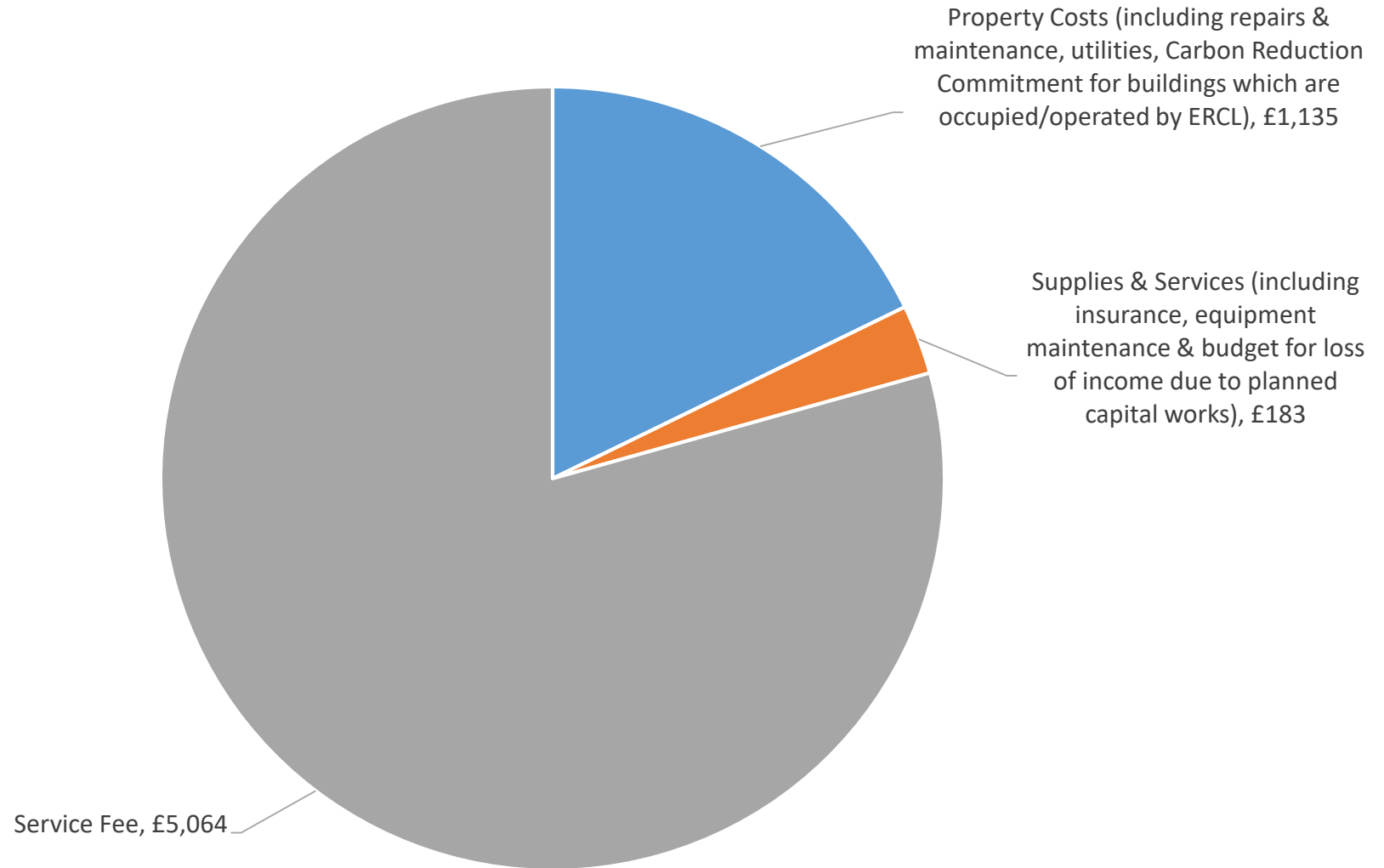


Department of Education	
Total Net Expenditure (£k)	£137,473 (54.2%)
Total FTE	1,969.9

Department of Education (Excluding Culture & Leisure) Net Expenditure 2020/2021 (£k)



East Renfrewshire Council – Culture and Leisure Net Expenditure 2020/2021 (£ 6.382k, 2.5%)

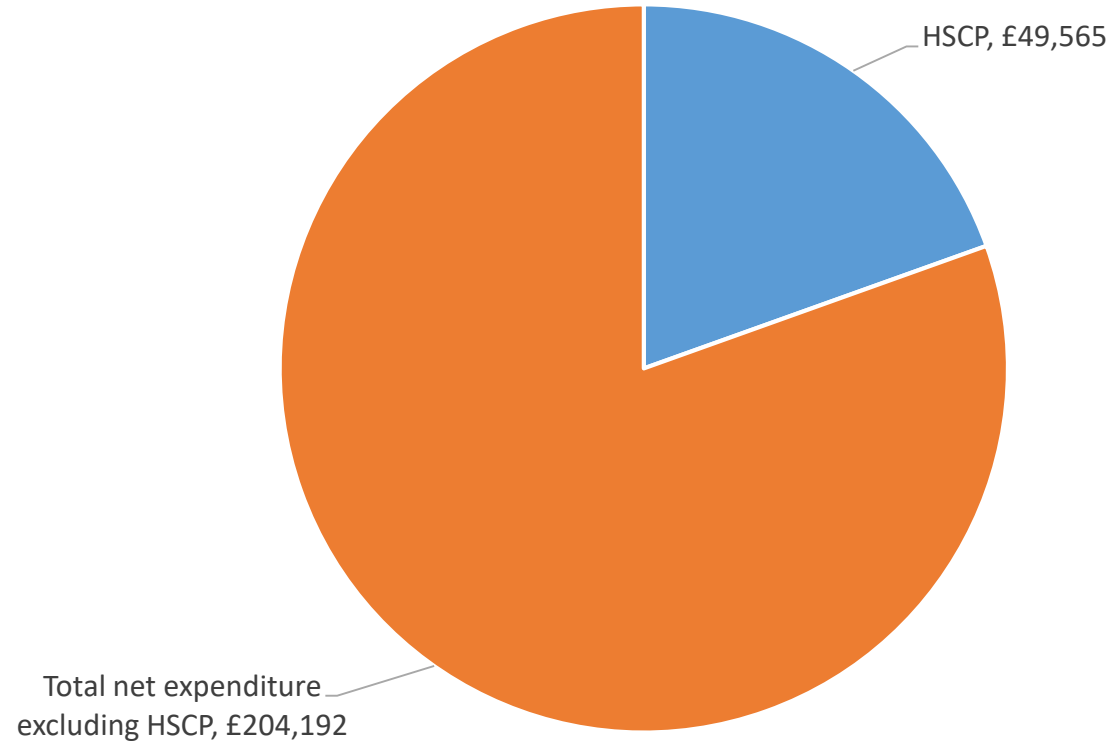


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IJB contribution/HSCP

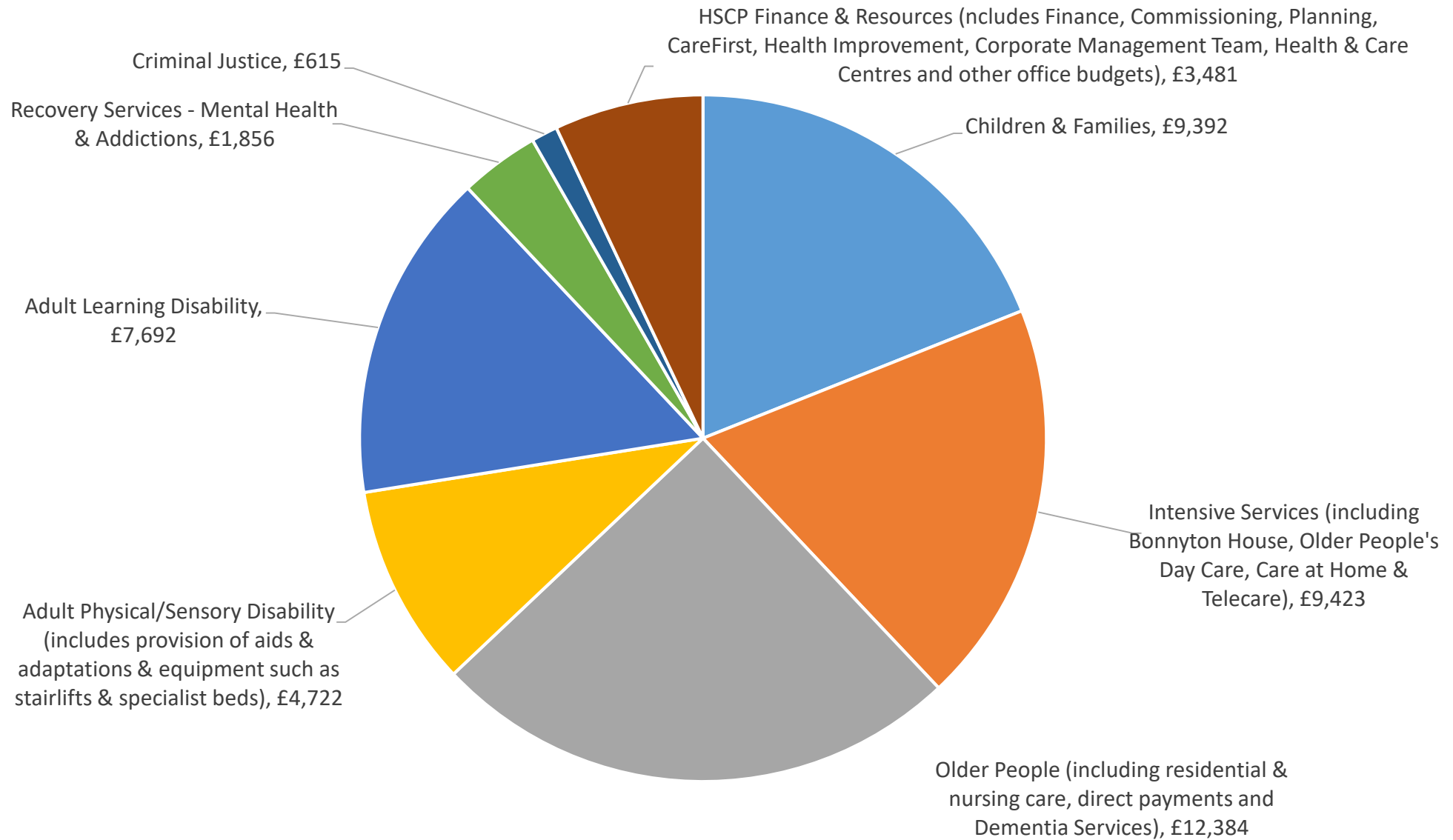
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HSCP Net Expenditure vs Total Net Expenditure excluding HSCP (£k)



HSCP	
Total Net Expenditure (£k)	£49,565 (19.5%)
Total FTE	582.1

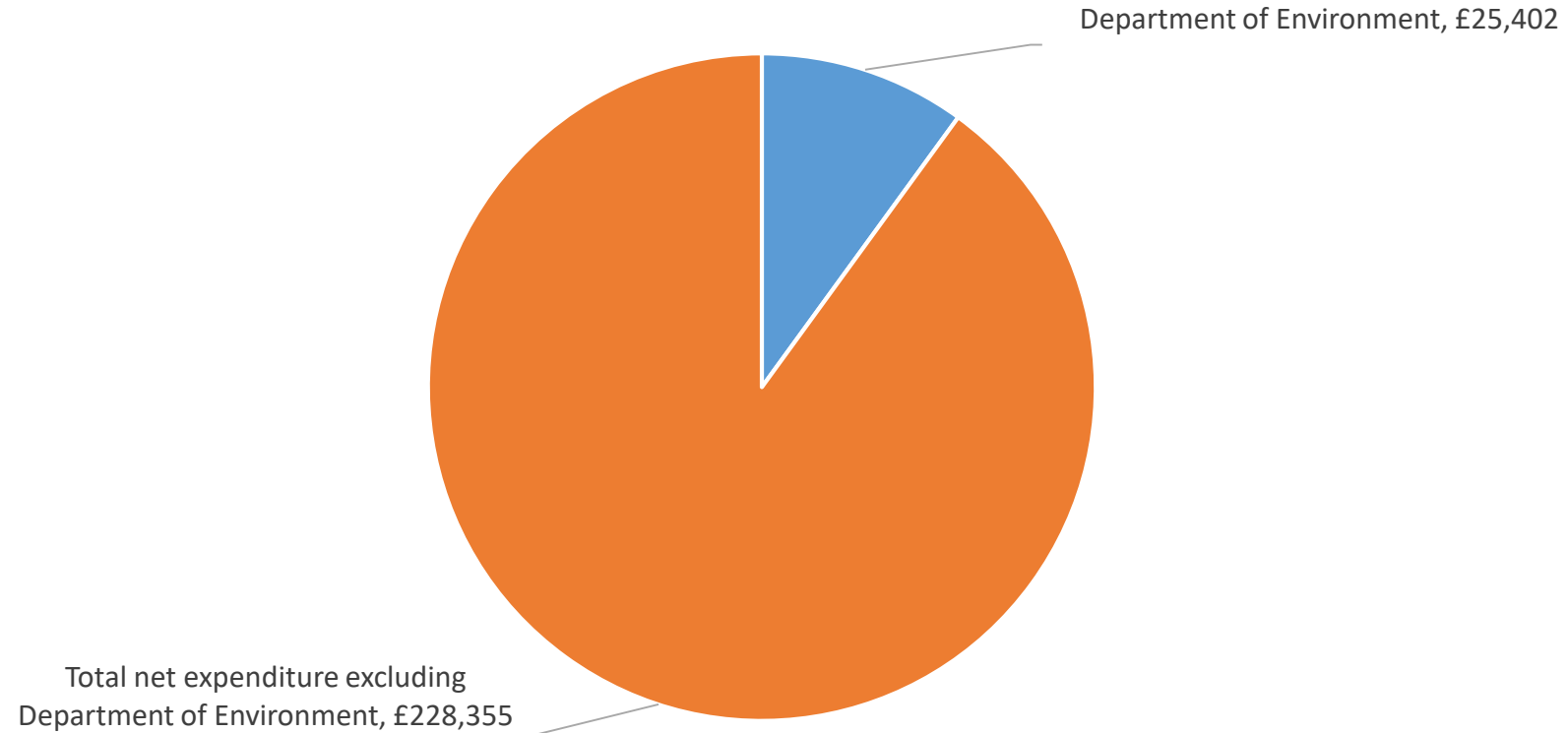
HSCP Net Expenditure 2020/2021 (€49,565k)



Environment

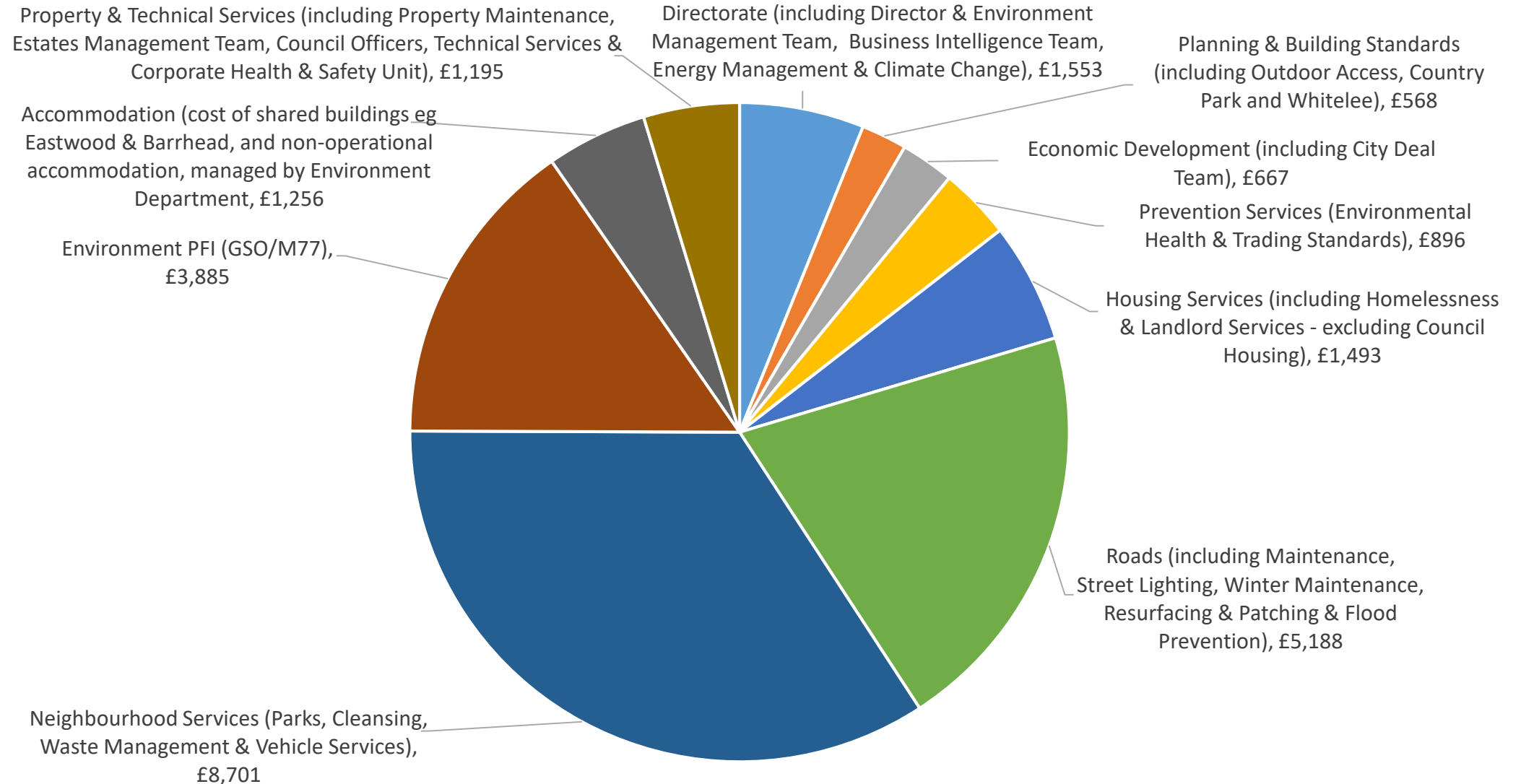
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Department of Environment Net Expenditure vs Total Net Expenditure (£k)

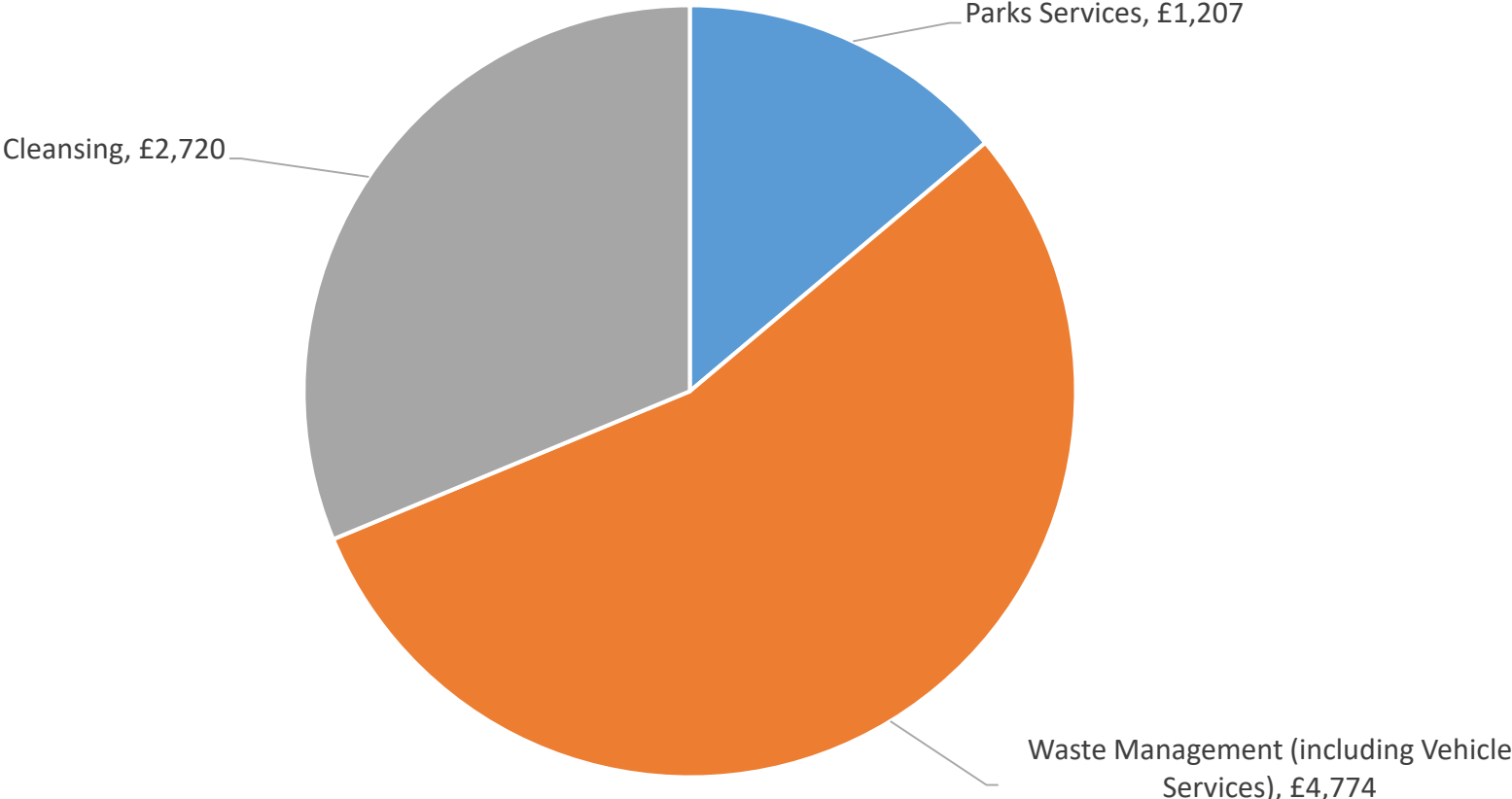


Department of Environment	
Total Net Expenditure (£k)	£25,402 (10%)
Total FTE	392.8

Department of Environment Net Expenditure 2020/2021 (£25,402k)



Neighbourhood Services Net Expenditure 2020/2021 (£k)

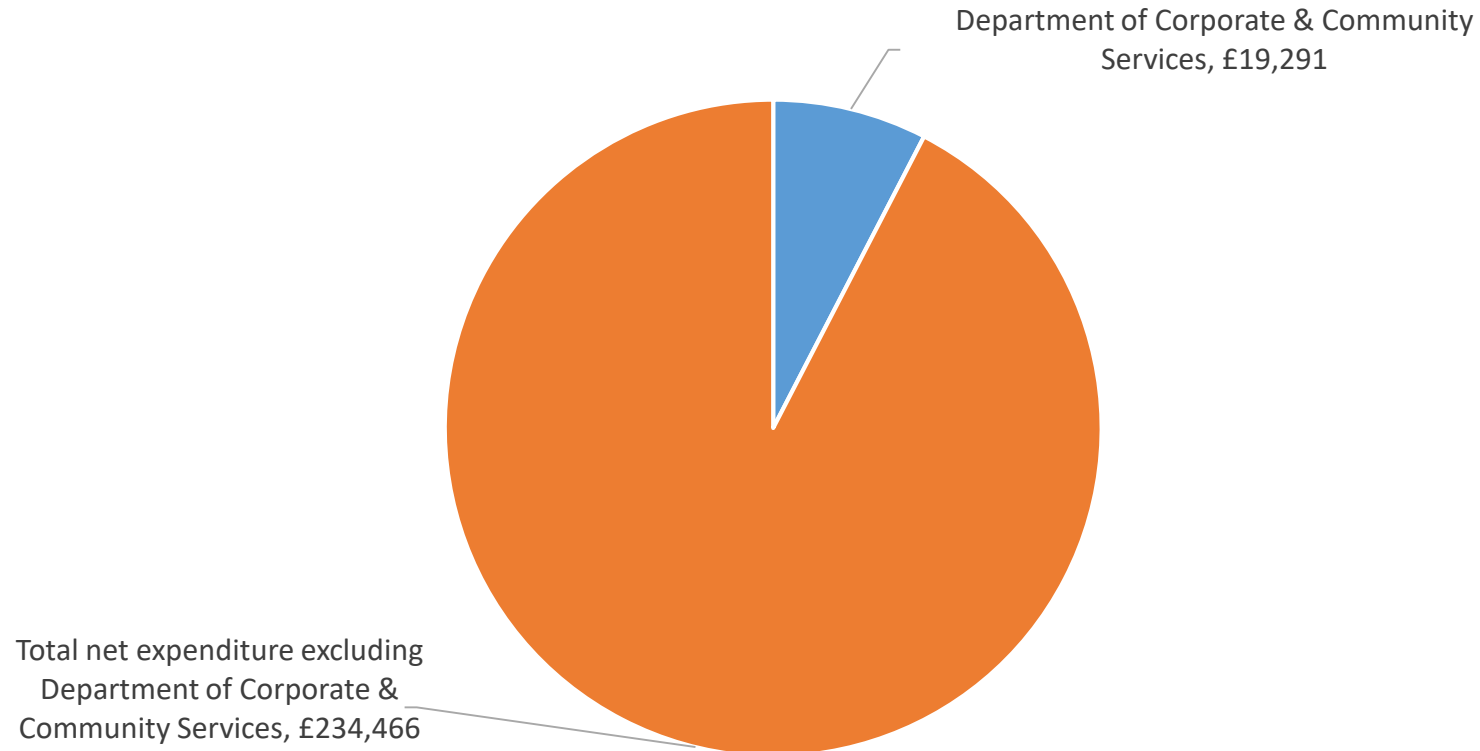


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Corporate and Community

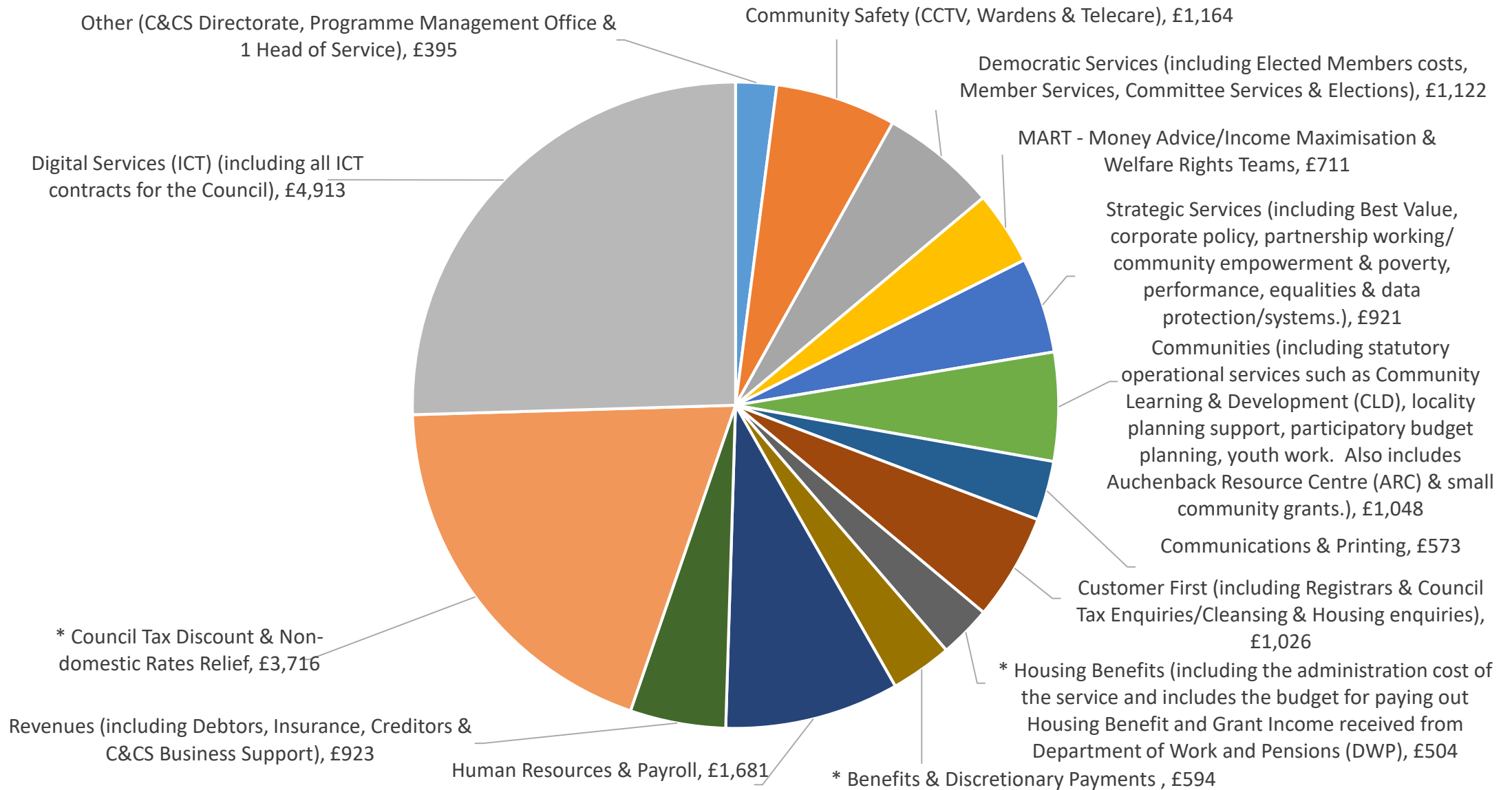
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Department of Corporate & Community Services Net Expenditure vs Total Net Expenditure excluding C&CS (£k)



Department of Corporate & Community Services	
Total Net Expenditure (£k)	£19,290 (7.6%)
Total FTE	308

Department of Corporate & Community Services Net Expenditure 2020/2021 (£19,291k)

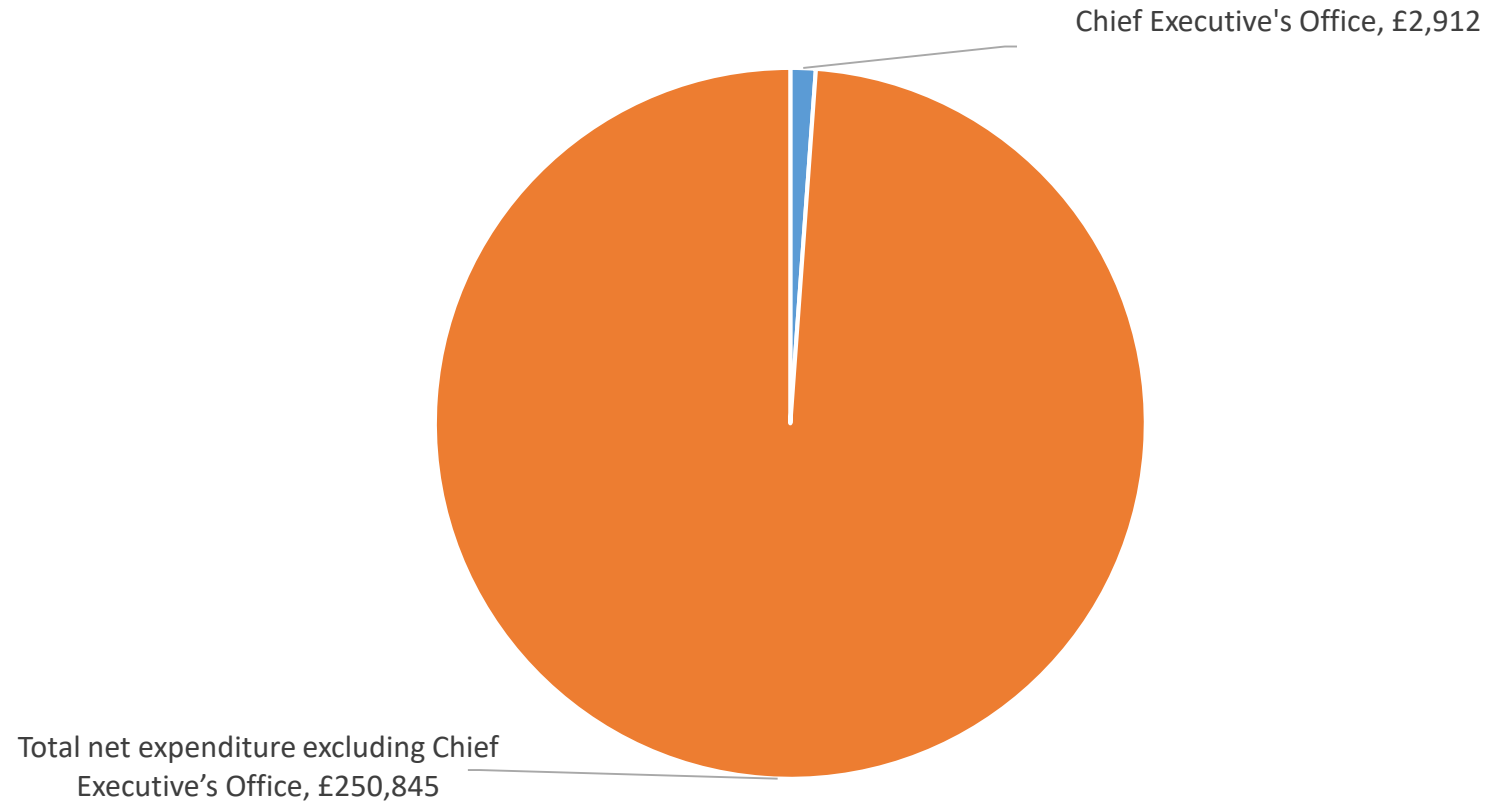


* Unable to influence

Chief Executives Office and Miscellaneous Services

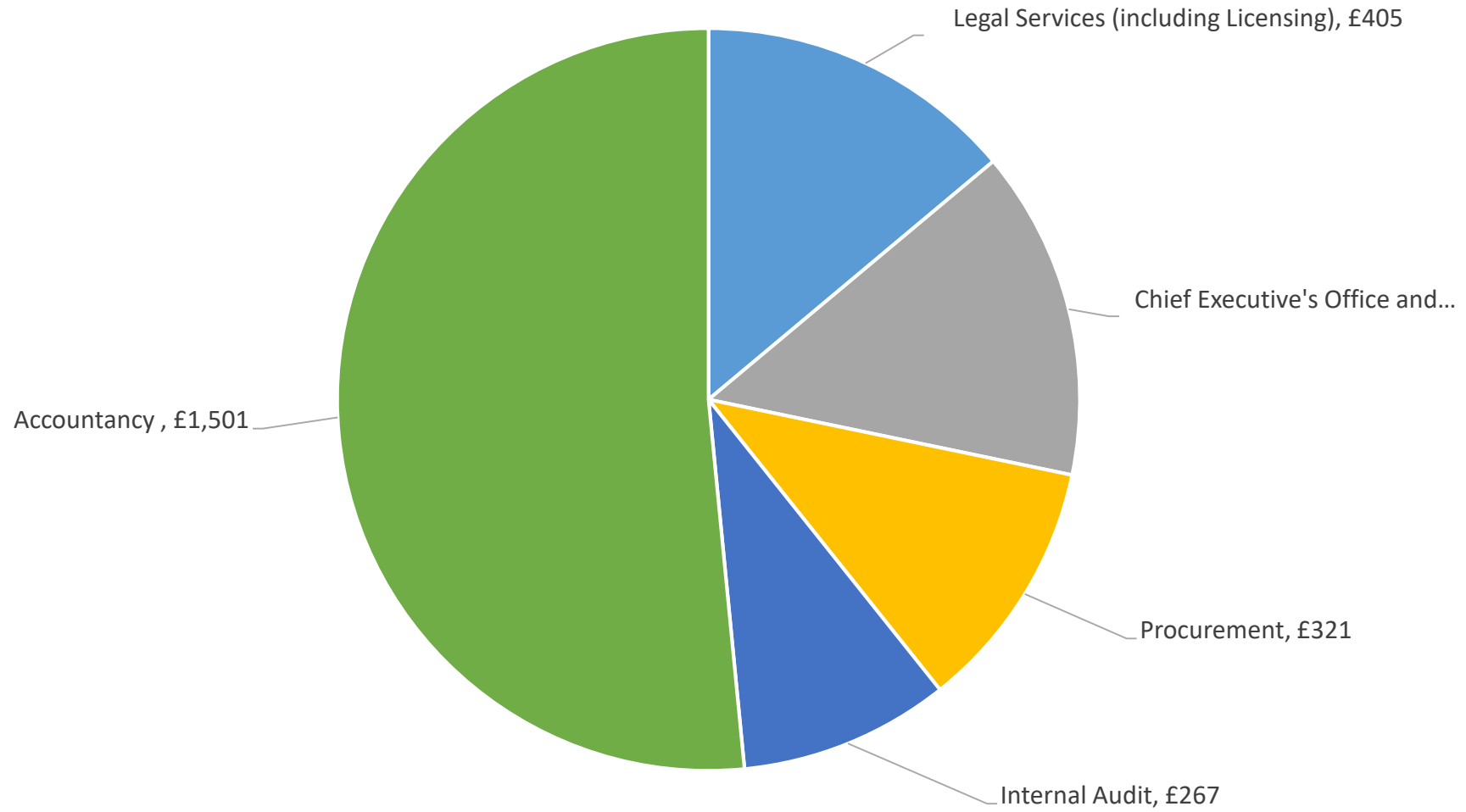
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Chief Executive's Office Net Expenditure vs Total Net Expenditure excluding CEO (£k)



Chief Executive's Office	
Total Net Expenditure (£k)	£2,912 (1.1%)
Total FTE	53.2

Chief Executive's Office Net Expenditure 2020/2021 (£2,912k)



Miscellaneous services £3,869K (1.5%)

- Joint boards £2,352K
- Welfare contingency £200K
- Superannuation costs £1,036K
- Restructuring costs £343K
- Miscellaneous £360K
- Late grant unapplied £597k
- Adjustment for Central Support recharged to HRA (£1,019k)

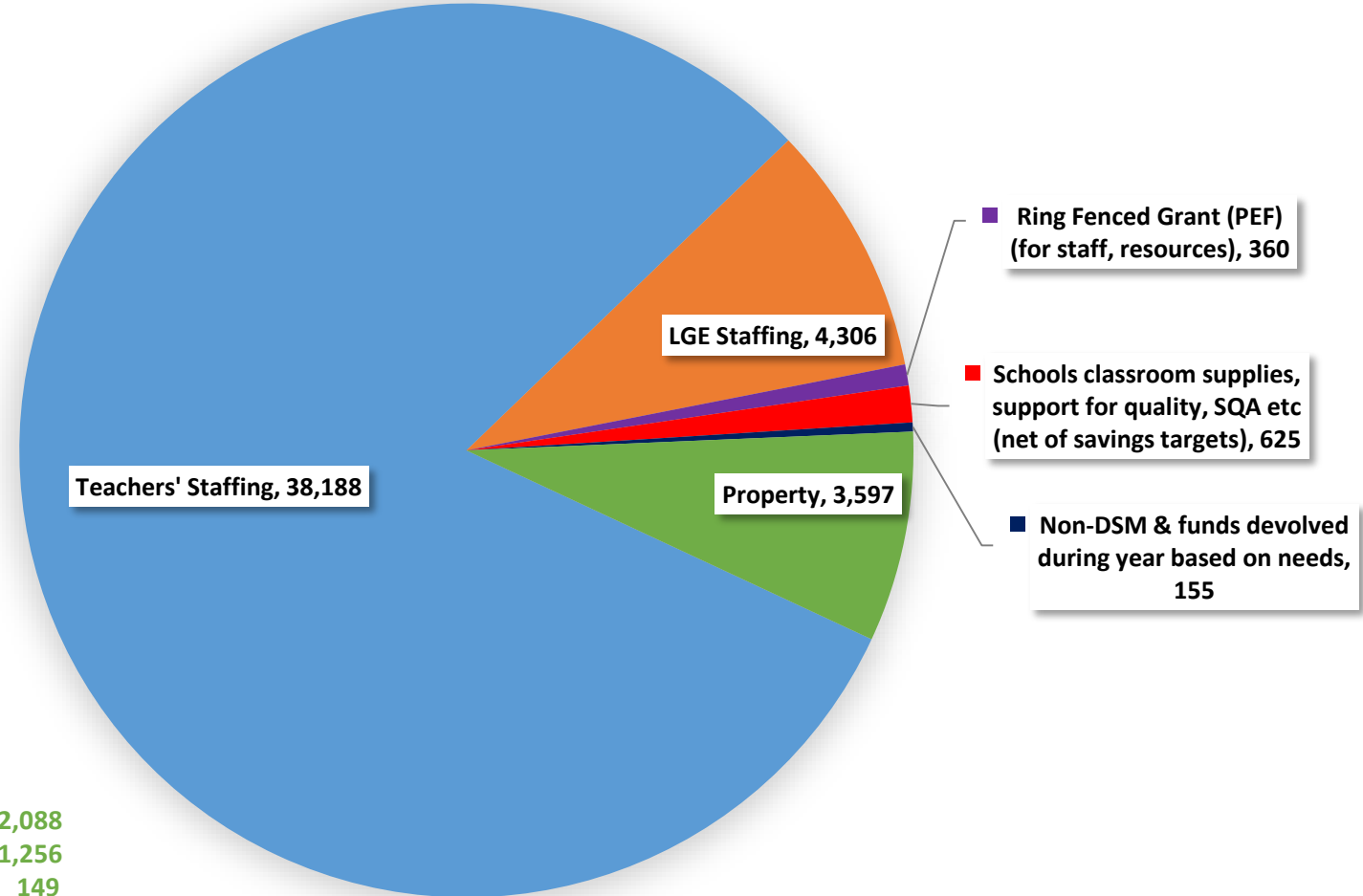
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Appendix 1 – Education details

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Secondary Schools: Revised Net Expenditure 2020/21 £47,231 (£'000)

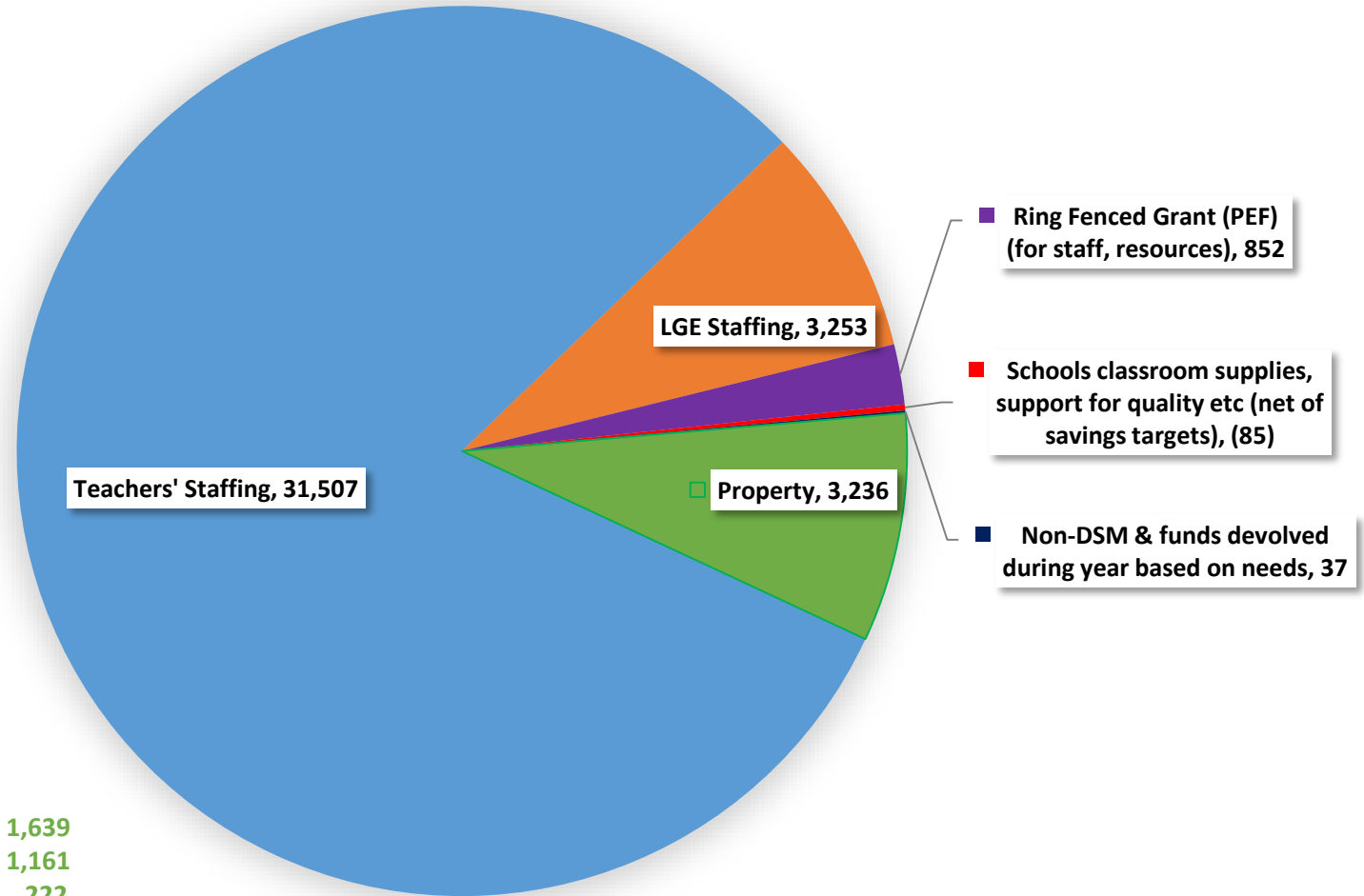


Property:

Rates	2,088
Utilities & Carbon Reduction	1,256
Grounds Maintenance & Waste	149
Repairs and maint (managed by PATS) & CEEF. (Net of cont repairs & renewals)	104
Subtotal	3,597

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Primary Schools: Revised Net Expenditure 2020/21 £38,800 (£'000)

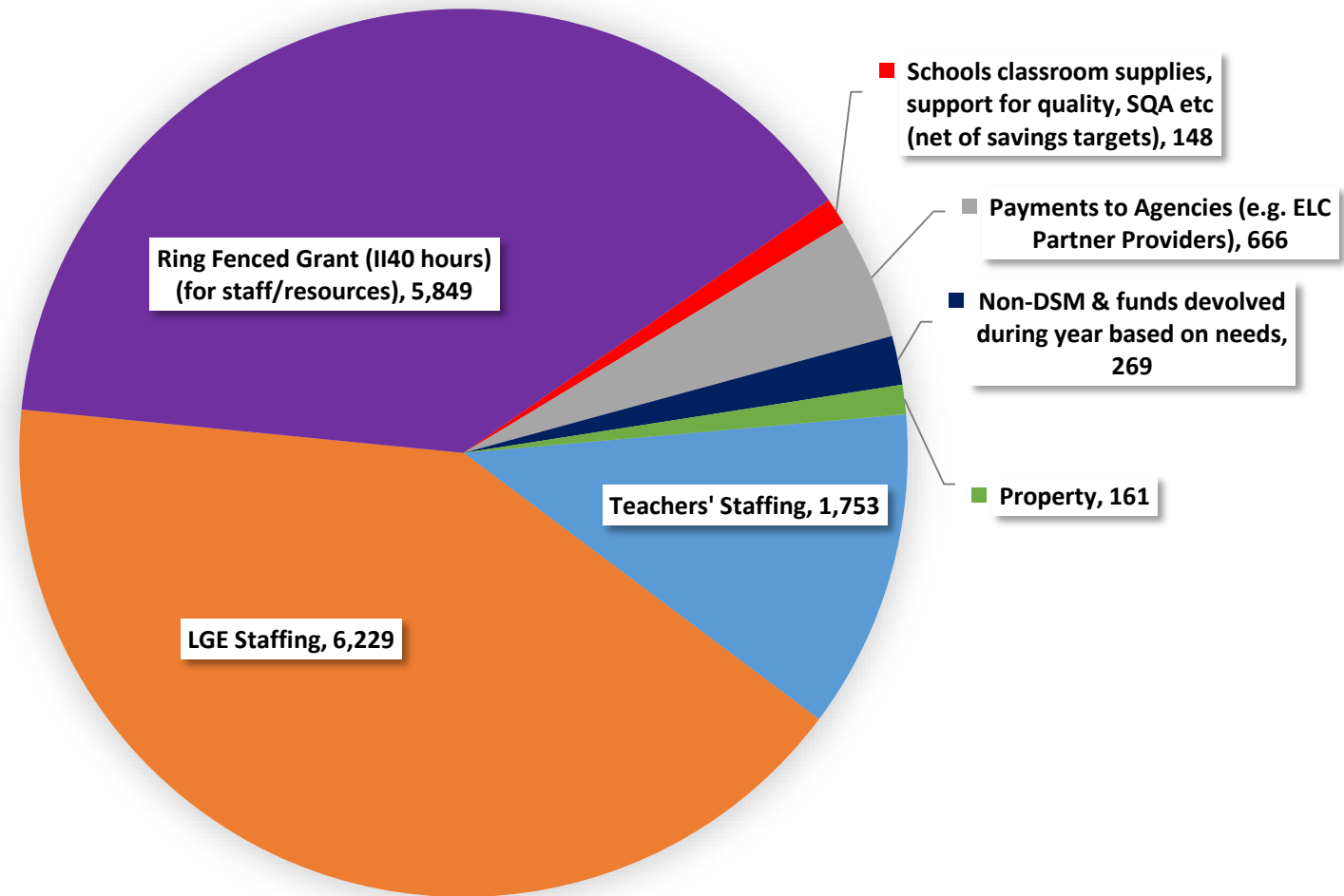


Property:

Rates	1,639
Utilities & Carbon Reduction	1,161
Grounds Maintenance & Waste	222
Repairs and maint (managed by PATS) & CEEF. (Net of cont repairs & renewals)	214
Subtotal	3,236

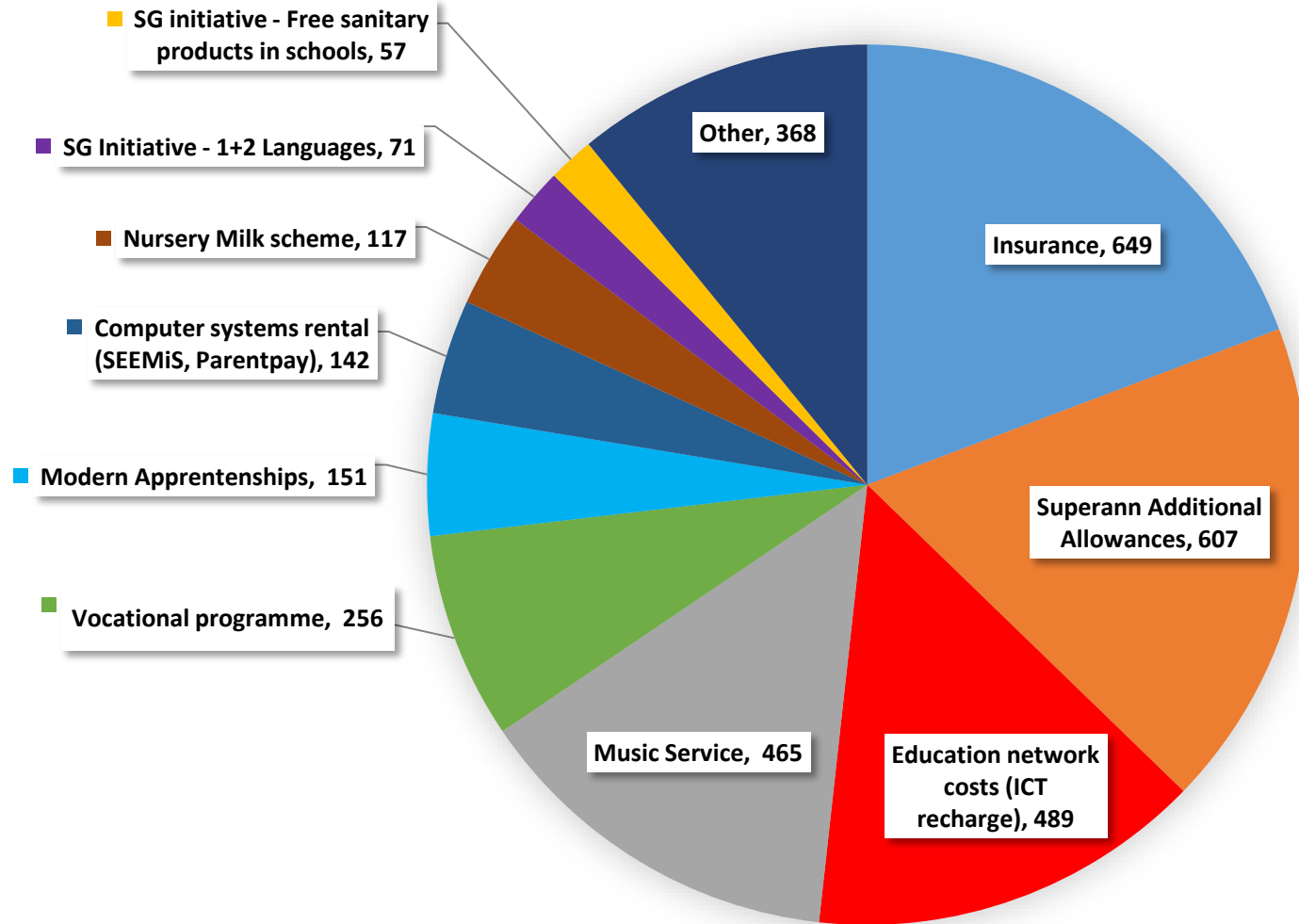
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Early Learning & Childcare: Revised Net Expenditure 2020/21 £15,075 (£'000)



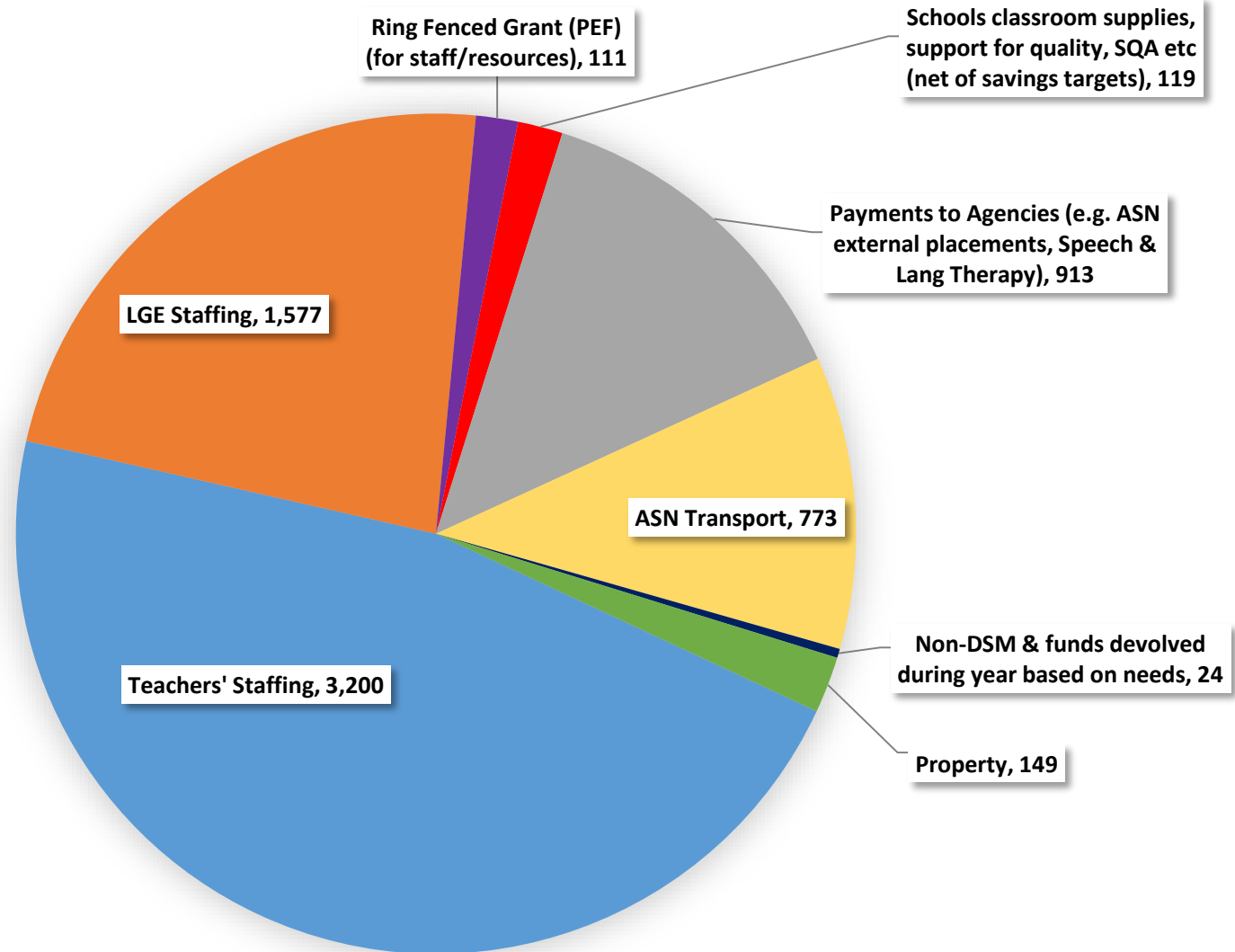
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Other: Revised Net Expenditure 2020/21 £3,372
(£'000)



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**Special Education: Revised Net Expenditure 2020/21 £6,866
(£'000)**

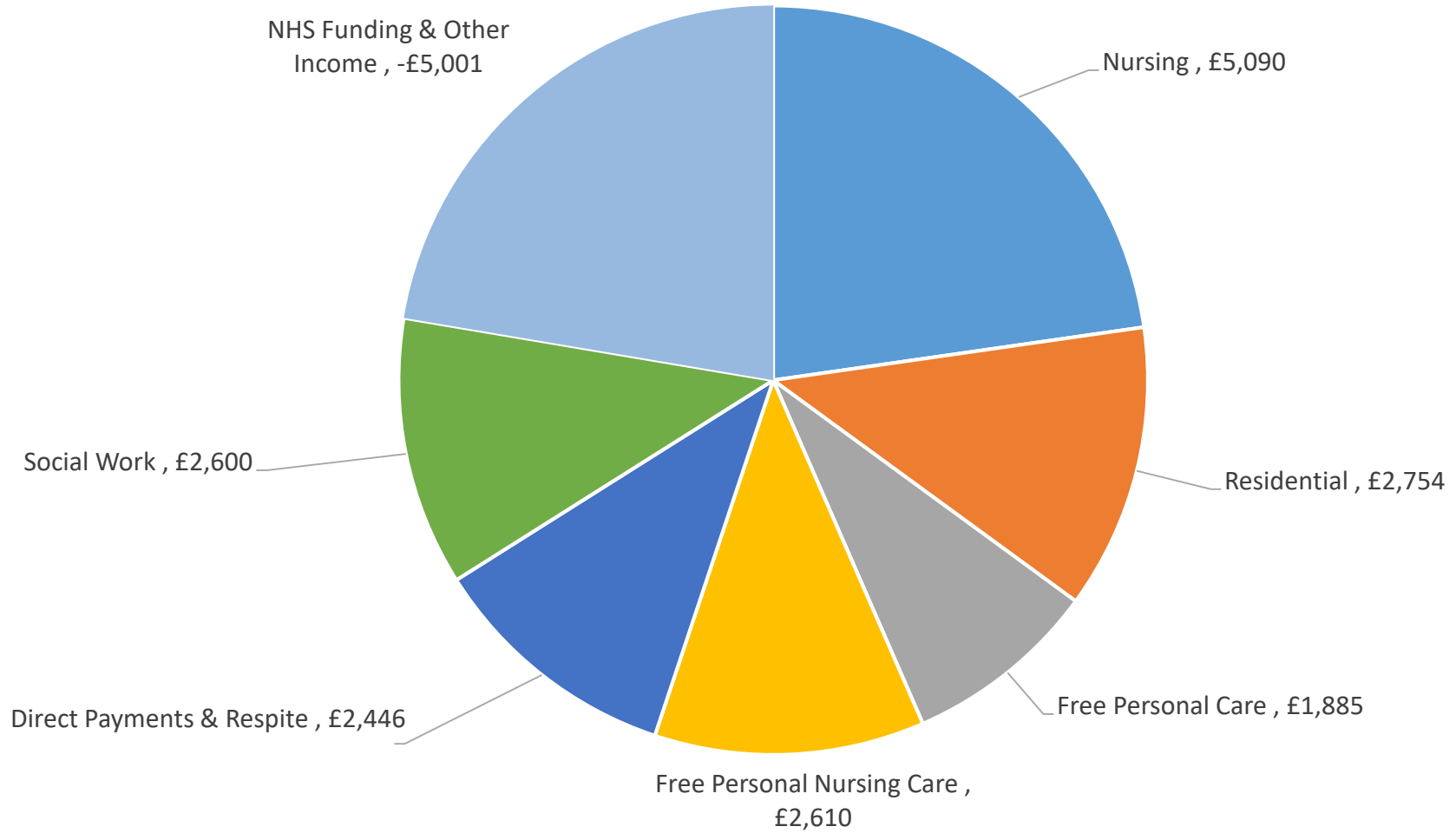


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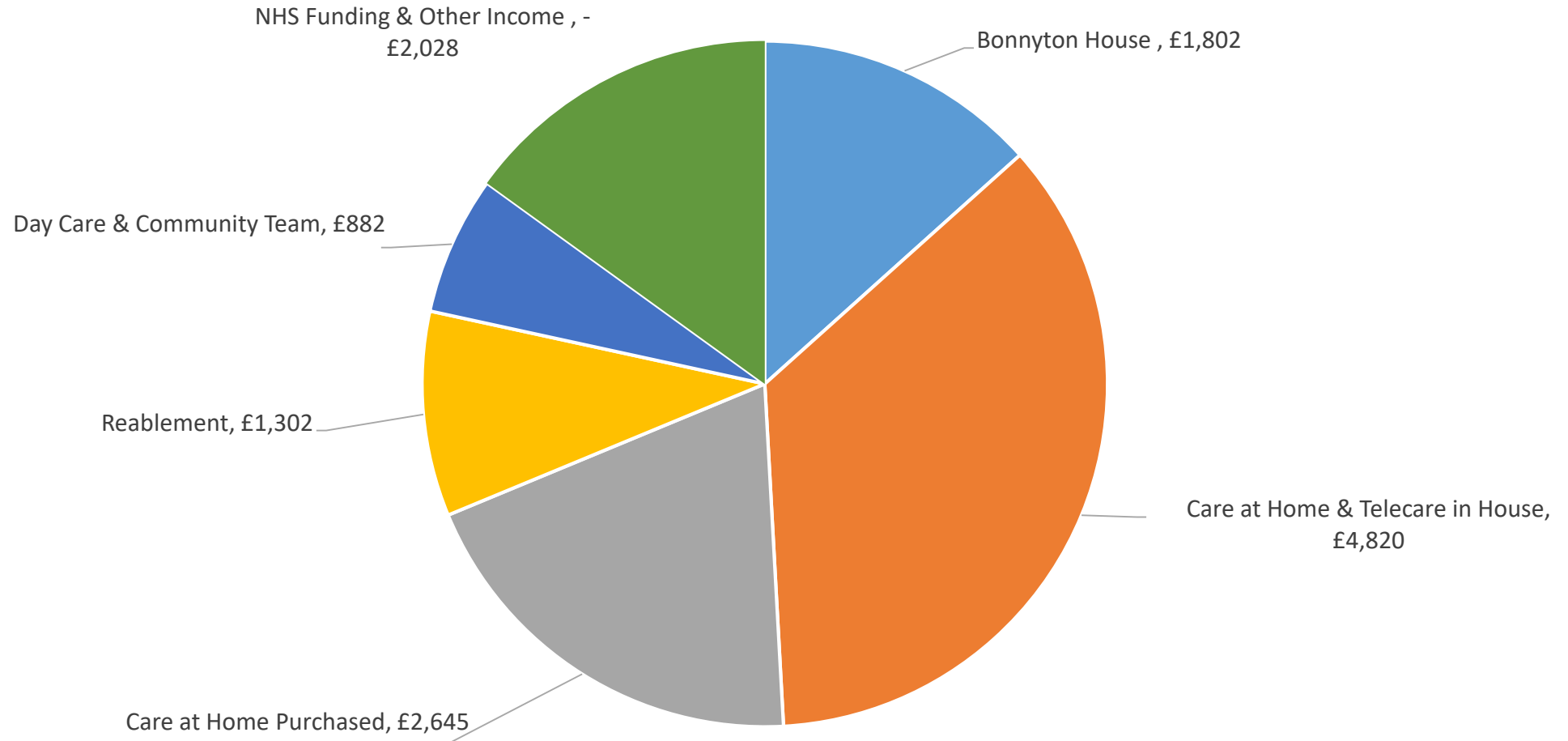
Appendix 2 – HSCP details

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Older People Expenditure £12,384 (£k)

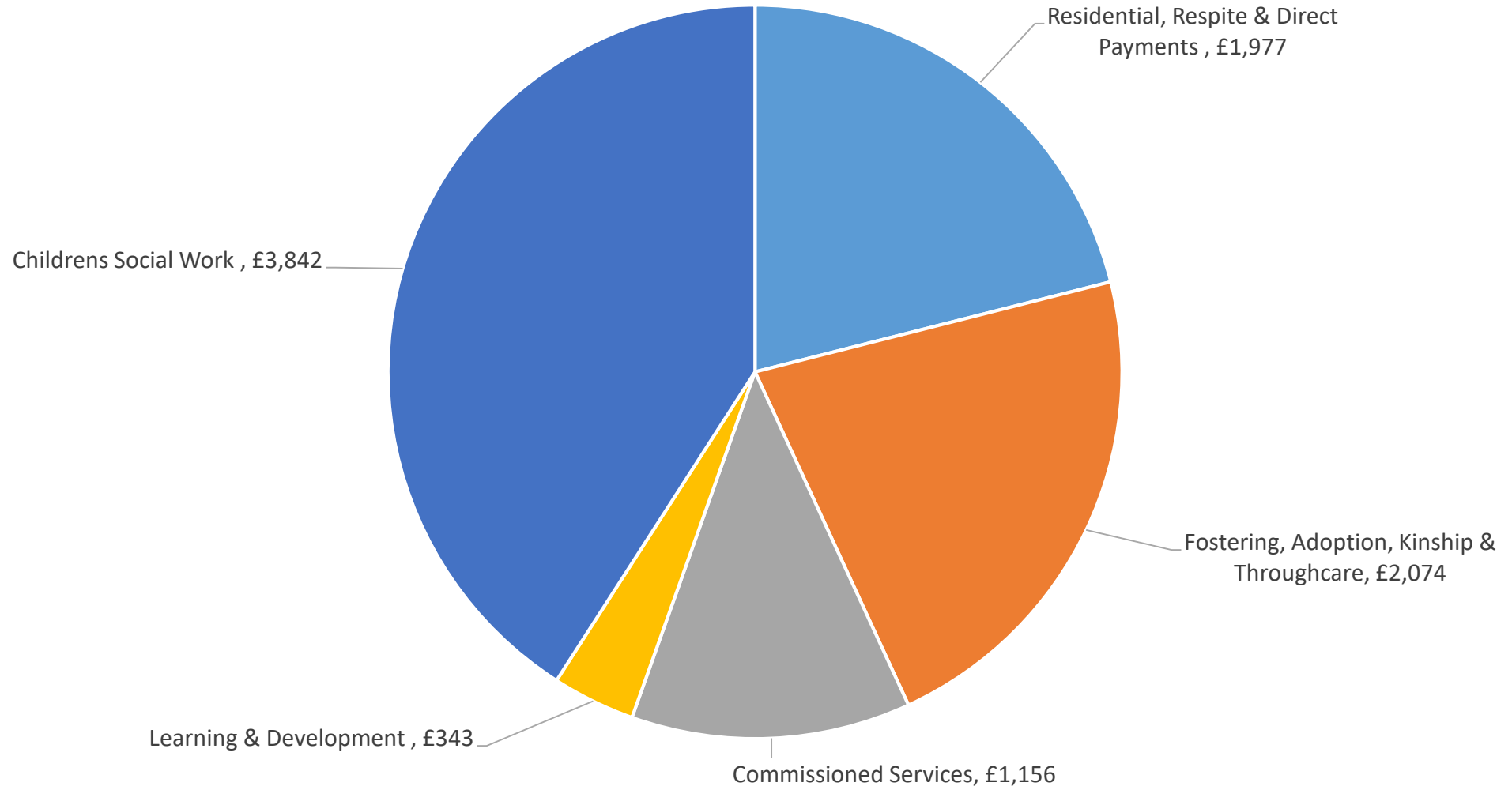


Intensive Services Expenditure £9,423 (£k)



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Children & Families and Public Protection £9,392 (£k)



East Renfrewshire Council

28th October 2020