

Report

8

Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	31 January 2017
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Audit Scotland – Financial Overview 2015/2016
----------	--

1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ provide the Forum with a summary of the information contained within the Audit Scotland Report 'Financial Overview 2015/2016 published in November 2016.

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that the key messages and recommendations of the Audit Scotland Overview Report 2015/2016, as detailed in sections 4 and 5, be noted;
- (2) that the Council's position in relation to these messages/recommendations, as detailed in section 6, be noted.

3. Background

3.1. In November 2016, Audit Scotland published the Financial Overview 2015/2016 report on behalf of the Accounts Commission. This 'Financial Overview' is the first of Audit Scotland's new overview output reports and tells the strategic financial story for Local Government in Scotland in 2015/2016. A copy of the report can be found on the Audit Scotland website.

3.2. The Audit Scotland report is divided into 2 parts, namely:

- Part 1: Income and Spending
- Part 2: Financial Outlook

3.3. The key messages from each part of the report are outlined in sections 4 and 5 below.

3.4. In addition to these key messages, the report poses a number of questions for consideration by councillors. These are detailed in Appendix 1 to the report, with the Council's position in relation to these questions, summarised in section 6.

4. Part 1 – Income and Spending

4.1. A number of key messages are presented in the report in relation to income and spending, namely:-

- the overall financial health of local government was generally good in 2015/2016, with a slight increase in overall reserves and a reduction in overall debt

- for the fifth year in a row auditors issued unqualified opinions on councils' accounts
- more than half of councils' income comes from the Scottish Government
- councils have experienced a long-term decline in grant funding
- in 2015/2016, 15 councils planned to use reserves to support spending, and across local government, revenue reserves were forecast to decrease. However, only 7 councils drew on reserves and, overall, revenue reserves increased in 2015/2016
- councils spent £19.5bn in 2015/2016. Spending remains lower than in 2011/2012, but is increasing in key services
- many councils overspend their social care budgets and this poses a risk to the longer-term financial position. Councils need to ensure that budgets reflect true spending patterns so that the impact of current spending on their financial position is clearly understood
- councils need to manage other financial pressures, such as increasing pension costs and wage inflation

5. Part 2 – Financial Outlook

5.1. A number of key messages are presented in the report in relation to income and spending, namely:-

- by the end of 2015/16, useable reserves had risen by 5% across local government and net debt decreased slightly
- some councils are building up reserves and reducing borrowing in anticipation of further funding reductions
- councils' net debt current stands at £13.72bn, and spend on associated interest and repayments is around £1.5bn per annum
- the Local Government Pension Scheme deficits decreased from £10.0bn to £7.6bn in 2015/16. However, councils and pension funds continue to face challenges from below-target or negative returns on investments and increasing administration costs
- councils will need to make further savings and/or generate additional income as relying on reserves is not sustainable
- opportunities to make savings are partly affected by national policy commitments and the costs of servicing debt
- councils' ability to make savings will be influenced by the level of savings they have already made
- it is important that councils' savings plans are achievable within the timescales required
- councils face tough decisions around their finances that require strong leadership and sound financial management
- long-term financial strategies must be in place to ensure council spending is aligned with priorities

6. Questions for Councillors

6.1. Throughout the Audit Scotland report there are a number questions for the attention of councillors. For each question, Audit Scotland suggests that councillors should consider 'What do I know?' and 'Do I need to ask further questions?'.

6.2. The questions, which cover a variety of issues, are listed within Appendix 1 together with the Council's position in relation to each of the areas identified.

7. South Lanarkshire Council – Financial Overview 2015/16

- 7.1. The Audit Scotland report contains a number of tables that set out information for all Councils. South Lanarkshire Council information is included within the tables in the report.

8. Employee Implications

- 8.1 None.

9. Financial Implications

- 9.1 The Audit Scotland Report raises a number of financial areas for consideration by councils, however, there are no direct financial implications as a result of the content of this report.

10. Other Implications

- 10.1 There are no implications for risk or sustainability in terms of the information contained in this report.

11. Equality Impact Assessment and Consultation Arrangements

- 11.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and therefore no impact assessment is required.

- 11.2. There is also no requirement to undertake any consultation in terms of the information contained in the report.

Paul Manning

Executive Director (Finance and Corporate Resources)

28 December 2016

Link(s) to Council Values/Objectives

- ◆ Accountable, Effective and Efficient

Previous References

- ◆ None

List of Background Papers

- ◆ Local Government in Scotland – Financial Overview 2015/16 – Audit Scotland November 2016

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

Lorraine O'Hagan, Finance Manager (Strategy)

Ext: 4617 (Tel: 01698 454617)

E-mail: lorraine.o'hagan@southlanarkshire.gov.uk

Audit Scotland Questions for Elected Members	South Lanarkshire Council Perspective
Annual Accounts and Financial Transparency <ul style="list-style-type: none"> • Does the management commentary section of the annual accounts provide a clear and easily understandable account of the council's finances? 	<p>The Management Summary within the Council's Annual Accounts provides a clear summary of the Councils' financial position and includes narrative information supplemented with tables, graphs and pie charts to engage the user of the accounts.</p>
Funding and Income <ul style="list-style-type: none"> • How do you consider potential changes to income streams and their impact on spending and services as part of medium and long-term planning? • Is income from fees and charges clearly reported? • What increases in fees and charges are planned and how will these affect your citizens? • Do you consider local economic impacts? • How do your fees and charges compare to other councils? 	<p>Budget Strategy updates, which are reported to and approved by the Executive Committee, outline projected changes in Government Grant and Council Tax income, as appropriate. These projections form part of the overall budget strategy.</p> <p>Throughout the year, income from fees and charges are clearly and regularly reported to the Revenue Budget Scrutiny Forum on a Resource basis.</p> <p>The impact of changes in fees or charges is considered as part of the overall budget strategy and savings approval process.</p> <p>Proposed increases in fees and charges are separately identified as part of the Council's annual savings exercise. Where savings proposals relate to increases in fees and charges, information is gathered in relation to the comparison with other councils.</p>
Capital Investment <ul style="list-style-type: none"> • Is your capital investment programme appropriately funded? • Do you know what slippage there has been in capital projects and why? • Are you assured that appropriate action is being taken? 	<p>The Council's Capital Investment Programme is funded from a variety of sources and the composition of the funding package is approved by Executive Committee.</p> <p>Changes to the capital programme as a result of acceleration/slippage of projects are presented to the Executive Committee for approval on a regular basis.</p>

Audit Scotland Questions for Elected Members	South Lanarkshire Council Perspective
<p>Council Budgeting</p> <ul style="list-style-type: none"> • Do service budgets reflect your priorities? • Are potential overspends highlighted to you as they occur and before year-end? • Are there services where you are consistently over or under spending against your budget? • Are variances adequately explained? 	<p>Service Budgets are approved by the Executive Committee as part of the annual budget setting exercise.</p> <p>Significant variances against budgeted expenditure/income are reported to the Executive Committee, Revenue Budget Scrutiny Forum, and relevant Resource Committees throughout the year.</p> <p>Each year the probable outturn exercise is undertaken and the results, including any variances expected to arise before the year end, are reported to the Executive Committee and the relevant Resource Committees.</p>
<p>Council Workforces</p> <ul style="list-style-type: none"> • Are exit packages supported by business cases setting out the total estimated costs and savings? 	<p>All exit packages are supported by a fully costed business case with identified savings. These are approved through the Executive Director (Finance and Corporate Resources) and the Head of Personnel, with the exception of Chief Officers and statutory roles where approval is via Committee.</p> <p>Regular reports are presented to the Finance and Corporate Resources Committee in relation to costs associated with Early Retirement and Voluntary Severance.</p>
<p>Reserves</p> <ul style="list-style-type: none"> • Do you know what level of reserves are needed and why? • Do you think that reserves are being used effectively? 	<p>Annual updates on the Council's budget strategy, as reported to the Executive Committee for approval, detail the proposed use of reserves where appropriate. Updates highlight the unsustainable nature of reserves as a funding source.</p>

Audit Scotland Questions for Elected Members	South Lanarkshire Council Perspective
<p>Debt</p> <ul style="list-style-type: none"> • Are there clear links between the capital programme and treasury management strategy? • Do you know the implications that different types of borrowing options have on future revenue budgets? • Do you know the split in debt between General Fund and HRA (where applicable)? Is this reported within your management commentary? • Do you know how debt repayments affect what money is available to spend on services? 	<p>Updates on the Council's budget strategy, as reported to the Executive Committee for approval, detail the position in relation to planned capital expenditure and the Treasury Management Strategy. The updates outline the position in relation to borrowing and debt projections.</p> <p>The ratio of financing costs to net revenue stream (which indicates what proportion of income is used for servicing debt) is shown separately for the General Fund and HRA within the Management Commentary of the Annual Accounts.</p> <p>The impact of any new borrowing is shown when approval is sought for new investments.</p>
<p>Financial Strategies and Plans</p> <ul style="list-style-type: none"> • Do you have a long-term financial strategy covering five to ten years? • Are there clear links between the financial strategy and the vision for the future? • Is the long-term financial strategy supported by detailed plans covering a minimum of three years? • Do financial plans set out the implications of different levels of income, spending and activity? • Is there a clear link between the council's revenue plans and the budget information you are asked to approve? 	<p>The Council has medium and long-term financial strategies covering 3 and 10 year periods respectively. Annual Budget Strategy updates to Executive Committee outline the assumptions made and advise on action required to address the issues which arise, for example increase/decrease to the savings target. As the Council's main source of income is Scottish Government Grant, plans are developed based on a number of possible scenarios.</p> <p>The budget setting papers presented to Executive Committee (and the Council) for approval, analyse strategy decisions as applied to subjective headings (Employee Costs, Property Costs etc.) as well as across the Resources.</p> <p>As part of the budget strategy process investment in Council priorities is considered in the development of the overall strategy. This includes ongoing investment Social Work, Roads and Schools as appropriate.</p>

Audit Scotland Questions for Elected Members	South Lanarkshire Council Perspective
<p>Funding Gaps, Savings and Service Transformation</p> <ul style="list-style-type: none"> • Do financial plans identify the differences between income and expenditure for the next three years? • Do you know the actions being taken to close the funding gap? • Do you know what plans there are to redesign services and deliver savings? • Are savings plans realistic within agreed timescales? • Are all savings clearly identified and categorised as recurring or non-recurring savings? • Is the council reliant on non-recurring savings? • Do you know what will happen to the reserves if savings are not made? 	<p>Annual Budget Strategy updates to Executive Committee detail potential levels of expenditure and income in future years based on a number of assumptions. Elected members have the opportunity to view details of all savings proposals and to engage in dialogue with relevant departments prior to approval of any savings.</p> <p>Savings approved as part of the savings process are primarily of a recurring nature. The approved saving package is monitored regularly throughout the year, and any issues related to potential non-achievement of savings would be dealt with as they arise.</p> <p>Updates on specific savings/reviews are reported to the relevant Committees throughout the year as appropriate.</p> <p>Where there is any proposal to utilise reserves in order to close funding gaps, it is stressed to elected members that this is a one-off, non-recurring solution.</p>
<p>Scrutiny Considerations</p> <ul style="list-style-type: none"> • Do you feel you have the knowledge and expertise to scrutinise your finances effectively? 	<p>All Council reports are prepared with members in mind and aim to provide consistent, effective information in an appropriate manner. Detailed refresher training was provided for Elected Members in July 2016 to ensure members have the expertise required to scrutinise Council finances effectively.</p>