

AGENDA ITEM NO 8

REPORT NO 119/24

ANGUS COUNCIL

SCRUTINY & AUDIT COMMITTEE – 23 APRIL 2024

LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL BULLETIN 2022/23

REPORT BY IAN LORIMER, DIRECTOR OF FINANCE

ABSTRACT

This report covers the Accounts Commission's Local Government in Scotland Financial Bulletin 2022/23. The Bulletin provides a high-level independent analysis of the financial performance of Scotland's councils during 2022/23 and their financial position at the end of that year. The report highlights the issues councils are most concerned about and may need to address.

1. ALIGNMENT TO THE COUNCIL PLAN

1.1 This report contributes as a whole to the Council Plan. It provides valuable insight from a national perspective which helps to inform the Council's approach in delivering the Council Plan.

2. RECOMMENDATIONS

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

- (a) Note the publication of Accounts Commission's Local Government in Scotland Financial Bulletin 2022/23 report and the Key Messages from the report included in Section 4 of this report;
- (b) Note the commentary on the recommendations in the Commission's report regarding Angus Council's current position and approach to addressing these as set out in Section 5 and Appendix A of this report and provide any commentary considered appropriate at this time; and
- (c) Note that the Commission's report is about Local Government in Scotland as a whole rather than Angus Council specifically.

3. BACKGROUND

3.1 Financial Bulletin 2022/23

The Accounts Commission's Financial Bulletin 2022/23 was published on 16 January 2024. The report provides a high level independent analysis of the financial performance of councils during 2022/23 and their financial position at the year end.

The Bulletin covers 2 areas:

- Councils' Funding and Outturn 2022/23;
- Councils' financial position and outlook.

3.2 The primary source of information are councils' 2022/23 audited accounts supplemented by a separate data collection via local auditors. The full report can be accessed at the following link [Financial Bulletin 2022/23](#).

3.3 The remit of the Scrutiny & Audit Committee includes reviewing national reports published by the Accounts Commission such as the Financial Bulletin 2022/23.

4. KEY MESSAGES

4.1 The key messages in the report are as follows:

Funding and outturn in 2022/23

1. Despite councils receiving more funding and income in cash terms, due to high inflation in 2022/23 total revenue funding from all sources fell by £619 million (2.8 per cent) in real terms to £21.3 billion compared to 2021/22.
2. Councils received more core revenue funding from the Scottish Government than in 2021/22, rising from £12.1 billion to £12.2 billion (0.7 per cent) in real terms. However, an increasing proportion is ring-fenced or provided with the expectation it will be spent on specific services. This means that the amount of funding available for councils to spend freely on local priorities is reducing. There are commitments in the Verity House Agreement to move to a default position of removing ring-fencing or direction of funding wherever possible.
3. There is pressure on all public-sector capital budgets, and this presents risks to the viability of local government capital programmes, many of which impact on key services (eg, the construction and maintenance of schools, libraries, roads). Capital funding from the Scottish Government rose in 2022/23 but remains lower than before the pandemic and has been volatile over the past decade. Driven by increased borrowing councils' capital expenditure increased in 2022/23 by 16 per cent in cash terms to £3.6 billion. Borrowing costs have reduced in recent years as many councils have used permitted financial flexibilities to reprofile debt payments. While helping with immediate budget pressures, these decisions defer costs to later years and do not tackle the underlying challenges to financial sustainability. Additional borrowing also places further pressure on revenue budgets over the longer term.
4. At the time of setting their 2022/23 budgets, councils anticipated budget gaps of over £476 million for the year, higher than the previous year. Councils are increasingly having to rely on savings and reserves to balance budgets. Achievement of savings targets was good in 2022/23 and improved on 2021/22. Greater transparency is required in the reporting of financial outturn in council accounts, including savings performance. This transparency and timely public engagement are essential as councils make increasingly difficult decisions to reduce or stop services to help balance budgets.

Councils' financial position and outlook from 2023/24

5. Despite the financial pressures of recent years, half of councils increased their usable reserves in 2022/23, and overall usable reserves grew to £4.45 billion. This is driven by growth in committed reserves. Some of this is remaining Covid-19 funding, some is attributable to the permitted use of financial flexibilities for the repayment of longer-term debt but there are also indications councils are building up reserves to manage the known financial challenges in future years. However, the lack of transparency in some councils' annual accounts makes it difficult to draw firm conclusions on councils planned use of reserves.
6. Local appointed auditors did not identify any councils in Scotland as being financially unsustainable in the short term. However, the financial outlook is extremely challenging with Scottish councils facing unprecedented financial and service demand pressures which present real risks for the future. Although Scottish Government core funding increased in cash and real terms in 2023/24, councils reported a significant increase in the total budget gap to £725 million.
7. Councils' medium- and longer-term financial plans demonstrate a clear recognition of the difficult financial context and the need to continue to innovate at pace and make difficult decisions to become more financially sustainable. But some councils are already experiencing significant resistance when seeking to make service reductions to balance budgets. This reinforces the need for effective consultation and engagement with communities on planned local service changes.

8. The Verity House Agreement includes a commitment to offer councils longer term funding and greater local financial flexibility. These proposed changes will be important, in providing greater financial certainty to support better long-term planning and more flexible direction of resources to meet local need. However, the recent announcement of a proposed council tax freeze significantly reduces discretion and flexibility at individual council level. The impact this will have on financial sustainability is not yet known, but councils have placed an increased reliance on raising council tax to help deliver a balanced budget over the past two years.

5. RECOMMENDATIONS AND ANGUS COUNCIL CURRENT POSITION

- 5.1 The Financial Bulletin makes 6 recommendations for the Council to consider. As members of the Committee will be aware the Council's approach to being a performance led Council places self-evaluation at its core. With this in mind the extent to which the Council currently complies with the 6 recommendations has been assessed to identify if any improvements are required. This is summarised in Appendix A for the Committee's consideration and comment.
- 5.2 In summary the self-assessment against the 6 recommendations shows a high degree of compliance/good practice. 4 improvement actions have been identified, 3 of which are minor in nature as summarised below:-
- a. Management Commentary for 2023/24 Annual Accounts to provide further breakdown on savings achieved either in the Commentary or via a link to Change Programme update reports.
 - b. A hyperlink to reserves strategy information approved through the budget process will be added to the 2023/24 Management Commentary.
 - c. Reference to the latest financial resilience assessment (including relevant indicators) will be included in the Management Commentary to the Council's 2023/24 Annual Accounts
 - d. Develop plan for consultation and engagement with communities for 2025/26 budget setting. This will need to reflect the limited resources available to run a consultation.
- 5.3 Actions a) to c) require minor changes to the Annual Accounts Management Commentary. Action d) is a more significant commitment to be planned for and implemented.

6. FINANCIAL IMPLICATIONS

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

7. RISK MANAGEMENT

- 7.1 The following risks from the Corporate Risk Register are relevant to this report:-
- Financial Sustainability
 - Transforming for the Future

8. ENVIRONMENTAL IMPLICATIONS

- 8.1 There are no direct environmental implications arising from the recommendations of this report.

9. EQUALITY IMPACT ASSESSMENT

- 9.1 An Equality Impact Assessment is not required, the report is for noting and does not impact on people.

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:

Accounts Commission Local Government in Scotland Financial Bulletin 2022/23 - 16 January 2024

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List of Appendices:-

Appendix A – Financial Bulletin Recommendations and Angus Council Self Assessment on These

Appendix A - Financial Bulletin 2022/23 Recommendations and Angus Council Self-Assessment on These

Recommendation	Current Council Position	Improvement Actions
1. Prioritise the achievement of recurring savings and avoid reliance on non-recurring savings to enhance longer-term financial sustainability.	The Council's approach to balancing budgets has always sought to ensure savings are recurring. The Council's reliance on non-recurring savings is therefore negligible.	None required
2. Ensure that management commentaries are open and transparent, include a clear link between budget outturn and the financial performance in the accounts and report on the achievement of planned savings targets.	The Management Commentary in the latest Annual Accounts (2022/23) includes a table summarising the Comprehensive Income & Expenditure (CIES) which shows the accounting position and how this relates to the budget outturn. The Management Commentary also advises on achievement of planned savings in total but not a breakdown of that.	Management Commentary for 2023/24 Annual Accounts to provide further breakdown on savings achieved either in the Commentary or via a link to Change Programme update reports.
3. Provide clear statements about reserves policy and explicitly set out the purpose of committed reserves within their annual accounts. This will enhance the level of assurance that councils can provide regarding their ongoing financial sustainability.	The Management Commentary includes a full breakdown of General Fund Reserve commitments and reference to the Council's reserves strategy approved as part of the budget process.	A hyperlink to reserves strategy information approved through the budget process will be added to the 2023/24 Management Commentary.
4. Ensure effective and timely consultation and engagement with communities on the options that must be considered to achieve a balanced budget.	Consultation on specific issues and proposals takes place regularly but the Council hasn't consulted on its overall budget since the 2022/23 budget setting. This has been driven in large part by the scale of the financial challenges facing the Council which have left next to no level of choice on savings options to balance the budget. It is recognised however that it is good practice to consult and engage on such significant decisions.	Develop plan for consultation and engagement with communities for 2025/26 budget setting. This will need to reflect the limited resources available to run a consultation.
5. Strengthen their monitoring and reporting of financial resilience including clearer and more public-facing use of performance against financial resilience indicators and measures. Financial resilience indicators should be a component of councils' medium and longer-term financial plans to provide assurance that they are balancing short-term pressures with robust planning for long-term financial sustainability.	The Council's first Long Term Financial Planning Framework was approved by the Council in September 2023 (Report 241/23 refers). This included a comprehensive assessment of the Council's financial resilience. That resilience assessment will be kept under review and updated as circumstances changed.	Reference to the latest financial resilience assessment (including relevant indicators) will be included in the Management Commentary to the Council's 2023/24 Annual Accounts

Recommendation	Current Council Position	Improvement Actions
<p>6. Work with the Scottish Government to build momentum and accelerate progress in the development of a fiscal framework for local government to enhance the clarity and certainty of budgets for councils in future years.</p>	<p>The Chief Executive and Director of Finance are engaged in this work through SOLACE and the Directors of Finance Section and are providing advice and support to the Council Leader and COSLA when required.</p>	<p>None required – continue to support as the fiscal framework is developed</p>