

**Audit Commission: Local government in Scotland:  
Financial Overview 2018/19 (December 2019)****Report by: Gary Fairley, Chief Officer Corporate Solutions****1 Purpose of the Report**

To provide Audit Committee with a summary of the Accounts Commission report, 'Local government in Scotland: Financial Overview 2018/19' and the Council's position in relation to the report's findings. The full report can accessed on the Audit Scotland website by following this link:

<https://www.audit-scotland.gov.uk/report/local-government-in-scotland-financial-overview-201819>

**2 Background**

**2.1** Each year the Accounts Commission produces an overview of issues that have arisen from their local authority audits. In line with the previous publications these will again be encompassed in two reports. The first report, which is covered in this paper, focuses on financial matters, and the other, which will be published in later in 2020 and will focus on Council's performance and outcomes.

**2.2** Local government in Scotland: Financial Overview 2018/19 was published by the Accounts Commission in December 2019. The overview report of the 2018/19 financial year, provides an independent, public assessment of how effectively Scottish local government is managing public money and responding to the financial challenges it faces. It is aimed primarily at councillors and senior council officers as a source of information and to support them in their complex and demanding roles. It is in four parts:

- Part 1: Councils' Income in 2018/19
- Part 2: Councils' Financial Position in 2018/19
- Part 3: Councils' Financial Outlook
- Part 4: Integration Joint Boards' Overview 2018/19

Audit Scotland's website contains some additional information relating to the Financial Overview for 2018/19 including a Supplement for Members: a Scrutiny Tool. This provides 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. Members can access this Supplement using the link above.

**2.3** *In his introduction the Chair of the Accounts Commission indicates that of particular note to us (the Commission) this year, Integration Joint Boards (IJBs) continue to face very significant challenges and they need to do much more to address their financial sustainability. The pace of progress with integration has been too slow and we have yet to see evidence of a significant shift in spending and services from hospitals to community and social care. I continue to be concerned about the significant turnover in senior staff in IJBs. This instability inevitably impacts on leadership capacity and the pace of progress. The Commission has a strong interest in the performance and development of IJBs and we are planning arrangements to review their progress in delivering Best Value for their communities.*

**2.4** The report recognises that 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. The Accounts Commission previously highlighted that ongoing use of reserves to manage funding gaps is not sustainable.

**2.5** The report further noted that after several years of tightening budgets, the Accounts Commission recognise that councils have already made savings through restructuring and efficiencies, but transformation in terms of service redesign is required to deal with the further reductions forecast. The Commission will continue to have a close interest in how councils and IJBs are redesigning services to meet the needs of their communities.

**2.6** The key messages identified in the 2018/19 report include:

- 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.

### **3 Financial Overview 2018/19**

#### **3.1 Part 1 - Councils' Income in 2018/19**

In addition to the key messages above the report highlights that an increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities.

In its response to the Local Government and Communities Committee on the 2019/20 budget, COSLA's view is that Scottish Government policies and fixed commitments represented 58 per cent of local government revenue expenditure budgets in 2018/19 and 60 per cent in 2019/20.

The position with income will be familiar to Elected Members from their experience in developing and setting budgets and more recently in progressing the Medium Term Financial Strategy.

#### **3.2 Part 2 – Councils' Financial Position in 2018/19**

- The 2018/19 funding gap of three per cent was less than the previous year (four per cent). Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that a higher proportion of the funding gap was met from reserves than planned.
- Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed, with councils increasingly drawing on their revenue reserves.
- Twenty-three councils have reduced their general fund reserves over the last three years. No council has a position where this rate of depletion would eliminate the total general fund within three years.
- Capital expenditure increased by £62 million or 2.3 per cent in 2018/19 to £2.75 billion, with more spent on housing and economic development and less on education.

- The value of pension liabilities in councils increased by £0.5 billion to reflect the impact of the McCloud case.
- Councils should continue to improve the transparency of the management commentary.

Again the key messages reflect the challenges the Council faces. The real terms reduction in the value of resources available to the Council reinforces the need to have a robust Medium Term Financial Strategy in place and which sets out the transformation plans which will be required to ensure the sustainability of services it is increasingly important that robust financial management and reporting is maintained.

All councils hold an uncommitted general fund to protect against unforeseen financial pressures. Exhibit 7 in the report sets out Council's General Fund reserves as a proportion of net annual revenue split between committed, uncommitted and HRA. The exhibit provides a useful comparison of Midlothian's uncommitted General Fund position compared to other councils.

Council has a significant requirement to invest in assets to support the growing population. Though the level of borrowing is increasing the Treasury Management Strategy and prudential indicators provide Council with reassurance that this level of investment is financially sustainable and can be serviced from the revenue budget.

In this respect the report specifically makes reference to the Newbattle Community Campus. Noting that this £38 million hub project opened in May 2018 as the Council's first 'centre of excellence in digital technology' providing enhanced education and leisure facilities for Newtongrange, Mayfield, Gorebridge and the surrounding communities.

There is no doubt that difficult decisions lie ahead for all councils and the report highlights the importance of being proactive in addressing the financial pressures.

### **3.3 Part 3 – Councils' Financial Outlook. Key messages:**

- Scottish Government revenue funding to local government in 2019/20 increased by 2.9 per cent in cash terms (0.9 per cent in real terms).
- In 2019/20, the Scottish Government increased the cap on council tax increases. Twelve councils decided to increase council tax by the full amount (4.8 per cent).
- Many councils are also seeking other ways to increase income, including increasing fees and some have introduced new charges in 2019/20. Some councils also continue to pursue new local taxes.
- Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (three per cent of income). This continues the increasing pressure on councils to find further cost savings, redesign services,

reduce services, increase income or use reserves. These decisions are likely to become increasingly difficult for councillors. Councils planned to manage their funding gaps mainly through identified cost savings.

- All councils have medium-term financial planning covering three years or more. Long-term financial planning has not progressed since last year.
- The Scottish Government has made a commitment to set out multiyear budgets, which will assist councils with financial planning.
- Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

As Members will be aware, the Council approved a Medium Term Financial Strategy in June 2019, which covers the three year period to March 2023. It is acknowledged that there is further work to do to secure a balanced position over the three years and also to extend the period encompassed by the Medium Term Financial Strategy.

However the adoption of the Strategy in June 2019 has strengthened the Council's financial position and in particular for the year ahead, given the unprecedented position in respect of the delay in publication of government grant figures, it has helped reduced the risk and uncertainty for services and communities.

At the time of writing there is still no certainty as to when Scottish Government will present its 2020/21 budget to Parliament and when the circular setting out individual council grant allocations will be published. It is clear however that there will be no return to multiyear grant settlements at present.

### **3.4 Part 4 – Integration Joint Boards' Overview 2017/18**

- The pace of health and social care integration has been too slow and there is limited evidence to suggest any significant shift in spending from health to social care.
- Overall, IJB budgets increased by three per cent in 2018/19. The identified budget gap reduced from £248 million (2.9 per cent of total income) in 2018/19 to £208 million (2.5 per cent of total income for 2019/20).
- A majority of IJBs struggled to achieve break-even and 19 would have recorded a deficit without additional funding from partners at the year end.
- Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year. For several IJBs, although

the budget was set on time, it still had an element of unidentified savings which meant it was unbalanced at the start of the year.

- A focus on long-term financial planning is required by IJBs to assist effective decision making that will support long-term financial sustainability.
- Over a third of IJB senior staff have changed during 2018/19.

The Midlothian IJB delivered a £2.9 million underspend against budget in 2018/19. The IJB's reserve balances now total £3.88 million, of which £1.4 million has been earmarked for committed projects. Like all IJB's Midlothian continues to face significant financial challenges given the increasing demand for services.

It is expected that the overview report will also be presented to the Midlothian IJB Audit and Risk Committee.

## **4 Report Implications**

### **4.1 Resource**

There are no additional resource implications.

### **4.2 Risk**

There are no additional direct risks associated with this report.

### **4.3 Single Midlothian Plan**

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

### **4.4 Key Priorities within Single Midlothian Plan**

Midlothian Council and its Community Planning Partners have made a commitment to treat the following areas as key priorities under the Single Midlothian Plan:-

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances

This report does not directly impact Midlothian Council's key priorities but a key message within the Accounts Commission report is that the way Council's respond to the financial challenge will inevitably impact on how they can deliver of key priorities and outcomes.

#### **4.5 Impact on Performance and Outcomes**

The report does not directly impact Midlothian Council's and wider partners performance and outcomes but it does stress the need to ensure consideration is given to the wider strategic planning and objectives as part of the council's response to the findings noted in the report.

#### **4.6 Adopting a Preventative Approach**

This report does not directly impact actions and plans in place to adopt a preventative approach.

#### **4.7 Involving Communities and Other Stakeholders**

This report does not directly relate to involving communities and stakeholders.

#### **4.8 Ensuring Equalities**

This report does not recommend any change to policy or practice and therefore does not require an Equalities Impact Assessment.

#### **4.9 Supporting Sustainable Development**

The recommendations in this report support Midlothian Council's position in relation to delivering sustainable services going forward.

#### **4.10 IT Issues**

There are no IT issues arising from this report at this time.

### **5 Recommendations**

The Committee is asked to note the Accounts Commission report and the position of Midlothian Council in relation to the report's key messages.

**Date: 10 January 2020**

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#### **Background Papers:**

Accounts Commission - Local government in Scotland: Financial Overview 2018/19 – (December 2019).