

ANGUS COUNCIL

SCRUTINY & AUDIT COMMITTEE - 21 JANUARY 2020

LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW 2018/19

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report covers the Accounts Commission's financial overview of the financial year 2018/19 and provides a high-level independent analysis of the financial performance of councils during 2018/19 and their financial position at the end of that year. 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. The second report comments on the wider challenges and performance of councils. It will be published in April 2020. The reports are an important tool to highlight to councillors, officers and the public the issues councils are most concerned about.

1 RECOMMENDATION

1.1 It is recommended that the Scrutiny & Audit Committee:-

- (i) Review the content of the Accounts Commission's 2018/19 financial overview report for local government and supplements 1 & 2 (**Appendices A, A1 & A2**) and provide any commentary considered appropriate at this time; and
- (ii) Note that the report is about Local Government in Scotland as a whole rather than Angus Council specifically;

2 ALIGNMENT TO ANGUS COUNCIL PLAN / LOCAL OUTCOME IMPROVEMENT PLAN (LOIP)

2.1 This report contributes as a whole to the Council Plan/LOIP.

3 BACKGROUND

3.1 The Accounts Commission's overview report highlights that Scotland's councils face the increasing challenge of meeting changing and growing demands on their services, but their income is straining to keep pace. Although Scottish Government funding to councils has been relatively stable this year, since 2013/14 it has fallen in real terms. Funding is forecast to fall further in the medium term against a backdrop of increasing volatility in public finances. The Commission also notes that two-thirds of councils have reduced their general fund reserves over the last three years rather than maintaining or building their reserves. The signs of a trend in reducing reserves may be emerging and as previously reported the ongoing use of reserves to manage funding gaps is not sustainable. The Accounts Commission's reports 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 and supplements.

4 LOCAL GOVERNMENT OVERVIEW REPORT 2019 - KEY MESSAGES

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

- Councils' income in 2018/19;
- Councils' financial position in 2018/19;
- Councils' financial outlook;
- Integration Joint Boards' Overview 2018/19;

- 4.1 The primary source of information are councils' 2018/19 audited accounts, including management commentaries and the 2018/19 external annual audit reports for each council.
- 4.2 The Accounts Commission has also produced 2 supplements to accompany this report:-
- Supplement 1 – Scrutiny tool for councillors (**Appendix A1**)
This scrutiny tool captures some potential questions for councillors and relates to the Financial overview report 2018/19. It is designed to provide councillors with examples of questions they may wish to consider, to help identify how informed they are of their council's financial position in order to support them to scrutinise financial performance.
 - Supplement 2 – Scottish Local Government Pension Scheme 2018/19 (**Appendix A2**)
This supplement provides an overview of the Scottish Local Government Pension Scheme (SLGPS).
- 4.3 The key messages in the overview report are as follows:-
- Councils:**
- 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.
 - In 2018/19, 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. Twenty-three councils have reduced their general fund reserves over the last three years.
 - Capital expenditure increased by £62 million (2.3 per cent) to £2.75 billion, with more spent on housing and less on education.
 - 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.
 - Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.
- Integration Joint Boards (IJBs):**
- A majority of IJBs struggled to achieve break-even in 2018/19, either recording a deficit or relying on additional funding from partners.
 - Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year.
 - 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.
 - Over a third of IJB senior staff have changed during 2018/19.
- 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 A1 - supplement 1 – scrutiny tool for councillors as referred to in paragraph 4.2.

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 2018/19

Appendix A1 - Supplement 1 - Scrutiny tool for councillors

Appendix A2 – Supplement 2 - Scottish Local Government Pension Scheme 2018/19