

EAST RENFREWSHIRE COUNCIL25 February 2021Report by Head of Accountancy (Chief Financial Officer)FINANCIAL PLANNING 2021-2027**PURPOSE OF REPORT**

1. To submit for approval the updated Outline Revenue Financial Plan for 2021-2027.

RECOMMENDATIONS

2. 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 Outline Revenue Financial Plan 2021 – 2027

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 normally 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 was not possible due to the unexpected December 2019 general election and the impact of COVID-19 on financial planning timescales in 2020, however it is hoped that multi-year settlements will recommence from 2022/23 facilitating the Council's revenue planning.

6. The Council budget, which will be set today, will be set for a single year only, as a result of the lack of longer term national financial planning information. The budget proposals for 2021/22 reflect the terms of the Local Government draft settlement, announced by the Scottish Government on the 28th of January 2021. These figures may be subject to further change as a result of the final Scottish and UK budget plans scheduled for confirmation on 9 and 3 March 2021 respectively. The Council's Outcome Delivery Plan and outline multi-year budget plans for 2022/23 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 27 February 2020 and covers the next six years, 2021/22 to 2026/27.

9. It should be noted that financial planning is extremely difficult in the present economic and political situation, with uncertainty on both the impact of Brexit and the ongoing COVID-19 pandemic 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 greatly shortened timescale for the 2021/22 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 and on 28 January 2021.

11. The new Scotland Acts 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 a broad approach to managing the Scottish budget.

13. The Scottish Government's latest Medium Term Financial Strategy places the focus on outcomes in four key areas: Employment, the green agenda, health & social care in the wake of COVID, and tackling inequalities. The forecast considers several scenarios for the economic recovery post COVID and indicates medium term growth for local government if the central or upper scenarios are experienced. If the lower scenario proves more accurate, however, local government will experience more pressure in order to lessen the impact on priority areas such as health and social security. This could produce 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. In recent weeks the findings of the Independent Review of Adult Social Care have also been published. These recommend the establishment of a National Care Service, with accountability for adult social care moving from local government to Scottish Ministers. IJBs would be funded directly by the Scottish Government and would procure services from local authorities and third and independent sector providers. The need for additional expenditure

is also recognised, particularly to focus on prevention. Clearly this will have a major impact on local authorities and must be factored into Councils' medium term plans as further details emerge.

15. The 2020 COVID-19 pandemic will have a major impact on all public sector medium term plans, as will the recently agreed Brexit deal. Details will become clearer as the Scottish and UK budgets are finalised in March 2021.

16. The UK Spending Review in November 2020 covered only one year for Scottish revenue planning and indicated a 2.1% real terms (over 4% cash terms) increase in revenue funding for Scotland in 2021/22, but with the largest part of this increase relating to the COVID-19 response. Significant reductions in capital funding were also highlighted. Due to the ongoing uncertainties relating to COVID-19 and the delayed agreement of a Brexit deal, however, the detailed UK budget will not be announced until 3 March 2021 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.

17. John McLaren of the University of Glasgow expects Scottish non-Health revenue budgets to reflect much lower levels than the above overall increase in the next year or two. This is due to prioritisation of health and to the impact of other changes relating to areas including tax and block grant. In relation to Brexit, initial reaction to the agreement of a deal has resulted in a strengthening of sterling which may go some way to offsetting any upward inflationary pressures on imported goods.

18. Projections for 2021/22 and beyond could, however, change substantially as a result of the 3 March 2021 UK budget, the impact of Brexit, the Scottish Parliamentary elections in May 2021 and the findings of the UK Spending Review scheduled for later in the year.

19. More broadly, the Governor of the Bank of England 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 mostly below the 2% target until at least 2023.

20. The Council's Treasury advisers, Link Consultancy, have recently assessed the outlook for UK economic growth and interest rates. They note that the pace of recovery from the pandemic downturn has not followed the desired V shape but has been more elongated and prolonged. With the extended lockdowns they expect GDP growth to continue to be subdued, not reaching pre-pandemic levels until sometime in 2023, although the rollout of successful vaccines could help speed this recovery. Link also consider that any negative impact of Brexit on the UK's potential long term growth is likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought on by the COVID crisis. They expect inflation to stay low for the next few years, although there may be a temporary peak in CPI just above the 2% target rate towards the end of the year. Interest rates, currently at a historic low level, are also likely to remain very low for the next three years and at 2% long term.

21. Overall, the longer term outlook is not just about the level of resources nationally, but increasingly about the change in prioritisation of these resources, For example there may be less focus on office space and travel and more focus on shorter supply chains and digital provision. Likewise there may be an increased focus on social care within the public sector.

22. The draft 2021/22 public sector revenue budget plans announced by the Scottish Government on 28 January 2021 reflected an increase of £335m (3.14%) in cash terms for Councils, but after adjusting for £241m of new commitments included in the settlements COSLA calculated this to represent only a £94m (0.9%) cash increase in core budgets. Most protection and new commitments related to Health and Social Care, to Early Learning and Childcare and to funding to enable a Council Tax freeze. Due to demographic factors East Renfrewshire's like for like grant increase is below 0.5%. Pay increases for 2021/22 have not yet been agreed but all negotiating bodies are seeking significantly higher awards. These factors will continue to increase pressures on Council services which are not afforded Scottish Government protections or prioritisation.

23. Scottish Budget plans published relate only to 2021/22 and considerable uncertainty exists beyond this due to the impact of Brexit and COVID-19, the May 2021 Scottish Parliamentary elections, future Scottish tax revenues and the slower than anticipated growth of the UK economy. It is hoped that the Scottish Government will be able to move to multi-year settlements from 2022/23 and this would be welcomed as an aid to forward planning.

24. In recent years additional funding has been announced for local government as the Scottish budget progresses through the Parliamentary stages. Final confirmation of the 2021/22 Scottish budget will not be available until all stages are completed on 9 March 2021. There is also the potential for further changes flowing from the UK budget on 3 March 2021. Figures and forecasts will therefore be kept under review as the position becomes clearer.

25. Consideration has been given to the additional fiscal flexibilities announced during 2020 for local authorities in terms of utilising capital receipts, deferring loans fund repayments for 12 months and/or reprofiling PFI/PPP debt calculations. These actions would allow Councils to meet the cost of unfunded COVID-19 pressures without impacting on short term revenue budget plans. The Council's funding forecasts in this report reflect that the Council intends to make use of such fiscal flexibilities to cover any unfunded COVID pressures in 2020/21 and 2021/22.

26. The Council's grant for 2021/22 is £196.076m and produces a cash increase of £4.8m (2.5%) over the 2020/21 comparable grant figure, however recognising that £3.9m of this funding relates to new commitments, including Early Learning and Childcare commitments, the Carers' Act and other substantial IJB funding pressures, and funding to permit a Council Tax freeze this represents only a like for like £0.9m (just under 0.5%) cash increase. This, however, is significantly better than the anticipated 1% level of reduction.

27. The settlement also contained additional grant funding for Councils who choose to freeze Council Tax for 2021/22. Clarification is awaited as to whether the Council Tax freeze funding is to be baselined in future years.

DEMAND PRESSURES

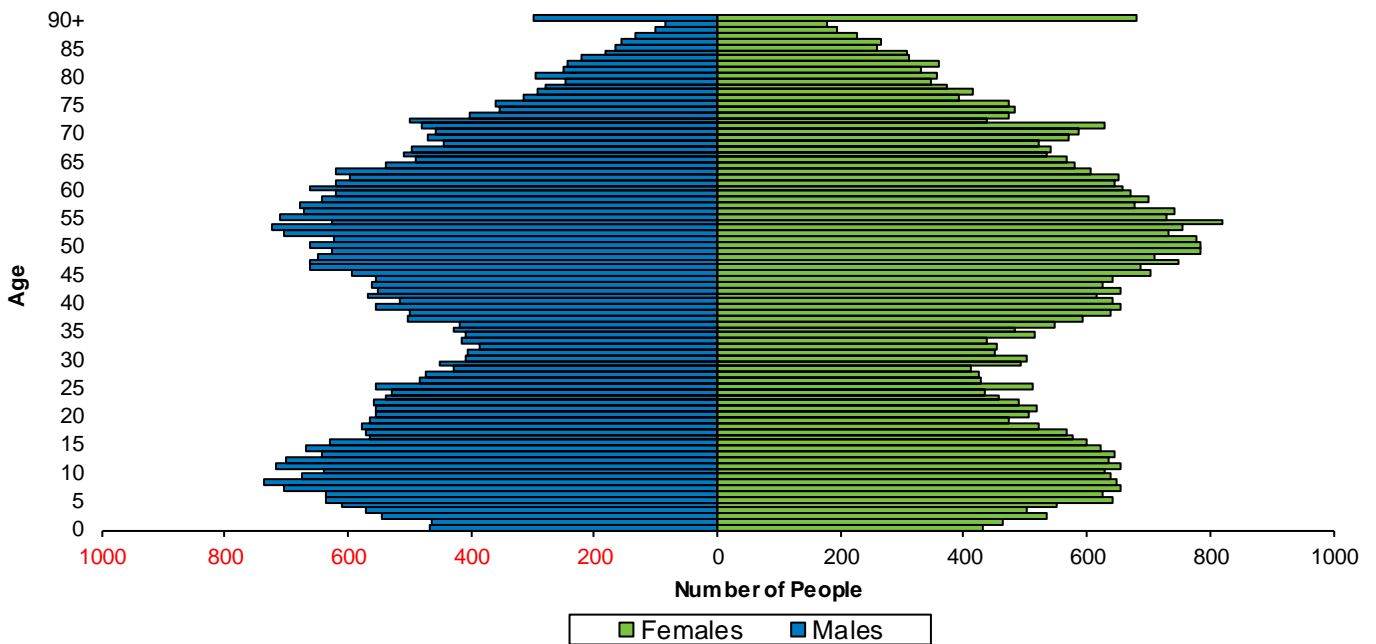
DEMOGRAPHICS

28. 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 population projections. The 2020 update to the Planning for the Future report has been delayed because of the impact of Covid-19, all figures in this report have been updated to reflect the most recently published data. 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.

29. The population of East Renfrewshire is currently estimated at 95,530. 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 2019 Mid-Year Population Estimates



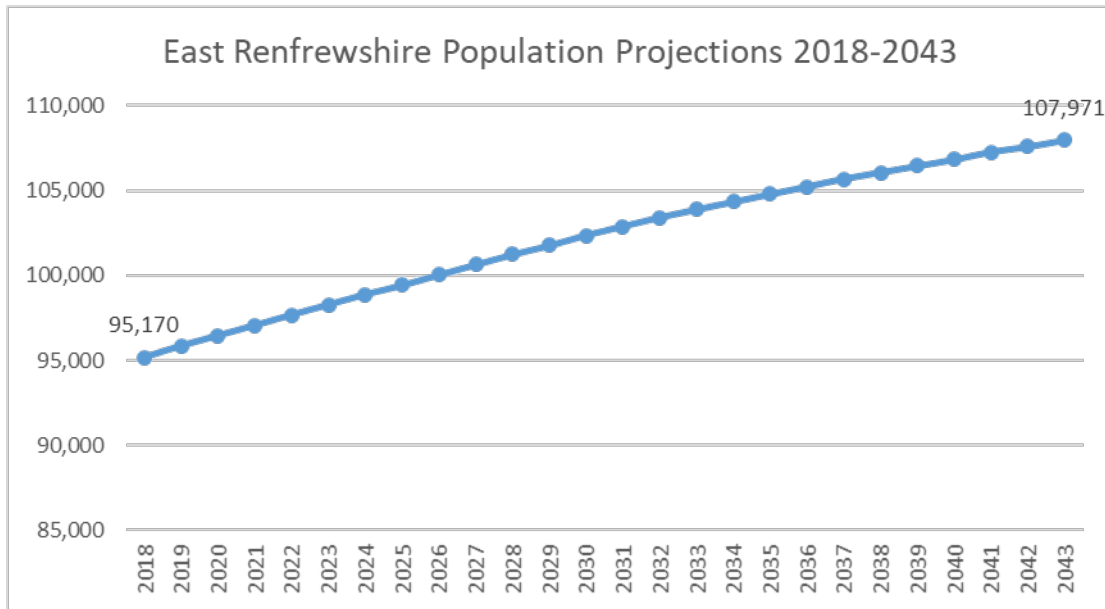
30. By 2043 the population of East Renfrewshire is projected to be 107,971, an increase of 13.5 per cent compared to the population in 2018 (base year for projections). The population of Scotland is projected to increase by 2.5 per cent between 2018 and 2043. Over the 25 year period, the age group that is projected to increase the most in size in East Renfrewshire is the 75+ age group.

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

Age group	2018 population (base year for projections)	Predicted 2043 population	Population growth (%)
0-15 years	19,322	20,234	4.7%
5-18 years	17,601	18,870	7.2%
Working age (16-64)	56,951	62,086	9.0%
65+ years	18,897	25,651	35.7%
Total population	95,170	107,971	13.45%

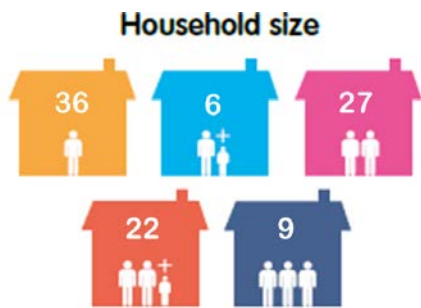
Source: NRS 2018-Based Population projections, published March 2020

32. 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. The number of school age children is also expected to increase by more than 7% over this period.



Source: NRS 2018-Based Population projections

Predicted household size in 2043



33. The total number of households in East Renfrewshire is predicted to increase from 39,108 in 2018 to 46,537 in 2043.

34. It is predicted that single adult households (all ages) will account for almost 36% of all households in East Renfrewshire by 2043 (compared to 33% in 2018). Around a third of these single adult households will be occupied by someone aged 75 or over. (Source: NRS 2016-Based Household projections, published March 2020)

35. Single adult households will stay around the same level and the proportion of households with dependent children is predicted to drop slightly to 28% (Source: NRS 2018-Based Household projections, published March 2020)

36. The average household size is expected to decrease from 2.42 people per household in 2018 to 2.29 in 2043, which is still the largest household size in Scotland.

37. In East Renfrewshire, from 2018 to 2043, households headed by people aged 75+ are projected to increase in number by 74 per cent as the older population grows.

The next 5 years

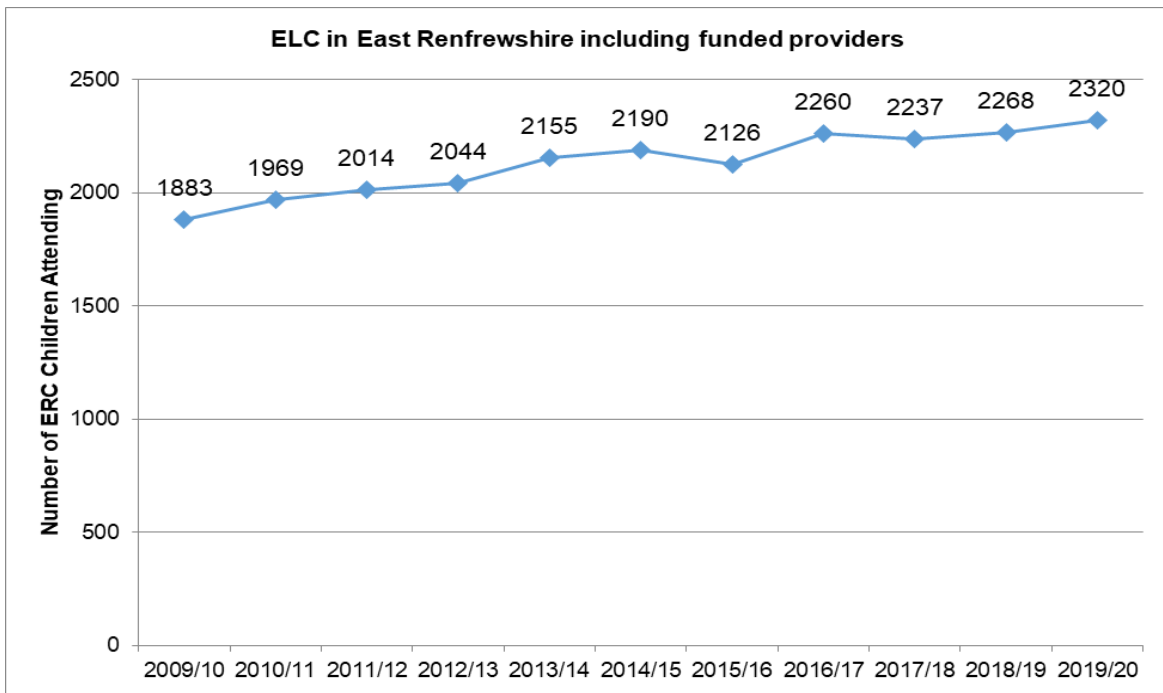
38. Over the next 5 years (2021- 2026), a number of changes have the potential to create financial pressure.

39. The number of households is projected to increase by more than 1,500 which represents a 3.8 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.

40. 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.

41. In East Renfrewshire there has been a rise in population of children under 15 years old. From 2015 to 2019, the number of children under the age of 15 increased by 6.5 per cent. The proportion of 0 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.

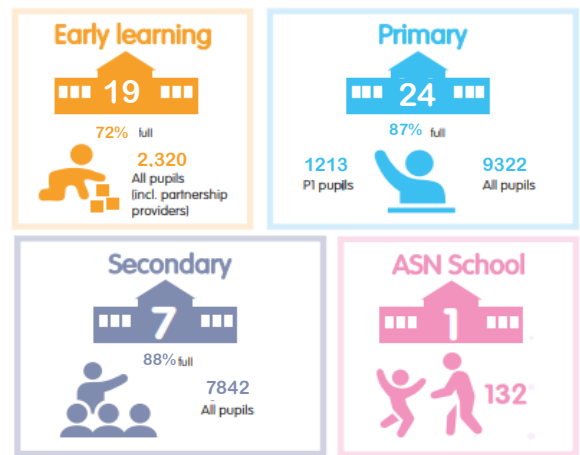
42. Projections also show the children and young people cohort continues to grow over the next 25 years, which produces increasing demand for early learning and childcare, primary and secondary school places. The chart below shows that increasing trend in the number of 3 and 4 year olds in East Renfrewshire attending Council and funded (partnership) providers (i.e. private, voluntary and independent sectors and childminders) early years settings over the past 10 years, an increase of 23 per cent.



Source: Education Management Information Service (East Renfrewshire), July 2020

Note: Excludes children who attend East Renfrewshire early learning and childcare provision and who live out with the council area.

43. 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 2019. From 2007 there has been a 43% reduction in the number of primary aged children who attend an East Renfrewshire school and reside out with the council area, as the number of East Renfrewshire resident children have increased over this period by 20%. 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.



44. With the introduction of flexibility and choice for families in the early learning and childcare (ELC) offer, there is necessarily an element of inefficiency in operating entitled provision with lower occupancy levels. In 2019/20, operating with 600 hours of funded ELC, overall provision was 72% occupied. This is based solely on entitled hours, which is a decrease on last year as expected, as new council and funded provider places begin to increase to add capacity in preparation for a new statutory duty to provide 1140 hours. In 2019/20 two new facilities were introduced as part of the 1140 hours expansion plan; and almost all of this provision will be subsumed as the increased hours, flexibility and accessibility is implemented. Overall the occupancy rates in the primary and secondary school sector are at 88% of available planning places. There are varying rates across schools, but there are several establishments with very high occupancy levels.

45. Further new education places will be required as a consequence of ongoing and planned new residential development and inward migration to the authority. This includes the need to increase the very specialist places for our most vulnerable children and young people as more families move into the area to access this widely recognised and valued specialist provision. The authority is taking forward a review of provision as part of a wider assessment of the needs of ASN services across the authority looking at how best to address needs in the short and longer term. Accordingly there is likely to be an increasing spending pressure to meet the demand for such specialist support.

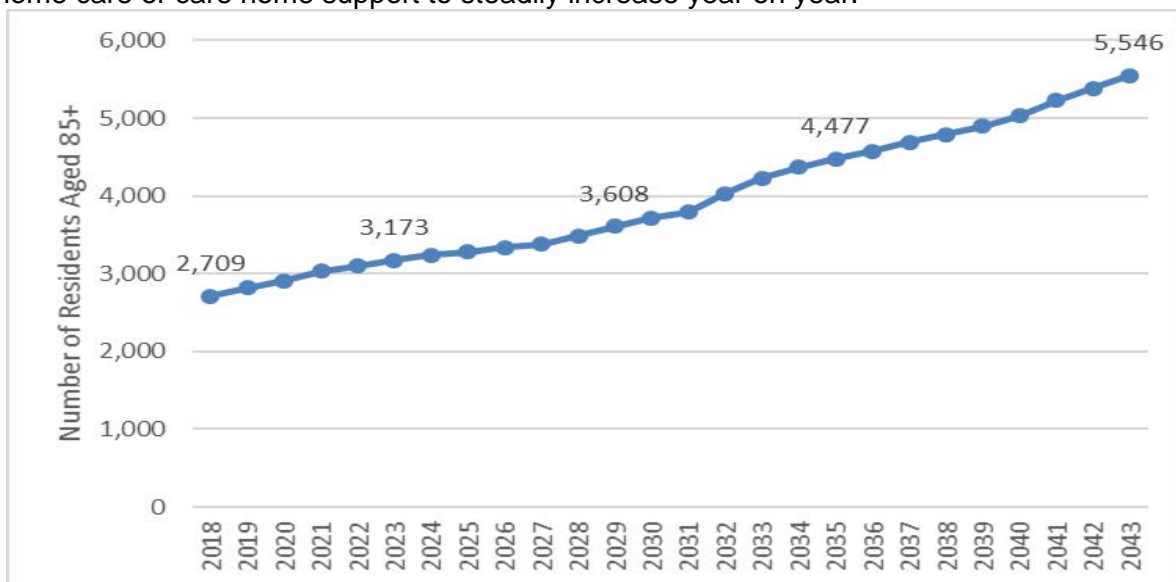
46. In addition there is the need to increase places from the private, voluntary and independent sectors and childminders to provide additionality in early years' provision as a consequence of the new statutory duty to increase entitlement to 1140 hours of free ELC for 3 and 4 year olds and eligible 2 year olds.

47. The number of looked after children has been reducing, by on average, 15 children a year since 2013 and has plateaued at around 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, but has recently substantially increased due to the impact of the pandemic and whilst the plans are for some of the children to return home this will take some time. In East Renfrewshire we strive to develop more nurturing and supportive family type placements.

48. Foster care has accounted for 32% of placements in the last year and demand for this will continue to 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. The recommendations from The Promise will likely place additional expectations on the delivery and quality of looked after children’s experiences within placements and the community. At this stage there is no certainty over additional funding for this.

49. Between 2018 and 2019 East Renfrewshire experienced a 5.4 per cent decrease in the number of births, decreasing slightly from 854 in 2018 to 808 in 2019. The number of births across Scotland declined by 2.8 per cent over the same time period. The East Renfrewshire deaths increased by 1.5 per cent between 2018 and 2019. East Renfrewshire has amongst the highest life expectancy rates in Scotland for both men (80.3) and women (84.0).

50. East Renfrewshire already has an increasing ageing population. By 2043, 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 2018-Based Population Projections, National Records of Scotland

51. 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. The recently published Independent Review of Adult Social Care recognises the need to robustly factor in demographic changes to future planning as well as a focus on meeting lower level needs through community support. However the report also recommends a change in the funding model for adult care, with funding routed directly to IJBs. This could have an impact on the Council’s future funding.

52. 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.

53. 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.

54. 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 several GAE allocations has undergone major change and this has resulted in a significant impact for the Council, particularly in reducing the level of grant support we attract for school meal provision.

55. 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 slightly below the Scottish average. The population has grown by 0.38% against a Scottish average of 0.46%. This change and an increasing focus on deprivation and other factors have reversed the growth trend for GAE in 2021/22, with the Council's share of GAE falling very slightly in the last year. The Council now has a 1.96% share of the overall GAE (previously 1.97%), but this is still significantly higher than our population share of 1.75%.

56. 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 largest element of GAE at almost 52%, the effect on the council's budget is significant.

57. In overall terms it is estimated that the high pupil numbers will increase our expenditure by in the region of £25m as compared to an average council of a similar population and this is taken into account by the Government in estimating our budget needs.

58. Our share of social work GAE is slightly below our population share at just under 1.71% 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 nursing or residential care placement.

59. The other determinants of funding, i.e. former ring fenced grants (FRFG) and redeterminations, have stayed largely unchanged.

60. These changes to our grant calculations mean that instead of an increase in GAE and other grants as we had usually planned for in previous years, it would be prudent to plan for a slightly reduced level of funding until the new trends are more established.

CAPITAL INFRASTRUCTURE

61. 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 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.

62. 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

63. More detail of the Council's plans to address future capital needs are set out in the Capital Investment Strategy report, which is updated annually.

CITY DEAL

64. 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. Projects include a new railway station at Barrhead South, recent 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.

65. 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 significantly increase pressure from loans charges in the medium term.

LEGISLATIVE CHANGE

Entitlement to 1140 hours of Early Learning and Childcare provision

66. The 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 was deferred until August 2021 due to the impact of COVID-19. An overview of the capital consequences of this are contained in the Council's Capital Investment Strategy.

67. 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.

68. Expansion to 1140 hours by 2021 requires a transformational increase in the early years' workforce, which presented 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.

69. Whilst additional capital and revenue funding is being made available from the Scottish Government towards the costs of this new burden, revenue allocations to date do not fully cover the first full year of the rollout of 1140 hours under the Council's plans. Financial year 2021/22 is the last year of the specific multi-year funding package to support the ELC 1140hrs expansion and there is an ongoing national financial review which will determine the levels of future funding for councils. East Renfrewshire awaits the outcome of this review.

70. The 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.

71. New legislation was laid in the Scottish Parliament by the Scottish Government in December 2020 about funded ELC places for all children who defer their primary one start (not yet 5 years old at the beginning of the school year). This will mean that, from August 2023, all children who defer will be entitled and able to access funded ELC (in the current system only the youngest children, i.e. those with a January or February birth date, are entitled to receive funding support). The Scottish Government and COSLA have agreed to the phased implementation of this policy on the lead up to 2023 to inform assessment of likely uptake of the entitlement and improve the understanding of the consequent impact on available capacity and financial implications. This national implementation plan will inform local assessment of what this means for East Renfrewshire and feature in future financial planning.

72. 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

73. 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) with a statutory duty to implement by April 2022 and subject to regular review. In the empowered system, Head Teachers are accountable and responsible for decisions which should be made in consultation with pupils, parents, staff and the wider community.

Educational Attainment

74. The 2021/22 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 £1.327m in 2021/22 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.

75. Nationally, the overall ring fenced funding to help raise attainment and close the poverty related attainment gap is under review and it is possible 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

76. 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 (£1.91m in East Renfrewshire) being allocated through participatory methods by the end of financial year 2020/21. COSLA and Scottish Government have agreed to extend this deadline to March 2022 for Councils where the pandemic has adversely affected their ability to achieve this. COSLA will support councils to progress this and report progress in March 2021. As part of this we intend to hold two workshops in late spring/early summer 2021, facilitated by PB Partners, for department reps which will enable us to review our progress and develop a plan for achieving this target.

77. In 2018/19, the Council supported the development of a grant making participatory budgeting (PB) process in the locality planning areas of Auchenback, ADD2 Barrhead (East Arthurlie, Dunterlie, Dovecothall, Dalmeny and Springhill), Neilston and Thornliebank. Over 1,300 residents across the four areas took part in voting events with community members identifying and prioritising how the £100,000 was distributed amongst the applicants. Thirty three community organisations were successful and the grant has allowed them to deliver a range of community based projects across the authority. The locality PB grants continued in 2019/20 with Linking Communities (a constituted community led steering group) leading the process. This resulted in them taking lead responsibility for designing the system and allocating a further £100,000. The PB grants events for 2020/21, were due to run in March 2020, however due to the national lockdown and the ongoing impact of COVID-19 on community activity this has been delayed. The funds will be rolled forward to be used to support the recovery and development of community groups and organisation in 2021/2022.

78. 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. Due to the impact of COVID, Councils will be allowed additional flexibility in seeking to implement PB by March 2022.

Welfare reform

79. 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

80. The full impact of the decision to leave the European Union is still not known and will require to be monitored carefully. 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 trade deal will also impact upon many aspects of Council activities including procurement, workforce and legislative frameworks. A dedicated co-ordinator is in place and work is progressing in response to all of these issues.

COVID-19

81. The COVID-19 pandemic impacted significantly on all Council services during 2020 and will continue to be a major factor in the coming year as we plan to recover and to establish a "new normal". Service delivery approaches, workforce, technical capability and budgets have all had to be amended to recognise this. Grant funding has been provided but this will not cover the full financial impact of the pandemic, however Councils have been permitted additional fiscal flexibilities in order to meet unfunded short term COVID-19 related revenue costs from capital sources. The position must be carefully monitored in the coming years so that any such COVID-19 related costs are clearly identified and funding secured so as to minimise additional pressure on already strained service revenue budgets.

Independent Review of Adult Care Services

82. The recently published Independent Review of Adult Social Care contains 53 recommendations, many of which will have far reaching impacts on local authorities and the current arrangements for delivering social care services. This must be monitored and factored in to future Council plans.

Economic uncertainty

83. Brexit and political changes around the world have been exacerbated by the global COVID pandemic and this has increased uncertainty on world markets, with growth projections for GDP remaining low. Interest rates are, however, also expected to stay low for the next few years and inflation is expected to be close to or below the 2% target level. Recovery will be dependent on the success of the new vaccines and the speed at which restrictions can be lifted and the position may become a little clearer following the delayed UK budget, now scheduled for early March 2021. Any further economic detriment and related poverty would increase the demand on council services.

OUTLINE REVENUE FINANCIAL PLAN

84. 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. Whilst it is intended that the Council continues to adopt this longer term approach in future, the lack of multi-year budget information from both the UK and Scottish Governments has resulted in the Council having to set only a single year budget for 2021/22.

85. Despite the UK budget being deferred until 3 March 2021, the 2021/22 provisional Scottish Council settlement figures were announced on 28 January 2021.

86. The latest local government settlement figures are more favourable than originally forecast with a like for like cash increase of almost 0.5% for East Renfrewshire.

87. The impact of the settlement on the Council results in a shortfall for 2021/22 of £8.519m. This is after applying a Council Tax freeze funded from the grant settlement.

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

89. Looking further ahead and taking account of future pay, inflation and population pressures currently foreseen, together with the impact of the reducing scope for mitigating savings pressures by utilising reserves in the coming years, Table 1 below illustrates how varying grant levels could require savings of £3.623m to £13.259m per year from 2022/23 until 2026/27. From 2022/23 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 2022/23 is slightly higher than the later years' gaps, mainly because the 2021/22 shortfall includes savings previously deferred by use of reserves. In later years rising loans charges contribute to the pressures. Assuming annual grant reductions of 1% in cash terms, an average savings gap of £8.771m 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

	CASH MOVEMENT 2022/23 ONWARDS				
FORECAST ANNUAL BUDGET GAP	+1%	0% (FLAT CASH)	-1%	-2%	-3%
	£M	£M	£M	£M	£M
2022/23	5.416	7.377	9.338	11.299	13.259
2023/24	5.062	7.042	8.984	10.885	12.748
2024/25	5.366	7.366	9.288	11.132	12.901
2025/26	4.776	6.796	8.699	10.487	12.165
2026/27	3.623	5.663	7.547	9.280	10.871

90. Whilst the outlook for the 5 years beyond 2021/22 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, the impact of the review of adult social care or other 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 is determined.

MITIGATING ACTIONS

91. 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

92. 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, many of which have widened as a result of the COVID pandemic. Formal partnership meetings were reduced and we focussed on supporting partnership action to co-deliver our humanitarian response and focus on the big challenges around employment/the economy and on wellbeing. Fairer East Ren will be revised as we transition from response to recovery to take account of the changing nature of inequalities in East Renfrewshire.

- Our Local Child Poverty Action Report, which we are required to publish annually has been developed as a partnership plan, and our 3rd report will be published in Summer 2021. This is linked to Fairer East Ren and focuses resources on taking action to increase income from employment and benefits and reduce the costs of living for families – all three objectives are more pressing given the pandemic impacts on low income families and those experiencing job loss or reduced hours.
- Four Locality Planning areas have been identified in East Renfrewshire. These communities experience poorer outcomes than other areas across the authority. Community members from each of these localities are being supported to co-produce and take ownership of their own locality plans in partnership with council services and other agencies. Progress on this has been impacted by the COVID-19 Pandemic with groups unable to meet as they normally would and challenges relating to digital access and confidence limiting capacity for virtual engagement. The focus during the pandemic has been on ensuring community awareness of, and involvement in, the authority wide humanitarian support efforts and to provide digital devices with free connectivity and support to local community members and households who were unable to access online opportunities.
- As we move towards recovery and restrictions allow, we will continue to involve, consult and plan with community members through detached community engagement (outdoor street work), face to face meetings and online platforms to maximise their involvement in the locality planning process.
- We will continue to work together with other council departments and partners to ensure there is an appropriate level of focus on and collaboration with these communities to enable the required changes in how we utilise resources to deliver improvements in local outcomes.

93. We will use a new integrated Equality and Fairness impact assessment process and work with a new Equality Forum being established to ensure we are fulfilling our Fairer Scotland and Equalities and Human Rights duties to consider the impacts of strategic decisions on residents with protected characteristics and those socioeconomically disadvantaged.

94. 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. The Council's "Vision for the Future" strategy was approved in February 2020, based on a series of conversations about life in East Renfrewshire over the next 10 years. Whilst the pandemic has diverted the attentions of our organisations towards response and recovery in recent months, the themes of Vision for the Future remain as appropriate as ever, if not even more so.

95. The general theme of Vision for the Future 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 users - these concepts have been brought into sharp focus over the last year. The aim is to continue to develop this vision over time, and now with a focus towards renewal. This will mean continuing the conversations with stakeholders and in tandem with processes such as Local Development Planning and wider City Region work, with a particular initial focus on the themes of environment/climate change and building communities.

96. 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.

97. 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, focussing on customer experience, our business systems and processes and capitalising on the use of Office 365 capabilities to enhance the productivity of our workforce.

MODERN AMBITIOUS COUNCIL PROGRAMME (MAP)

98. 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.

99. 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) arose from efficiencies, through the Council’s MAP programme or as a result of our focus on the Council’s 5 capabilities.

100. Savings plans for future years will be developed by the Corporate Management Team on the basis of the Scottish and UK budgets for 2021/22 and beyond 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 has been 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.

101. 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).

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

- Continue implementing our Digital Transformation Strategy, with a focus on customer experience, streamlined end to end systems and processes and greater use of Office365 capabilities for productivity
- 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
- Improving the sharing and management of data across the organisation

103. There are programmes of work underway 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 areas which challenge the most fundamental building blocks of how we operate. 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. It will be necessary for us to regularly prioritise this work to ensure a focus on benefit realisation and to rigorously manage the limited resources we have to support projects. This is especially relevant as we adopt new working practices in the wake of the COVID-19 pandemic.

PARTNERSHIP WORKING

104. 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 our recent participation in the Clyde Valley Waste project, and we will continue to seek further opportunities to maximise efficiencies in this way.

SERVICE REDUCTIONS

105. 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. national teacher ratios, IJB funding
- Outcomes for our most vulnerable residents will be protected where possible
- Staff will be treated fairly and compulsory redundancies avoided where possible

106. 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

107. In 2021/22 Councils are free to increase Council Tax but would forego grant funding equivalent to a 3% Council Tax increase. A 1% Council Tax increase in 2021/22 would provide additional income of around £0.600m for the Council. At present it is unknown whether future grant settlements will continue to impose a cap on increases.

Charging For Services

108. 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 opportunity for the Health & Social Care Partnership to generate income from charging may be limited going forward as one of the recommendations in the recent Independent Review of Adult Care Services is to abolish charging for non-residential care.

USE OF RESERVES

109. The Audit Scotland Financial Overview 2019/20 paper noted the level of usable reserves had risen slightly in most Scottish Councils by the end of that year. 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.

110. The Council's Reserves Policy sets out how its reserves will be governed. The policy has recently been updated and is also scheduled to be considered elsewhere on this agenda. 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.

111. 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”

112. 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.

113. The Council forecasts holding unallocated General Reserves of £8.615m (3.33%) as at 31 March 2021. The Council's aim is ideally 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 2021/22, 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

114. Accountancy staff have been reviewing financial pressures and funding levels for the coming year and outline budget proposals for 2021/22 are contained later on today's agenda for approval. Work will continue in updating budget scenarios for the period to 2027 with a view to continuing with multi-year budget planning in future.

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

Plan	Approval
Financial Plan 2021/2027	Council, February 2021
Capital Investment Strategy	Council, March 2021
10 year Capital Plan 2021/2031	Council, March 2021
Reserves Policy	Council, February 2021
Revenue Budget 2021/22	Council, February 2021
ODP 2021/22 to 2023/24 (including 3 year draft budget figures)	Council, June 2021
Financial Plan 2022/2028	Council, February 2022
3 Year Revenue Budget 2022/25	Council, February 2022

CONCLUSIONS

116. In view of the significant financial and demand pressures facing the Council over the current and next six years it is essential that 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

117. 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 2021 – 2027

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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