

ANGUS COUNCIL

SCRUTINY & AUDIT COMMITTEE - 23 AUGUST 2022

LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW 2020/21 & OVERVIEW 2022

**JOINT REPORT BY IAN LORIMER, DIRECTOR OF FINANCE AND JACKIE BUCHANAN,
DIRECTOR OF LEGAL & DEMOCRATIC SERVICES**

ABSTRACT

This report covers the Accounts Commission's Local Government in Scotland overview reports - financial overview of the financial year 2020/21 and the 2022 Overview. The financial overview provides a high-level independent analysis of the financial performance of Scotland's councils during 2020/21 and their financial position at the end of that year. It also looks ahead and comments on the financial outlook for councils in the medium and longer terms. The 2022 Overview report is the second in the series of reports that reflects the evolving and long-term nature of the impact of Covid-19 and considers the second year of the pandemic from March 2021 to February 2022. The reports are an important tool to highlight to councillors, officers and the public the issues councils are most concerned about and may need to address.

1. RECOMMENDATIONS

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

- (i) Review the content of the Accounts Commission's 2020/21 Financial Overview report for local government (attached as Appendix A) and provide any commentary considered appropriate at this time;
- (ii) Review the content of the Accounts Commission's 2022 Overview report for local government (attached as Appendix B) and provide any commentary considered appropriate at this time;
- (iii) Note the supplement which accompanies the 2022 Overview Report (attached as Appendix C) which will be used to inform a full update report for Council in November 2022 on the Council's plans and priorities for recovery and renewal following the COVID-19 pandemic;
- (iv) Note that the reports are about Local Government in Scotland as a whole rather than Angus Council specifically.

2. ALIGNMENT TO THE ANGUS COUNCIL PLAN

2.1 This report contributes as a whole to the Council Plan. It provides valuable insight from a national perspective, which will help to inform this Council's approach in order to support delivering the outcomes which focus on the Economy, People, Place and Our Council.

3. BACKGROUND

3.1 Financial Overview 2020/21 (Appendix A)

The Accounts Commission's financial overview report highlights that Councils play a vital role in supporting Scotland's communities. This has been amplified by the Covid-19 global pandemic. Covid-19 fundamentally affected local government services and increased the uncertainty of how those services will be provided in the future. The financial impact of the pandemic on our public services is extreme. At the same time, we have seen the strength and resilience of many communities highlighted as they have worked with public service partners to provide invaluable support to those who needed it most.

The Global pandemic and consequent restrictions emerged at the end of March 2020 and persisted throughout the 2020/21 financial year, with Scottish Government increasing funding to councils by £1.5 billion to support them in dealing with the impacts of the pandemic. This report is the first Local Government Overview to capture the full year impact of Covid-19 on local government finances.

- 3.2 The financial overview report attached as Appendix A covers 3 areas:
- Councils' income in 2020/21;
 - Councils' financial position in 2020/21;
 - Councils' financial outlook.
- 3.3 The primary source of information are councils' 2020/21 audited accounts, including management commentaries and the 2020/21 external annual audit reports, where available. This has been supplemented with data collected as part of the data set request issued to local auditors in April 2021.
- 3.4 The Covid-19 pandemic has again created challenges that have affected the preparation of the Financial Overview Report. The rescheduling of audit timetables for the 2020/21 audit meant that audited accounts did not require certification until November 2021. Twenty-three sets of accounts were certified by the revised deadline, with a further seven signed off thereafter. As at 1 February 2022, two councils' accounts are still to be certified; therefore analysis in the report is based on thirty sets of audited accounts and two sets of unaudited accounts.
- 3.5 The key messages in the financial overview report are as follows:

Local Government Finances 2020/21 (covering the period 1 April 2020 to 31 March 2021)

- 1 The Covid-19 pandemic persisted throughout 2020/21, with the Scottish Government increasing funding to councils by £1.5 billion to support them in dealing with the impacts of the pandemic.
- 2 When Covid-19 funding is excluded, there has been a real terms underlying reduction of 4.2 per cent in local government funding since 2013/14.
- 3 The underlying increase in Scottish Government funding of £358 million in 2020/21 was 1.1 per cent in real terms. But, over half of this increase is due to specific grants. Ring-fenced funding helps support delivery of key Scottish Government policies but constrains a proportion of the total funding and resources and removes any local discretion over how councils can use these funds.
- 4 Councils' income from customers and clients was affected by Covid-19 restrictions and fell by £0.5 billion.
- 5 All councils reported surpluses and increased their usable reserves. The total increase in reserves was £1.2 billion (46 per cent). This increase was mainly due to late provision of Covid-19 funding by the Scottish Government which, as a result, was unspent at 31 March 2021.
- 6 Councils administered a further £1.4 billion of Covid-19 grants on behalf of the Scottish Government in 2020/21, putting additional pressure on staff across councils.
- 7 Capital expenditure reduced by more than 20 per cent in 2020/21 because of Covid-19.
- 8 Covid-19 pressures contributed to greater and more frequent errors in councils' unaudited accounts.

Medium- and longer-term outlook for local government finances

- 9 Scottish Government capital funding to councils is expected to fall again in 2021/22.

- 10 Uncertainty over the amount of funding available for Covid-19 recovery at the end of 2020/21 led to difficulties in setting budgets, and many councils established updated Covid-19 budgets in autumn 2021.
- 11 Covid-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes.

3.6 Overview 2022 (Appendix B)

The Overview 2022 report is the second in the series of reports from the Accounts Commission that reflects the evolving and long-term nature of the impact of the Covid-19 pandemic. The report considers the second year of the pandemic from March 2021 to February 2022.

The report builds on last year's overview report and assesses:

- the ongoing impact of Covid-19 and councils' progress towards recovery and renewal
- how councils are positioned to address long-term priorities including climate change, inequality and public service reform
- how effectively council leadership is managing recovery and renewal

It also provides exhibits and case studies throughout to illustrate issues and practice across councils.

Key messages highlighted in the report, and summarised below, include:

- 1 Councils have had a very difficult year: alongside the ongoing response to the pandemic, councils have faced challenges in recovering services, dealing with increased demand and backlogs, and meeting community needs and expectations.
- 2 The challenging context means collaborative leadership is more important than ever: the challenging operational context needs local government leaders skilled in effective strategic thinking, decision-making and collaborative working.
- 3 Pressure on the local government workforce continues: councils continue to experience high levels of staff absence, along with impacts on staff wellbeing and skills shortages, particularly in front-line workers.
- 4 The impact of the pandemic and service disruption have been felt most strongly by those already experiencing inequality: not all services are back to pre-pandemic levels so those most in need of support are still being affected. Recovery and renewal should also reflect the wider ambitions of the public sector reform agenda.
- 5 The early response showed what could be achieved by working closely with communities and the voluntary sector: this momentum may be lost if communities and the voluntary sector are not involved in shaping recovery.
- 6 Improvements are needed in data availability, tools and skills to support performance monitoring, strategic decision-making and planning service improvements: data has been important in guiding the response to the pandemic, and data is a key tool in tackling inequality, but there are gaps in equality data, particularly at a local level.

- 3.7 The report also discusses progress towards recovery and renewal, highlighting that this is not about returning to pre-pandemic status quo, but rather directing resources to help ensure that services can restart and are reshaped to meet the new needs of the local area, to address the harm caused by the pandemic, to support economic recovery, to empower communities, to address inequalities, and to tackle key priorities including climate change, growing poverty, and the long-standing need for public service reform.

The report is then structured around three main themes on which progress towards recovery and renewal depends. These are highlighted below along with the key headlines under each, as follows:

- Responding to the external environment: As councils continue to plan their recovery from Covid-19 and renewal they need to tackle key priorities including climate change, poverty, and the long-standing need for public service reform.
- Organising the council:
 - leading recovery and renewal: Leaders in local government face a challenging context. As they plan for recovery and renewal it will be important that they collaborate with their partners and communities. This will need skilled leadership, learning lessons from the pandemic and working to make the best use of resources to improve outcomes.
 - managing resources: Councils' finances have been significantly affected by Covid-19. The long-term funding position remains uncertain, with significant challenges ahead as councils continue to manage and respond to the impact of the pandemic on their services, finances, and communities.
 - managing the workforce: Pressure on the local government workforce continues, with high absence levels, impacts on wellbeing, particularly for front-line workers, and skills shortages in key areas. A resilient workforce is critical to the ongoing response to Covid-19 and the recovery of services. Councils will need to update workforce plans, learn lessons from new ways of working put in place, and provide wellbeing support for their staff.
- Meeting local needs:
 - impact of Covid-19 on services and inequality: Covid-19 continues to disrupt council services, and those already experiencing inequality have felt the impacts of both the pandemic and service disruption most strongly. As councils focus their efforts on addressing these unequal harms, they need better local data and community engagement.
 - collaboration and communities: The early response phase showed what could be achieved by working closely with communities and the voluntary sector. This momentum may be lost if they are not involved in shaping recovery.

3.8 The report includes sections with recommendations on actions for leadership and the report is accompanied by a supplement providing questions for elected members (Appendix C). The Director of Legal & Democratic Services who is providing the strategic officer leadership on recovery and renewal work is preparing a full update report for Council in November 2022 on the Council's plans and priorities for recovery and renewal following the COVID-19 pandemic and the questions posed in Appendix C will be part of that further report.

4. PROPOSALS

4.1 Committee members as part of their Scrutiny & Audit remit now have the opportunity to review and consider the Accounts Commission reports.

5. FINANCIAL IMPLICATIONS

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

6. EQUALITY IMPACT ASSESSMENT

6.1 An Equality Impact Assessment is not required.

NOTE: The background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) which were relied on to any material extent in preparing the above report are:

REPORT AUTHORS: Gillian Woodcock, Manager (Finance) & Gordon Cargill (Service Leader – Governance & Change)

EMAIL DETAILS: Finance@angus.gov.uk & GovChange@angus.gov.uk

List of Appendices:

Appendix A – Local government in Scotland: Financial Overview 2020/21

Appendix B – Local government in Scotland: Overview 2022

Appendix C – Supplement: Questions for Elected Members