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**REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 27 FEBRUARY 2019**

**SUBJECT: LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW  
2017/18**

**BY: CORPORATE DIRECTOR (CORPORATE SERVICES)**

**1. REASON FOR REPORT**

- 1.1 To inform the Committee of Audit Scotland's report on the Financial Overview 2017/18, part of the Local Government in Scotland series of national reports.
- 1.2 This report is submitted to Committee in terms of Section III (I) (3) of the Council's Scheme of Administration to consider reports from Audit Scotland concerning Council functions.

**2. RECOMMENDATION**

- 2.1 The Audit and Scrutiny Committee is asked to consider and note Audit Scotland's Financial Overview 2017/18 report.**

**3. BACKGROUND**

- 3.1 The report contains the following key messages as the summary of the report.
- Councils depend on Scottish Government funding for a significant part of their income. Scottish Government revenue funding to councils reduced in 2017/18, in cash terms by 0.6 per cent (£0.06 billion) and in real terms, by 2.3 per cent (£0.22 billion). Council Tax increases and increased fees and charges were used by councils to increase overall budgets by £0.3 billion (cash terms).
  - In 2017/18, councils managed funding gaps of four per cent in their net expenditure budgets of £12 billion, mainly through savings and planned use of reserves. Councils are under pressure to find different ways to fund and deliver services. In 2017/18, 24 councils increased council tax, whereas in 2018/19, all councils increased council tax.
  - Overall increases in spending in Education and Social Work were offset by reductions in other services.

- Eighteen councils ended 2017/18 with lower levels of usable reserves than they had at the start of the year. Total usable reserves fell by £18 million, a relatively small amount.
- Funding to the Integration Joint Boards (IJBs) increased in 2017/18 by three per cent in cash terms (1.4 per cent in real terms), including additional funding from the NHS. The majority of IJBs have underlying financial sustainability issues, with 20 incurring deficits or dependent on additional (“deficit”) funding from their partners.
- The financial outlook is for reductions in Scottish Government revenue funding to councils. This will mean continued and increasing financial pressures on council services, especially those that are not protected.
- The impact of EU withdrawal is not yet clear, but councils need to identify the risks and develop contingency plans to manage these risks.

#### **4. LOCAL CONTEXT**

- 4.1 Moray Council received non-specific revenue funding of £154.5 million in 2017/18 compared to £156.9 million in 2016/17. The trend of decreasing core funding continues for 2018/19 and 2019/20.
- 4.2 Moray Council increased Council Tax in 2017/18 and 2018/19 and made savings of £5.2 million in 2017/18, with further savings of £6.5 million in 2018/19 to date. However, these increases have been insufficient to plug the funding gap and the Council has continued to rely on reserves. Reserves are projected to fall below the approved minimum in 2019/20.
- 4.3 Education and Social Care budgets are to a certain extent protected by the conditions of the local government settlement. No Moray Council service has been immune from budget reductions over the last few years.
- 4.4 As referred to in paragraph 4.2, Moray Council’s usable reserves have fallen, from £23.8 million as at 31 March 2016, to £21.7 million as at March 2017 and £17.1 million as at March 2018. It is anticipated that the usable reserves will fall to around £8 million by the end of this financial year.
- 4.5 Moray Council’s funding to Moray Integration Joint Board (MIJB) for Health and Social Care increased from £40.8 million in 2016/17 to £41.8 million in 2017/18 – a 2.5% increase in cash terms. In 2018/19, Moray Council reduced funding to MIJB pro rata to its decreased funding from Scottish Government – the final reduction will be dependent on the pay award, which will be funded by the Council. MIJB anticipate requiring deficit funding in 2018/19 for the first time and have notified the council and the NHS of this.
- 4.6 Moray Council in its financial planning process anticipates further reductions in revenue funding from Scottish Government and is developing a transformation programme (Improvement and Modernisation) to mitigate the effects of this in future years.

- 4.7 Moray Council recognises EU withdrawal as a risk in its corporate risk register and will develop plans to mitigate this risk as the situation becomes clear.

## **5. SUMMARY OF IMPLICATIONS**

**(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**

While key messages from inspectorates inform planning processes, there are no issues directly arising from this report.

**(b) Policy and Legal**

Inspection processes provide assurances on the policy and practice adopted by services and contributes to the assessment of, and improvements to, governance arrangements of the council.

**(c) Financial implications**

No financial implications arising from this report.

**(d) Risk Implications**

No risk implications arising from this report.

**(e) Staffing Implications**

No staffing implications beyond supporting inspection processes from within existing resources.

**(f) Property**

None.

**(g) Equalities/Socio Economic Impact**

None.

**(h) Consultations**

The Audit Manager has been consulted on this report and his comments have been incorporated.

## **6. CONCLUSION**

**6.1 This report provides Committee with key messages from Audit Scotland's Local Government in Scotland Financial Overview 2017/18 report.**

Author of Report:	Lorraine Paisey, Head of Financial Services
Background Papers:	Audit Scotland's Local Government in Scotland Financial Overview 2017/18
Ref:	LP/LJC/