

Midlothian Integrtrion Joint Board

Audit and Risk Committee



Thursday 5th March 2020, 2.00pm

Audit Scotland Report on Local Government in Scotland Financial Overview 2018-19

Item number: 5.7

Executive summary

The Accounts Commission 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. This report summarises its findings and key messages in the context of Midlothian Integrated Joint Board.

Committee members are asked to:

1. Committee members are asked to note the key messages

Audit Scotland Report on Local Government in Scotland Financial Overview 2018-19

1. Purpose

- 1.1 This report summarises how Local Government in Scotland is performing and what challenges it faces. 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

2. Recommendations

- 2.1 Committee members are asked to:
- 2.1.1 Note the key messages

3. Background and main report

- 3.1 Audit Scotland published a report on 17 December 2019 - "Local Government in Scotland Financial Overview 2018-19" "The full publication of the report can be found here: <https://www.audit-scotland.gov.uk/report/local-government-in-scotland-financial-overview-201819> The report cover the following topics 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

Key Messages:

- 3.2 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.
- 3.3 Funding is forecast to fall further in the medium term against a backdrop of increasing volatility in public finances.

- 3.4 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.
- 3.5 The Accounts Commission previously highlighted that ongoing use of reserves to manage funding gaps is not sustainable.
- 3.6 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.
- 3.7 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.
- 3.8 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.

Report Breakdown

- 3.9 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.
- 3.10 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.
- 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.
- 3.11 Part 3 – Councils' Financial Outlook.
- 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).

- 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.

3.12 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.
- The Commission has a strong interest in the performance and development of IJBs and are planning to review their progress in delivering Best Value for their communities.
- Over a third of IJB senior staff have changed during 2018/19. This instability inevitably impacts on leadership capacity and the pace of progress.

3.13 During 2017-18 the IJB started to build up a general reserve and in 2018-19 a further surplus of £2.97m was added. The reserves at 31 March 2019 are split between a general reserve of £2.38m (equating to 1.7% of net expenditure in 2018-19), and specific reserves of £1.5m. A prudent level of general reserves would represent 2% of net expenditure. Like all IJB's Midlothian continues to face significant financial challenges given the increasing demand for services.

4. Policy Implications

4.1 The framework focuses on supporting the implementation of the Public Bodies (Joint Working) (Scotland) Act 2014.

5. Equalities Implications

5.1 There are no equalities implications arising from this report

6. Resource Implications

6.1 There are no resource implications arising from this report.

7 Risks

7.1 There are no risks associated.

8 Involving People

8.1 There are no direct implications for involving people as a result of this report.

9 Background Papers

9.1 None

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