



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 29 JANUARY 2020

SUBJECT: ACCOUNTS COMMISSION REPORT – LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW 2018/19

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)

1. REASON FOR REPORT

- 1.1 To provide Committee with information published by the Accounts Commission in its report entitled 'Local Government in Scotland – Financial Overview 2018/19.'
- 1.2 This report is submitted to Committee in terms of Section III (I) (3) of the Council's Scheme of Administration relating to consideration of reports prepared by the Accounts Commission/Audit Scotland.

2. RECOMMENDATION

- 2.1 **The Audit and Scrutiny Committee is asked to consider and note Audit Scotland's Financial Overview report for 2018/19.**

3. BACKGROUND

- 3.1 The Accounts Commission published its annual overview report on local government finance for 2018/19 in December. Covering all 32 councils, it provides useful comparative information, albeit presenting common themes associated with increasing service demand and financial challenge and uncertainty. A copy of the report can be found at https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_191217_local_government_finance.pdf

Key Messages - Councils

- 3.2 In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion). Scottish Government revenue funding remains the most significant source of income and this increased by 1.1 per cent in cash terms in 2018/19, a 0.7 per cent decrease in real terms. Since 2013/14, Scottish Government funding to councils has reduced by 7.6 per cent in real

terms. A growing proportion of Scottish Government revenue funding to councils is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local circumstances.

- 3.3 In 2018/19, across all councils, the funding gap was three per cent of total budget. Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that more of the funding gap was met from reserves than planned. Councils are increasingly drawing on their revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. The report notes that twenty-three councils have reduced their general fund reserves over the last three years.
- 3.4 Capital expenditure increased by £62 million (2.3 per cent) to £2.75 billion, with more spent on housing and less on education.
- 3.5 All councils have medium-term financial planning covering three years or more. Long-term financial planning has not improved since last year and more progress is needed.
- 3.6 Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

Key Messages – Integration Joint Boards (IJBs)

- 3.7 A majority of IJBs struggled to achieve break-even in 2018/19, either recording a deficit or relying on additional funding from partners. IJBs manage services funded by councils and NHS boards, and spent £8.8 billion in 2018/19. The budget gap across Scotland in the same period was £208m due to service demands.
- 3.8 Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year.
- 3.9 Medium-term financial planning is improving but no IJB had a financial plan that extended for more than five years. A focus on developing longer-term financial planning is required by IJBs.
- 3.10 Over a third of IJB senior staff have changed during 2018/19.

Local Context in Moray

- 3.11 Moray Council in its financial planning process anticipates further pressures on revenue funding and has established an Improvement and Modernisation programme to mitigate the effects of this in future years. This looks at new ways of working as a means of generating efficiencies.
- 3.12 The programme is an important element in the council's plans to avoid indenting further on reserves. The national report noted the potential for this Council to fully utilise its reserves within a five year period, while acknowledging the council itself had reported in its budget planning papers that this was not sustainable. Currently, it is forecast that a further £2 million

will be required from reserves for 2019/20. The proportion of uncommitted general fund reserves to net annual revenue at 31 March 2019 varied from around 1% to around 7%. In Moray the relevant figure was just over 5%. Moray had the highest rate of depletion of general fund over the last three years of any Scottish council.

- 3.13 The council's capital plans also have prominent expenditure relative to new build council housing and in respect of the school estate, as well as capital spend in other areas including the NESS energy from waste project and vehicle replacement programmes. Quarterly progress on spend against plan is provided to Council or the relevant service committee.
- 3.14 A detailed report on longer term financial planning was considered at a meeting of the Council on 27 November 2019 (para 14 of the draft Minute refers). The report recommended that the financial planning would be aligned to the corporate plan priorities and as such requires further work to enable it to be finalised. The report considered a number of scenarios taking an optimistic, mid-range and pessimistic view of costs pressures, and illustrated the many variables that may impact on future funding of services.
- 3.15 EU withdrawal is one such variable, and information known at this time is provided in a separate paper on the agenda for this meeting.
- 3.16 Moray Council's funding to Moray Integration Joint Board (MIJB) for Health and Social Care was £40.99 million in 2018/19. The council's share of the deficit funding required by MIJB in 2018/19 was £0.441 million. In response to the deficit in 2018/19 MIJB have approved a recovery plan, however, current projections for 2019/20 are for a continued overspend against budget.

4. SUMMARY OF IMPLICATIONS

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

Aligning longer term financial planning with the corporate plan will give focus to the key priorities of the council.

(b) Policy and Legal

Policy and legal implications would arise should the council be unable to set a balanced budget and the Accounts Commission report highlights challenges that all councils are likely to face to a greater or lesser extent as they seek to meet the needs of their communities.

(c) Financial implications

No implications directly arising from this report.

(d) Risk Implications

Elevated risks are evident in Councils' financial management arrangements; these apply across Scotland within the issues raised in the national report.

(e) Staffing Implications

No implications directly arising from this report.

(f) Property

No implications directly arising from this report.

(g) Equalities/Socio Economic Impact

No implications directly arising from this report.

(h) Consultations

The Internal Audit Manager has been consulted and has contributed to the report where it relates to his area of responsibility.

5. CONCLUSION

5.1 This report provides Committee with key messages from Audit Scotland's Local Government in Scotland Financial Overview 2018/19 report.

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Background Papers: Accounts Commission paper
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