

ANGUS COUNCIL

SCRUTINY & AUDIT COMMITTEE - 23 JANUARY 2018

LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW 2016/17

REPORT BY THE HEAD OF CORPORATE FINANCE

ABSTRACT:

This report covers the Accounts Commission's financial overview report which provides a high-level, independent analysis of the financial performance of councils during, and their financial position at the end of 2016/17. It also looks ahead and comments on the financial outlook for councils. It is one of two overview reports that the Accounts Commission publishes each year, complementing a report on councils' performance and outcomes that will be published at the start of the next financial year in April 2018. It is particularly aimed at councillors and senior council officers, and will be of significant interest to elected members who joined councils for the first time following the May 2017 elections.

1 RECOMMENDATIONS

It is recommended that the Scrutiny & Audit Committee:-

- (i) review the content of the Accounts Commission's 2017 financial overview report for local government and supplements 1-4 (**Appendices A, A1,A2,A3 & A4**) and provide any commentary considered appropriate at this time;
- (ii) note that the report is about Local Government in Scotland as a whole rather than Angus Council specifically; and
- (iii) agree that a workshop is arranged for all members to attend before the commencement of financial year 2018/19 to work through the Audit Scotland Supplement – Scrutiny tool for councillors.

2 ALIGNMENT TO THE ANGUS COMMUNITY PLAN/ SINGLE OUTCOME AGREEMENT/ CORPORATE PLAN

- 2.1 This report contributes as a whole to the local outcomes contained within the Angus Community Plan and Single Outcome Agreement 2013-2016.

3 BACKGROUND

- 3.1 Scotland's councils are operating in an increasingly demanding environment. Generally, councils face increasing challenges which require flexible responses that balance immediate needs, sound long term financial planning and limited financial resources. The task is a demanding one for elected members – not least for newly elected members. The Accounts Commission's report and associated material is viewed as a useful source of information and guidance.
- 3.2 Committee members as part of their Scrutiny & Audit remit now have the opportunity to review and consider the Accounts Commission report.

4 FINANCIAL OVERVIEW REPORT KEY MESSAGES

4.1 The financial overview report attached as **Appendix A** covers three areas:-

- Councils' income and budgets for 2016/17;
- Councils' financial performance during, and position at the end of, 2016/17;
- Councils' 2017/18 finances and the challenges faced going forward;

4.2 The primary source of information are councils' 2016/17 audited accounts and their 2016/17 external audit reports.

4.3 The Accounts Commission has also produced 4 supplements to accompany this report:-

- Supplement 1 – Scrutiny tool for councillors;
- Supplement 2 – Local Government Pensions Scheme 2016/17;
- Supplement 3 – Housing Revenue Account 2016/17;
- Supplement 4 – Measures taken by councils to close their funding gaps in 2017/18;

The supplements are attached at **Appendix A1, A2, A3 & A4**

4.4 The main highlights from the key messages in the report are as follows:-

- Councils are showing signs of increasing financial stress as financial challenges continue to grow. Funding reductions are compounded by increasing costs and demands on services. In response, councils have needed to achieve ambitious savings plans.
- Councils are finding it increasingly difficult to identify and deliver savings and more have drawn on reserves than in previous years to fund change programmes and routine service delivery. Some councils risk running out of General Fund reserves within two to three years if they continue to use them at levels planned for 2017/18. Twenty council's drew on reserves in 2016/17 and actual use of reserves was often quite different from original plans.
- Debt increased by £836 million in 2016/17 as councils took advantage of low interest rates to borrow more to invest in larger capital programmes. Councils' debt levels are not currently problematic, but some are becoming concerned about affordability of costs associated with debt within future budgets.
- Councils' budget-setting processes for 2016/17 were complicated by late confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care. Councils' expenditure and use of reserves often differed noticeably from that originally planned, indicating the need for budget-setting to become more robust and reliable.
- All councils received an unqualified audit opinion on their 2016/17 accounts but auditors found that in several councils financial management could be improved. Councils can use their accounts to more clearly explain their financial performance over the whole year to support better scrutiny.
- The financial outlook for councils continues to be challenging, with the need to deliver savings being increasingly critical to their financial sustainability. As such, robust medium-term financial strategies and effective leadership to deliver them are of increasing importance.

4.5 Throughout the report there are a number of example questions identified that councillors may wish to consider to help them better understand their council's financial position and to scrutinise financial performance. The questions are also available in Appendix 1A, - supplement 1 – scrutiny tool for councillors.

4.6 To assist members further the report recommends that a workshop is arranged for all members before the commencement of financial year 2018/19 for members to attend to work through the audit Scotland supplement – scrutiny tool for councillors.

- 4.6 Appendices A1-4 provide additional information to facilitate insight and comparison across the sector.

5 FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising for the Council from the recommendations contained within this report.

NOTE

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing this report.

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List of Appendices:

- Appendix A - Accounts Commission's Report – Financial Overview 2016/17
- Appendix A1 –Supplement 1 – Scrutiny tool for councillors;
- Appendix A2 - Supplement 2 – Local Government Pensions Scheme 2016/17;
- Appendix A3 - Supplement 3 – Housing Revenue Account 2016/17;
- Appendix A4 - Supplement 4 – Measures taken by councils to close their funding gaps in 2017/18;