

LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW 2018/19

1. SUMMARY

- 1.1 The purpose of this report is to present the main issues raised in the recent Local Government Financial Overview 2018/19 report by the Accounts Commission and to highlight relevant matters to the Committee.
- 1.2 The report is split into four parts:
- Part 1 comments on councils' income in 2018/19.
 - Part 2 considers councils' financial position at the 2018/19 year end.
 - Part 3 considers the financial outlook for councils in 2019/20
 - Part 4 provides an overview of Integration Joint Boards' finances in 2018/19.
- 1.3 The report's key messages are listed on Page 7 of the document and are summarised as follows:
- Councils are under continued financial pressure with revenue funding from the Scottish Government reducing by 0.7% in real terms in 2018/19 resulting in a 7.6% reduction in real terms funding since 2013/14.
 - Councils are using reserves and increasing Council Tax to balance their revenue budgets. The net draw on revenue reserves was £45 million in 2018/19, an increase of £27 million on the net draw in 2017/18.
 - Medium term financial planning is in place but more work is needed on longer term financial plans.
 - A majority of IJBs have underlying financial sustainability issues and either recorded a deficit or required additional funding from partners.
 - Councils have made preparations for the impact of EU withdrawal but there are implications which cannot be planned for financially.
- 1.3 The report also contains a number of exhibits some of which show where the Council is placed compared to other councils. The body of this report provides some context and commentary for the Committee to consider.
- 1.4 The Accounts Commission has identified a number of example questions that councillors may wish to consider to help them better understand their council's financial position and to scrutinise performance. Appendix 1 notes these

questions with comments included against each question.

2. **RECOMMENDATIONS**

- 2.1 The Audit and Scrutiny Committee is asked to consider the contents of the Accounts Commission report and thereafter approve the officer assessment of where the Council is placed against the matters raised in Appendix 1.

3. **DETAIL**

Part 1 – Councils’ Income in 2018/19 – Key Points

- 3.1 In 2018/19, the total revenue funding from the Scottish Government increased by 1.1% in cash terms and decreased by 0.7% in real terms.
- 3.2 Funding from the Scottish Government to local government between 2013/14 and 2018/19 decreased by 7.6% over these six years, in real terms. Scottish Government revenue funding across other areas decreased by 0.4% over the same period, demonstrating that local government funding has undergone a more significant reduction than the rest of the Scottish Government budget over this period.
- 3.3 The Commission commented that an increasing proportion of council budgets are 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 priorities. The national policy initiatives are mainly initiatives linked to education and social care. Ring-fenced funding linked to other national policy initiatives, increased from £0.6 billion to £1 billion, between 2018/19 and 2019/20. This is around 10% of Scottish Government funding to councils. The Commission has previously highlighted that education and social care represent over two-thirds of councils’ spending and, although it is possible to make savings in these areas, national priorities, statutory obligations and demand for services make this extremely challenging.

Part 2 – Councils’ Financial Position – Key Points

- 3.4 Councils’ 2018/19 budgets identified total final net expenditure of £12.2 billion. These were not fully met by budgeted income. The funding gap was £0.4 billion (3%). In 2017/18, the shortfall was £0.5 billion (4%). Councils planned to manage funding gaps through savings. On average, councils delivered 87% of planned savings. However, there was significant variation in how individual councils performed against their savings targets.
- 3.5 Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed, with councils increasingly drawing on their revenue reserves. Reserves play an important role in good financial management, but they are a one-off resource so councils need to plan carefully for their use.
- 3.6 23 councils have reduced their general fund reserves over the last three years. Exhibit 8 on page 20 of the report shows that Argyll and Bute Council, is one of the 23 councils although our reduction is relatively small compared to a many others. Although no council has a position where this rate of depletion would eliminate the total general fund within three years, one council (Moray

Council) would deplete its reserves within five years.

- 3.7 Capital expenditure increased by £62 million or 2.3% in 2018/19 to £2.75 billion. A larger proportion was spent on housing and economic development than in the previous year. These two areas now account for 44% of total capital expenditure (39% in 2017/18). The proportion of capital expenditure on education has fallen from 27% in 2017/18 to 20% in 2018/19.
- 3.8 The report notes that there is variation in the relative underlying borrowing position of councils. This is set out in exhibit 10 on page 23 of the report which shows the size of debt and borrowing relative to “turnover”. Argyll and Bute are ranked about mid-table.

Part 3 – Councils’ Financial Outlook – Key Points

- 3.9 In 2019/20, the Scottish Government increased the cap on council tax increases. Twelve councils decided to increase council tax by the full amount (4.84%). This includes Argyll and Bute.
- 3.10 Many councils are also seeking other ways to increase income, including increasing fees and some have introduced new charges in 2019/20. Examples given include garden waste uplift and the expansion of parking charges. Some councils also continue to pursue new local taxes.
- 3.11 Councils’ 2019/20 financial plans identified a total funding gap of £0.5 billion (3% of income). This continues the increasing pressure on councils to find further cost savings, redesign services, reduce services, increase income or use reserves. These decisions are likely to become increasingly difficult for councillors.
- 3.12 The report comments that all councils have medium-term financial planning covering three years or more but that long-term financial planning has not progressed since last year. However it does recognise that the:
- Scottish Government’s commitment to set out multi-year budgets, which will assist councils with financial planning, has been delayed.
 - Scottish budget is becoming increasingly complex and is subject to greater uncertainty and volatility than when the majority of its funding was relatively fixed through the block grant from the UK Government.
 - Scottish Government’s second medium term financial strategy continues to lack detail of proposed spending priorities or plans or how these might address the budgetary challenge.

Part 4 – Overview of Integration Joint Boards– Key Points

- 3.16 The pace of health and social care integration has been too slow and there is limited evidence to suggest any significant shift in spending from health to social care.
- 3.17 A majority of IJBs struggled to achieve break-even in 2018/19, either recording a deficit or relying on additional funding from partners.
- 3.18 Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year

- 3.19 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.
- 3.20 Over a third of IJB senior staff have changed during 2018/19.
- 3.21 Argyll and Bute IJB's position is largely consistent with these national messages. They had a 2018/19 deficit of £6.6m and financial planning which only extended to three years although it should be noted that this is consistent with most IJBs in Scotland.

They also had a changes at chief officer and chief financial officer level in 2018/19 however they now have a full complement within their Senior Leadership Team.

The A&B IJB however did manage to set a balanced budget for the start of the 2019/20 financial year.

4. **CONCLUSION**

- 4.1 The Local Government in Scotland Financial Overview 2018/19 report provides a useful analysis of the financial challenges facing all councils in Scotland. The supplementary questions, and officer responses, contained at appendix 1 to this report provide members of the Committee with additional information to better help them understand the Council's financial position.

5 **IMPLICATIONS**

- 5.1 **Policy - None**
- 5.2 Financial -None
- 5.3 Legal -None
- 5.4 HR - None
- 5.5 Fairer Scotland Duty - None
- 5.5.1 Equalities – None
- 5.5.2 Socio-Economic Duty – None
- 5.5.3 Islands Duty - None
- 5.6 Risk – None
- 5.7 Customer Service - None

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Appendix 1 – Questions for councillors to consider

Appendix 2 - Audit Scotland Local Government in Scotland Financial Overview 2018/19

Appendix 1 - Questions for councillors to consider

No	Question	A&B Position
Income		
1	How dependent is your council on the various sources of income compared to other councils – Scottish Government funding, grants, council tax and receipts from customers/clients?	The Council has a decreasing population which has a direct impact on Scottish Government funding. Furthermore we have one of the highest percentages of ringfenced funding of any Scottish council. Therefore we are disproportionately impacted by funding reductions. Furthermore we are one of a very small number of councils who has put all social care services into the IJB which means we are affected more by settlement commitments which restrict flexibility around HSCP funding levels.
Council Budget		
2	Is a budget agreed before the start of the financial year? If not, why not?	The Council's budget and Council tax rates are set in February each year.
3	How big is the funding gap for your council relative to the total budget?	The budget gap in 2021/22 (based on the mid-range scenario) is projected to be £8.241m This is 3.15% of the estimated expenditure in 2021/22 (£261.280m)
4	What are your council's plans for meeting the current and future funding gaps – savings plans, efficiencies, reduction in services or transformation, increased charges, use of reserves?	New savings were developed for 2020-21 and reported to Council on 17 October 2019 in advance of the budget process. The budget pack for 2020-21 confirms that officers will look to identify savings for future years, through a structured programme of service redesign. In particular there will be a focus on greater digital transformation and commercialisation.
5	Are there significant elements of unidentified savings in the agreed budget or are all planned savings actions clearly identified?	All planned savings actions are clearly identified and quantified in policy savings templates which set out the impact of the proposal. This allows members to make an informed decision.
6	How well are you kept informed about progress against savings plans?	The Council has a current savings plan that is monitored and reported to the Policy and Resources Committee.
7	Does your council have a transformation plan? Does it clearly set out the aims and objectives and how and when these will be achieved?	The Council has a Transformation Board which explores alternatives to service delivery by way of redesign or total transformation in order to meet any budget shortfall/gap.

8	How effectively are you engaged and informed about the transformation programme and kept informed about progress?	Members seminars are used to provide updates on Transformation Board activity
Reserves		
9	What is the council's reserve policy?	The Council's reserves policy is to hold 2% of the net expenditure budget as a contingency. This is reported to councillors on an annual basis as part of the annual budget setting process. A risk assessment is also carried out on an annual basis to ascertain whether 2% is still the appropriate level.
10	Do committed/earmarked/specific reserves have clear purposes and projected cashflows or are they part of the general contingency or uncommitted general fund?	Earmarked reserves are for specific purposes and their levels are reported to the Policy and Resources Committee as part of the standard budget monitoring pack agenda item. A year-end report is also provided to Council as part of the annual budget pack.
11	Are these commitments reviewed annually to ensure they reflect the best use of the council's reserves?	The Strategic Management Team regularly review the reserves and transfer any that are no longer required into the General Fund balance
12	Is the council using up its reserves and is it likely to deplete these over the medium or long term (within 5 or within 10 years)?	The Council's reserves have deteriorated slightly over the past three years however their adequacy is kept under review by considering the strategic, operational and financial risks facing the Council,. Furthermore should any of the 2% contingency have to be utilised then the s95 officer is required to put a recovery plan in place immediately to ensure the Councils contingency balance is restored. It is not anticipated that the reserves will be depleted in the medium or long term.
Capital		
13	What are your council's medium- and long-term plans for capital spending?	The capital plan is approved as part of the annual budget process and progress is monitored and reported to the Policy and Resources Committee
14	How well are you kept informed about progress against capital plans and how well do you understand the reasons for any underspend against the annual capital budget?	Progress against the capital plan is monitored and reported to the Policy and Resources Committee. This includes explanations for material variances.
Debt		
15	What is your council's current debt	The Council's treasury position,

	position relative to its annual revenue?	including debt levels are monitored and reported to the Policy and Resources Committee
16	How much of the council's budget is used to pay interest and debt repayments?	Within the Treasury Strategy there is an indicator that identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream – it is 5.93% for 2019/20.
17	Are you given clear and sufficient information to understand risks and support decisions about future borrowing?	The treasury position is reported regularly to the Policy and Resources Committee and the Treasury Management Strategy is reported to Council and the Audit and Scrutiny Committee on an annual basis.
Business Cases for Severance		
18	Does the council prepare business cases for severance proposals and are these reported to councillors?	All severance proposals are subject to business cases and a payback period. The details of an individual case is not presented to councillors however all savings options that result in redundancies require council approval.
Transparency in Accounts		
19	Does the management commentary of the council accounts show the outturn against budget reconciled to movement in the general fund and progress against agreed savings plans?	The management commentary is comprehensive and includes a section on the final revenue budget outturn that explains the variance from the planned budget. It also provides a reconciliation of the deficit on the provision of services to the revenue budget outturn. Progress on agreed savings plans are not reported in the management commentary but are freely available in public papers taken to the Policy and Resources Committee.
Financial Planning		
20	Does your council have medium- and long-term financial plans, and do they include a range of potential funding and financial scenarios?	The Council has a financial strategy with medium and long term plans including three scenarios, best case, worst case and mid-range.
21	Does the medium-term plan provide sufficient information on estimated Scottish Government funding (or host partner funding), projected net expenditure (in total and for each service), projections for service income, projections for cost of borrowing?	The financial strategy uses scenarios, best case, worst case and mid-range scenarios for a range of financial factors including Scottish Government funding. This is applicable to both the revenue and capital budget.