

EAST RENFREWSHIRE COUNCIL1 March 2023Report by Chief ExecutiveSTRATEGIC IMPACT OF THE FINANCIAL  
SETTLEMENT**PURPOSE OF REPORT**

1. The purpose of this report is to analyse the key factors affecting the Council's financial situation, consider the impact on our future strategic direction and our capacity as an organisation.

**RECOMMENDATIONS**

2. Council is asked to:-

- a) Note that our growing population is not adequately reflected in our share of the Scottish Government grant and if addressed would have provided £4.2m of additional funding for 23/24;
- b) Note that the impact of the high number of children educated in East Renfrewshire puts increasing pressures on the budgets for other services;
- c) Note that an updated strategy document, Vision for the Future, will be brought to Council in June and whilst seeking to be ambitious in the longer term, will have to reflect the very challenging financial circumstances and a reduced level of ambition in the short term;
- d) Note that both today's budget and the updated Vision for the Future will require a high level of prioritisation of services;
- e) Note the importance of continued investment in our organisational capabilities capital, technology and our staff and
- f) Encourage Cosla to lobby for:-
  - A change in the way the funding for additional services (new burdens) is calculated with an allowance for support services and a guaranteed inflationary rise.
  - Scottish Government to assess the value of new services against existing services to ensure that priorities continue to be funded.
  - A change to the way that the Floors Mechanism is operated to ensure that it acts as a smoothing mechanism for reducing budgets, rather than a protection mechanism.

## BACKGROUND

3. Over the next 3 years the council faces a very difficult financial position. For 2023/24 on a like for like basis, we have received a grant settlement of about £1.5m more than the previous year. An inflationary increase of 10.1% would have given an increase of £22.2m so this is essentially a flat cash settlement. This is at a time where our population is growing and we are seeing increased demands for our services, especially from the most vulnerable because of Covid and the increase in the cost of living.

4. With below inflation increases for many years, there are now considerable risks to the long-term sustainability of services in all councils. With the early action we have taken as outlined in the Revenues Estimates paper the immediate financial situation can be managed but not without a significant reduction in services. These risks affect all parts of the Council family including the IJB and the ERCLT.

5. We need to understand why councils are in this position, what issues are facing our own council and discuss options with Government about how we can jointly make the best use of available funding. This is likely to require a review of our strategy, a realistic approach to what can be funded and clear communication with our residents and staff.

## OUR FINANCIAL SITUATION

6. East Renfrewshire Council has a reputation for strong financial management and high levels of relative performance on benchmark comparisons with other councils, particularly in children's services and recycling. We have a strong ethos of continuous improvement and transformation and compare ourselves, not just to other councils, but to a range of organisations including the private sector. Despite this strong level of performance, we are struggling to fund services that are important to our residents and the most vulnerable in our society and we need to understand the factors contributing to this.

### Our Budget

7. Council budgets are complicated. Funding comes from many different sources with the biggest source being our General Revenue Grant from the Scottish Government. Our government grant has increased over the years so it can be difficult to understand why councils are unhappy with their funding. For example, at last year's Council meeting we noted our SG grant was about £205m and this year it is about £220m, a 7.5% increase. However, our grant each year includes a list of new responsibilities (usually called burdens) along with new funding. We must deliver on those new responsibilities which are often backed by legislation or grant conditions. This year on a cash like for like basis, our grant has increased by just £1.5m or 0.7%, well short of inflation at 10.1%.

### Grant Aided Expenditure - underfunding of circa £40m between 2008 and 2019

8. The biggest part of our government grant is called Grant Aided Expenditure (GAE). GAE is calculated using a sophisticated methodology which reflects population size, rural and urban factors and levels of deprivation. Whilst there are many views about the weighting of the various factors, in general it serves its purpose and reasonably fairly distributes funding to councils. Up until 2019 the size of the GAE grant for Scotland has been fixed with any increases added as "changes".

9. From 2008 to 2019, the total pot of money (GAE plus changes) available to councils increased by very little on a like for like basis. It has not increased in line with increasing population numbers in Scotland or with inflation and this is the biggest factor on the funding crisis now affecting Local Government. A calculation carried out in 2019 showed that an increase of circa £40m would have been required in the East Renfrewshire Council GAE grant just to keep to the same effective level as 2008. From about 2019, GAE began to include the funding for new responsibilities so although helpful in terms of simplification, it is not possible to provide a more up to date figure.

## The “Floors” Mechanism - underfunding of £3.5m

10. The “Floors” mechanism is designed to be a smoothing mechanism so that councils with falling populations do not have a rapid decrease in budget and don’t fall below a % “floor”. However, the way the “Floors” mechanism is presently working, rather than smoothing decreases, it protects councils from falling budgets.

11. For example, Argyll and Bute Council, which has a similar population base to East Renfrewshire Council, in 2008 contributed £0.349m which helped a small number of other councils stay above the “Floor” but now receives over £16m extra though the “Floors” mechanism to reflect their falling population. West Dunbartonshire contributed £0.223m in 2008 and now receives £6.662m. In 2008, we contributed £0.275m to the floors mechanism and we now contribute over £3.5m which is a very considerable sum equivalent to 1.6% of our grant.

12. For councils with increasing populations, a significant element of their population-based grant settlement is now reduced and councils with falling populations are having their budgets protected in the long term. The “Floors” mechanism has removed over £3.5 million pounds from our budget in 2023/24, 1.6% of our grant.

## Early learning and Childcare – underfunding of £0.7m

13. A secondary contributor to our financial situation has been the underfunding of our Early Learning and Childcare expansion. Although the historical underfunding of some councils has now been recognised and a new calculation put in place, our budget has been reduced this year by circa £0.7m as part of a smoothing mechanism. It will be 2024/25 before a full budget is in place and this increase has been included in our budget projections for future years

## Higher than average numbers of children in our schools

14. Our area has seen rapid population growth, with particularly strong growth in the number of families with young children and older people. This growth is in part caused by the availability of new housing and consequential migration into the area but also we have the highest number of children per family in Scotland.

15. Our schools also attract children from the surrounding areas through placement requests. This means that many schools operate at very close to full capacity, leading to good levels of efficiency with the cost per child very close to the Scottish average.

16. The Scottish Government reflects the higher-than-average number of children at our schools in our budget and we receive about 20% more funding for education, than council areas with similarly sized populations. This means that a higher % of our budget is spent on education than most other councils.

17. Over the years, both the Scottish Government and East Renfrewshire Council have protected education budgets and the number of teachers employed by the Council, as far as possible. This has meant that the budget for education has taken an increasing share of overall Council budgets. Given the high share of our budget we already spend on education, we believe that this has had a more significant effect on our budgets for other services, as compared to other Council areas.

### Additional Services (Burdens)

18. Although our budget, on a like for like basis, has been essentially flat cash for several years, our overall budget has increased. These increases in grant from the Scottish Government come for specific purposes.

- Some increases are a replacement for other funding e.g., government grant for music tuition which replaces parental contributions. This does not change our total expenditure, or the level of services delivered but does show up as an increase in government grant.
- Some increases are for new services and the Scottish Government provide us with extra funding. An increase in the hours that children can access free Early Learning and Childcare to 1140 hours is a good example where our budget has increased by over £8m. However, that money is required to provide the additional hours if early learning and childcare.
- Some increases are passed straight through to other organisations. For example, money is often ringfenced to be passed through to our Integration Joint Board (IJB) who then must pass that money onto other organisations. For example, this year commissioned providers are receiving extra funding to pay their staff the living wage.

19. When funding is given for additional services, it is a fixed amount. The figure is usually not inflated in future years to cover cost and salary inflation. Therefore, funding of £3.2m for additional teachers and support staff given in 2021/22 does not meet the costs of almost £3.6m for the same number of staff in 2023/24, yet there is an expectation that the number of teachers will not be reduced. Whilst funding for new initiatives is welcome to fund jointly agreed strategic aims from the Scottish Government and COSLA, the funding package must be sufficient in the longer term to continue to deliver the new services.

20. Additional funding usually makes no allowance for the overheads in delivering the new service such as the additional HR costs of recruiting extra staff, the accountancy costs of managing the increased budget and additional ICT requirements. A formal allowance for overheads in any new funding would help to ensure new services are fully funded.

### Displacement of funding for existing services by funding for new services

21. The funding of additional services, at a time of financial constraint is clearly displacing funding for inflationary rises for existing Council services. An option appraisal should be able to identify what will have the biggest impact, the new service or inflationary funding for core services.

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### Statutory services and legislation

22. Much of what councils do is governed by legislation and many of our services are considered statutory. Legislation has built up over many years and ranges from very specific rules such as the maximum number of children allowed in a classroom with one teacher, to legal duties which are measured by inspection such as Community Learning and Development (CLD) to more broad based legislation around equalities. We also have duties around support areas such accountancy, procurement, freedom of information and complaints which all must be met.

23. With core council budgets reduced in real terms, funding for statutory services has had to be prioritised. This has left councils with little discretionary funding to meet the needs of local residents and provide extra support for the most vulnerable, above the statutory minimum.

24. One piece of legislation which is worth highlighting is the duty of best value. The Local Government in Scotland Act 2003 introduced a statutory framework for Best Value in local authorities and this also applies to all public bodies in Scotland. Best Value is about ensuring good governance and effective management of resources, with a focus on improvement, to deliver the best outcomes for the public. Statutory guidance has been in place since 2004 and was [revised in 2020](#), identifying the characteristics of Best Value including: vision and leadership; governance and accountability; effective use of resources; partnerships and collaborative working; working with communities; sustainability; and fairness and equality. The guidance on Best Value also needs to be considered in line with the statutory guidance on Community Planning as part of the Community Empowerment (Scotland) Act 2015, which recognises the criticality of partnership working to delivering outcomes.

25. The duty of Best Value is overseen and reported on by Audit Scotland and these reports are a key aspect of a council's national reputation.

### Council Tax

26. Whilst only 18% of council spend comes from council tax, residents understandably assume that an increase in Council Tax will protect services. However, as increases in our core source of income, which is government grant, is sitting below inflation, then only a massive increase in Council Tax would protect services. Over the next 3 years, excluding the use of reserves and fiscal flexibilities, a cumulative Council Tax rise of about 50% would have been needed to retain the same levels of service as in 2022/23.

## **OUR STRATEGY**

27. Our purpose as a Council is to Make People's Lives Better, promoting equality and fairness and enhancing the area in which we live, now and for the future. This is what drives our work. Our long term strategy is called *Vision for the Future*. Given the constraints on our budgets for the next 3 years, there will be parts of our strategy that we can no longer deliver so work must be undertaken to review our strategy and focus on the areas which are of highest priority and can be funded.

28. Our strategy will be brought back to Council at the end of June 2023 and the following areas are likely to influence the revised strategy.

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### Outcomes for our residents

29. Outcomes for Children - During our budget consultation, residents reconfirmed the priority of education and support for children and young people. Our education service and our children's services (operated through our HSCP and CLD teams) have been recognised as sector leading and it is the integration between the teams that has been particularly important in closing the attainment gap and improving the lives of our care experienced young people.

30. Outcomes For Place -The Covid restrictions brought the importance of place into sharp focus. We know our residents value our area, be it the many lovely towns and villages, the beautiful greenspaces both within and surrounding our residential areas and the good local transport connections available. It will be challenging to continue to fund the many core services residents expect of councils such as roads and refuse collection to the same level but by taking a longer-term look and maximising our use of capital funding progress can be made. It will be important to plan for local neighbourhoods, planning places around healthier lifestyles and active travel, as well as reducing the impact of the area on the environment.

31. Outcomes for the most vulnerable - Our work with the most vulnerable has always been at the heart of everything we do. With Covid our communities came to the fore, working closely with the Council and partners to support our most vulnerable. Residents are now facing increasing cost-of-living, with our voluntary sector crucial to helping reduce the impact. As funding for discretionary services is reduced, the prioritisation of resources and support for community capacity building will be crucial and challenging.

## **OUR CAPACITY AS AN ORGANISATION**

### Capabilities

32. In 2016, the Council agreed 5 capabilities which were fundamental to delivery of our outcomes. These capabilities were prevention, empowering communities, digital technology, modernisation and data and are still as relevant as they ever were. Investment in preventing poor outcomes in the future and the empowerment of communities was at the heart of the Christie review. Digital technology, data and modernisation have now merged to such a degree, that they can be described under the word Digital and are now part of our daily lives, accelerated by the lock-down periods of Coronavirus.

33. In this budget, savings have been taken from the budgets which would normally provide the future investment to develop services. Training budgets, community engagement and digital development budgets have all been reduced and in future years if we need to take the draft savings, they will be decimated, putting efficiencies, services and delivery of statutory Best Value duties at risk. This will have a fundamental impact on the Council's performance and reputation.

34. Any organisation that wants to be successful in the future must invest in people, technology and capital to improve productivity and address the depreciation of assets. Short term savings in these areas can be an effective way of managing short term budget problems but are not a long term solution. Organisations which disinvest in the long term will eventually become unsustainable. We must find a way of continuing to invest in the future of East Renfrewshire, even if it means difficult decisions over the next few years.

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## Values

35. Visitors and new staff often comment on the good atmosphere in the council and what caring staff we have. Our values, which were developed by our staff, of Ambition, Trust and Kindness held true right through Covid. However, our value of ambition is becoming challenging as staff see budgets decline and services and training opportunities restricted more and more to the statutory minimum. Services to help the most vulnerable are being reduced and this does not fit well with our values.

36. Increasingly our residents are frustrated with reducing levels of service despite paying increased Council Tax. This frustration from residents has a major impact on the morale of staff. Staff, who are trying their very best in difficult circumstances, can be subject to difficult conversations with residents about levels of service which staff themselves would like to improve but they know that funding is not available.

## Our Staff

37. We have committed skilled staff, dedicated to our purpose of making people's lives better and many work long hours to serve residents. COVID being an excellent example of where staff put in whatever hours were needed to provide services over a very difficult and prolonged period.

38. We have a highly qualified workforce with highly transferable skills. Most residents will recognise that our teachers are degree qualified but may not be as aware of the number of other staff who are degree qualified e.g. social workers, planners, quantity surveyors, architects, environmental health specialists, lawyers, accountants, child development officers, CLD practitioners, auditors, procurement, IT and HR specialists. Other staff have specialist skills such as our home carers who work towards an SVQ3 in care and our vehicle drivers who have an HGV licence. Many of our staff have worked in the private sector and other parts of the public sector, bringing their skills into our organisation.

39. Many staff live locally, often attracted by the opportunity of a better life work balance. This means that they have an added commitment to the area and their wages go back into the local economy.

40. The increasing workload on staff in all parts of the public service is leading to higher levels of stress and illness and when the cost-of-living pressures are added in, we see the impact in our own organisation. Burnout has been widely discussed in the context of the NHS but added to the impact of increased illness in society post-pandemic, this is a real concern for all councils.

41. The working environment we offer is of very mixed quality. Our HSCP team and staff who work in our new schools have a contemporary, bright environment, set up for modern ways of working and of a similar quality they would find in much of the private sector or public sector. For other staff the physical environment of our buildings is relatively poor, with little investment in even the most basic hygiene and canteen facilities. A good working environment is important to potential employees, especially younger employees who have benefited from some of the recent investments in colleges and universities.

42. Our ability to invest in training and skills development has been mixed and can be a barrier to recruiting and retaining talent. In education, teachers have had access to some of the best training and development opportunities in the country and the impact of this has been shown in the very high inspection evaluations of our schools. However, even these budgets are now under pressure.

43. Training budgets in other parts of organisation are very tight. As much use as possible is made of in house training and online training. Adverts for the private sector and other public sector organisations, who have not been affected as much as councils by cuts, will often focus on their investment in staff training and it is hard for us to compete.

44. Most organisations are finding problems with recruitment due to the tight labour market. It is already a struggle for us to recruit for certain posts including in the care services; in digital and project management environments; in audit and Planners and Building Standards Officers.

45. We need to ensure that our staff remain motivated by our purpose and feel valued, that we invest in their development and that we are conscious of workload issues, even in difficult times financially.

## IMPLICATIONS OF THE PROPOSAL

There are no immediate implications of this paper but it does highlight the challenges we will have in meeting legislative requirements and our equalities duties unless funding levels are addressed.

## FINANCE & EFFICIENCY

This paper highlights some of the background to the financial situation facing councils in Scotland.

## CONCLUSION

46. The financial situation is the biggest challenge facing councils throughout the United Kingdom. Coming on top of the pressures of the COVID response and Cost of Living increases, this is an unprecedented situation for both Elected Members and for staff, managers and leaders at all levels in councils.

47. We should:

- Review our strategy *Vision for the Future* and be realistic about what we can deliver within the next 3 years although not losing our long-term vision and ambition for our area.
- Be honest with our residents, staff and partners about the challenges ahead and continue to include them in the development and prioritisation of plans.
- Ensure that we invest in the long term future of our services by investing in training, capital and digital technology.
- Ensure that cuts do not fall disproportionately onto the working conditions of staff such that we lose our best and most committed staff to other organisations where training, pay and the working environment are significantly better, leading ultimately to poorer services.

48. In addition to these broad principles, there are also specific actions we can take to lobby the Scottish Government and Cosla which have been discussed in this paper and these are included in the recommendations.



## RECOMMENDATION

49. Council is asked to:-

- g) Note that our growing population is not adequately reflected in our share of the Scottish Government grant and if addressed would have provided £4.2m of additional funding for 23/24;
- h) Note that the impact of the high number of children educated in East Renfrewshire puts increasing pressures on the budgets for other services;
- i) Note that an updated strategy document, Vision for the Future, will be brought to Council in June and whilst seeking to be ambitious in the longer term, will have to reflect the very challenging financial circumstances and a reduced level of ambition in the short term;
- j) Note that both today's budget and the updated Vision for the Future will require a high level of prioritisation of services;
- k) Note the importance of continued investment in our organisational capabilities, capital, technology and our staff and
- l) Encourage Cosla to lobby for:-
  - o A change in the way the funding for additional services (new burdens) is calculated with an allowance for support services and a guaranteed inflationary rise.
  - o Scottish Government to assess the value of new services against existing services to ensure that priorities continue to be funded.
  - o A change to the way that the Floors Mechanism is operated to ensure that it acts as a smoothing mechanism for reducing budgets, rather than a protection mechanism.

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