

ANGUS COUNCIL

SCRUTINY & AUDIT COMMITTEE – 26 OCTOBER 2023

LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW 2021/22 & OVERVIEW 2023

**JOINT REPORT BY IAN LORIMER, DIRECTOR OF FINANCE AND JACKIE BUCHANAN,
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ABSTRACT

This report covers the Accounts Commission's Local Government in Scotland overview reports - financial overview of the financial year 2021/22 and the 2023 Overview. The financial overview provides a high-level independent analysis of the financial performance of Scotland's councils during 2021/22 and their financial position at the end of that year. It also sets out some of the longer term financial challenges facing councils in the context of the Scottish Government's Resource Spending Review and the cost of living crisis. The 2023 Overview report is the third and final in the series of reports that reflects the impact of the Covid-19 pandemic, builds on the previous reports in the series and draws on the findings from the financial overview. 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:-

- (a) Review the content of the Accounts Commission's 2021/22 Financial Overview report for local government (attached as Appendix A) and provide any commentary considered appropriate at this time;
- (b) Review the content of the Accounts Commission's 2023 Overview report for local government (attached as Appendix B) and provide any commentary considered appropriate at this time;
- (c) Note the supplement 1 which accompanies the 2023 Overview Report (attached as Appendix C) which provides a range of case studies to illustrate examples and practice in relation to the five themes focussed on in the main report;
- (d) Note the supplement 2 which and accompanies the 2023 Overview Report (attached as Appendix D) which provides several questions to assist elected members scrutinise and understand the Council's performance; and
- (e) 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 2021/22 (Appendix A)

The Accounts Commission's financial overview report highlights that Councils play a vital role in supporting Scotland's communities. The report provides a high level independent analysis of the financial performance of councils during 2021/22 and their financial position at the year end. The COVID-19 pandemic has again created challenges that have affected the preparation of the financial overview report with the rescheduling of audit timetables and revised certification dates.

The financial overview report attached as Appendix A covers 2 areas:

- Councils' financial summary 2021/22;
 - Councils' financial outlook.
- 3.2 The primary source of information are councils' 2021/22 audited accounts, including management commentaries and the 2021/22 annual external audit reports, where available. This has been supplemented with data collected as part of a data set request issued to local auditors in October 2022.
- 3.3 The report refers to "real terms" which means that financial information from past and future years at 2021/22 prices (adjusted for inflation) is being reported so that the figures are comparable. Figures referred to as "Cash terms" means the actual cash or money paid.
- 3.4 The key messages in the financial overview report are as follows:

Local government finances for 2021/22

1. Despite additional Covid-19 funding, councils continued to face significant financial challenges during 2021/22, requiring significant savings to deliver balanced budgets and increasingly difficult choices to be made about spending priorities.

2. In 2021/22, councils' savings performance continued to improve and total usable reserves increased, which councils have used to contribute towards meeting budget gaps arising from service demand and budget pressures.

3. In 2021/22, Scottish Government revenue funding to councils increased by 5.3 per cent in real terms. This represented the first real-terms increase on the 2013/14 revenue funding position since 2015/16 (excluding one-off Covid-19 money). In 2021/22, revenue funding levels for local government and other parts of the Scottish Government budget (excluding Covid-19 funding) have converged back to a level similar to eight years ago.

4. An increasing proportion of local government funding is now either formally ring-fenced or provided with the expectation it will be spent on specific services. We calculate this to be 23 per cent of total revenue funding in 2021/22. Ring-fenced and directed funding helps support delivery of key Scottish Government policies but removes local discretion and flexibility over how these funds can be used by councils.

5. Councils have noted that Covid-19 and inflationary costs are having an impact on capital projects. If these issues persist, they will present risks to councils' capital programmes which form a necessary component of modernising services to deliver improved outcomes for local communities.

Outlook for local government finances.

6. Councils face the most difficult budget-setting context seen for many years with the ongoing impacts of Covid-19, inflation and the cost of living crisis. They will need to continue to make recurring savings and also make increasingly difficult choices with their spending priorities, including, in some cases, potential service reductions.

7. Two-thirds of councils intend to use reserves to help bridge the 2022/23 gap between anticipated expenditure and revenue (budget gap) of £0.4 billion but this reliance on non-recurring reserves is not sustainable in the medium to long term. Delivering recurring savings and reducing reliance on using reserves to fill budget gaps will be key to ensuring longer-term financial sustainability. This makes the case for a continued focus on service reform, based on strong engagement with communities, more important now than ever.

3.5 Overview 2023 (Appendix B)

The Overview 2023 report is the third in the series of reports from the Accounts Commission reporting on the impact of the Covid-19 pandemic. The report builds on the previous reports in the series and examines:

- how has the pandemic affected councils and their performance?

The report states: *“Service performance was beginning to stall before the pandemic as a result of long-term reductions in funding and wider pressures. The pandemic has affected performance across all service areas. Some services are showing signs of recovery, but there are also signs of growing backlogs, declining performance in some areas and services at capacity. The extent and impact of needs not being met is not clear.”*

- what are the current and future challenges facing local government?

The report states: *“Councils are operating in an increasingly volatile and uncertain landscape, as pressures increase after Covid-19 and funding is forecast to be reduced in real terms. Some communities are facing crisis, with increasing poverty and financial hardship putting additional pressure on services at a time when councils have less capacity to support them.”*

- How well placed are councils to deal with the current and future challenges?

The report states: *“Councils must focus urgently on solutions that will deliver a sustainable future for local government.”*

The report also draws on findings from the Financial Overview report, considering these in the context of the wider overview. The report states: *“Councils have never faced such a challenging situation, with demand and workforce pressures deepening after the Covid-19 pandemic and funding forecast to reduce in real terms. Radical change, achieved through greater collaboration, is urgently needed if councils are to maintain services.”*

The detail is in the report itself, however the key messages from the report have been summarised below under the five main themes emerging as follows:

1 Finances and resources

The report states: *“Budget constraints and increasing cost pressures are putting councils’ finances under severe strain. An increasing proportion of funding is ringfenced or directed for national policy initiatives. While this is important to help deliver national priorities, it prevents councils from making decisions about how funds can be used at a local level, to meet local need. Councils have had to make significant savings to balance their budgets. Increasingly difficult choices about spending priorities and service provision are having to be made.”*

The related recommendations propose (in summary):

- **Scottish Government and COSLA** to finalise the New Deal for local government
- **Scottish Government** needs to provide more detailed financial information to support councils longer-term financial planning
- **Councils** need to set out medium to long term financial plans

2 Community needs and inequalities

The report states: *“The pandemic has affected performance across all service areas. There are signs of growing backlogs and declining performance in some service areas. Councils have a clear focus on tackling inequalities but the extent and impact of needs not being met is unclear. Some communities are facing crisis, with persistently high levels of poverty and increasing financial hardship putting additional pressure on services, at a time when councils have less capacity to support them.”*

The related recommendations propose (in summary):

- **Councils** should be more transparent with the public about scale of service demand
- **Councils** should have a clear plan to strengthen the use of data and involve those with lived experience

3 Collaboration

The report states: *“The scale of the challenges ahead means that radical change is needed. It is only by working more collaboratively that councils and their local partners, communities and the third sector will be able to provide sustainable local services and deliver a significant*

programme of national reform to tackle issues such as climate change, child poverty and inequalities.

The pandemic demonstrated the benefits of partnership working and shared local goals. This needs to continue. Few councils provide services jointly or share professional support services. Many councils engage well with communities and local partners to better understand local priorities and needs. Now councils must better involve service users and communities, including those with lived experience, as they redesign services.”

The related recommendations propose (in summary):

- **Councils** need to work with other councils and partners to provide joint services
- **Councils** need to better involve communities in service redesign

4 Leadership

The report states: “Leaders must think radically and make fundamental changes to how councils operate in future, building on the collaborative and innovative ways of working many demonstrated during the pandemic. Leaders need to be open with their staff, communities and local partners about the difficult decisions ahead and be clear about how change will be achieved. The level of volatility, uncertainty (such as plans for a national care service) and immediate financial pressures make planning and delivering sustainable change more difficult. Ineffective leadership and high turnover identified at several councils, alongside tensions with central government present risks to their ability to make fundamental changes at the pace needed.”

The related recommendations propose:

- **Councils’ leaders** need to think radically about their future operating model, set a clear vision and make difficult decisions
- **Councils’ leaders** need to rebuild an effective relationship with the Scottish Government
- **Councils’ leaders** need to be open with communities and staff about challenges and changes ahead

5 Workforce

The report states: “Increasing workforce challenges, including a competitive labour market and high sickness absence levels, are putting councils under continued pressure. Councils need to innovate by developing the skills and building on the agility, flexibility and joint working demonstrated during the pandemic to make best use of their existing workforce. Wellbeing initiatives must continue and councils should monitor the impact of new ways of working such as hybrid working on both performance levels and staff wellbeing.”

The related recommendations propose:

- **Councils** need to make best use of their existing workforce
- **Councils** need to continue to monitor wellbeing
- **Councils** need to update workforce plans to reflect future models of service delivery

3.6 The report also includes two supplements.

Supplement 1 provides a range of Case Studies which provide some illustrative examples and practice based around the five themes referenced above.

Supplement 2 provides a range of questions for elected members which are also based on the five themes referenced above. In the ‘What do I know?’ column, information on how the Council is addressing each of the questions raised has been inserted.

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:

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List of Appendices:

Appendix A – Local government in Scotland: Financial Overview 2021/22

Appendix B – Local government in Scotland: Overview 2023

Appendix C – Supplement 1: Case Studies

Appendix D – Supplement 2: Questions for Elected Members