

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	24 April 2019
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Audit Scotland – Financial Overview 2017/18
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ provide the Risk and Audit Scrutiny Committee with a summary of the information contained within the Audit Scotland Report 'Financial Overview 2017/18' published in November 2018.

2. Recommendation(s)

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

- (1) that the key messages and recommendations of the Audit Scotland Overview Report 2017/18, as detailed in sections 4 to 7, be noted, and
- (2) that the Council's position in relation to these messages/recommendations, as detailed in section 8, be noted

3. Background

3.1. In November 2018, Audit Scotland published the Financial Overview 2017/18 report on behalf of the Accounts Commission. Audit Scotland publish two overview reports each year, this one focuses on financial matters and the other, on councils' performance and outcomes, is expected to be published in April 2019. A copy of the [Audit Scotland - Financial Overview 2017/18](#) report can be found on the Audit Scotland website.

3.2. The Audit Scotland report is divided into 4 parts, namely:

- Part 1: Councils' Budgets and Spending in 2017/18
- Part 2: Councils' Financial Position
- Part 3: Integration Joint Boards' Overview 2017/18
- Part 4: Councils' Financial Outlook

3.3. The key messages from each of the 4 parts of the report are outlined in sections 4, 5, 6 and 7 below.

3.4. In addition to these key messages, the report poses a number of questions for consideration by Councillors. These are highlighted in section 8, and detailed in Appendix 1 to the report, alongside the Council's position in relation to these questions.

4. Part 1 – Councils' Budgets and Spending in 2017/18

4.1. A number of key messages are presented in the report in relation to councils' budgets and spending in 2017/18, namely:-

- Scottish Government revenue funding to councils reduced in 2017/2018 by 0.6% in cash terms and 2.3% in real terms. Council Tax, grants and fees and charges increased, and overall council budgets grew by £0.3 billion in cash terms
- An element of Scottish Government grant was agreed late for 2017/18, limiting councils' ability to properly plan and agree their budgets
- Between 2013/2014 and 2017/2018 funding from the Scottish Government to local government decreased by 6.92%, compared to the decrease in Scottish Government budget of 1.65%
- Council Tax changes raised an additional £189m in 2017/18 - £140m due to national changes to banding and second homes. The remaining increase due to removal of the council tax freeze which saw 24 councils choosing to increase Council Tax
- Distribution of funding from the Scottish Government is based mainly on population but could be more transparent to ensure clarity about how funding distribution reflects the factors that drive demand
- In 2017/18, councils managed funding gaps of 4% in their net expenditure budgets of £12 billion, mainly through savings and planned use of reserves
- Year-end outturns were better than budgeted
- Overall increases in spending in Education (3.2%) and Social Work (2.4%) were offset by reductions in other services (2.6%)
- There is a significant variation between councils in charges for services

5. Part 2 – 2017/18 Councils' Financial Position

5.1. A number of key messages are presented in the report in relation to the 2017/18 Financial Performance of councils, namely:-

- Eighteen councils drew on their useable reserves in 2017/18, overall by a relatively small amount (£18 million)
- Based on 2018/19 budgets, Audit Scotland analysis indicates there are no short-term concerns in Scottish councils
- Some councils have relatively higher levels of debt for their size
- Local policies vary on whether cash and investments are held to support reserves
- Capital expenditure in 2017/18 decreased by 5% in real terms. Housing and education were the main areas of investment. However, the number of social houses provided by councils continues to fall, although the rate of decrease has slowed
- Some councils had significant increases in their debt positions
- There were delays with the valuation of pension liabilities in councils across Scotland in 2017/18, but the net pension liability has reduced substantially in 2017/18
- Management commentaries in councils' accounts should do more to explain financial outturn against budget

6. Part 3 – Integrated Joint Boards' (IJBs) Overview 2017/18

6.1. A number of key messages are presented in the report in relation to IJBs, namely:-

- Funding to the IJBs increased by 3% in 2017/2018 in cash terms. Most of the additional funding came from the NHS, including additional Scottish Government funding of £107m
- The majority of IJBs have underlying financial sustainability issues, with 11 out of 30 incurring deficits in 2017/2018. A further 8 would have incurred deficits without additional funding from their partners

- Reserve positions vary significantly between IJBs
- Medium-term financial planning is not used by most IJBs and further improvements to financial management should be introduced
- Funding gaps in 2018/2019 are significant in IJBs and many do not have balanced budgets

6. Part 4 – Councils’ Financial Outlook

6.1. A number of key messages are presented in the report in relation to the Financial Outlook for councils, namely:-

- In 2018/19, Scottish Government revenue funding to local government increased by 0.2% after two years of real terms reductions
- The Scottish Government published a five-year financial strategy in May 2018, but multi-year budgets are not yet being developed
- Many councils are in the early stages of delivering transformational change
- Medium-term financial planning has been adopted by almost all councils, but less than half have significant long-term plans over five years
- Councils expect to manage smaller funding gaps in 2018/19 of £0.3 billion, with all 32 councils increasing council tax by 3% in 2018/19
- There are no councils where the budgeted use of reserves is a critical issue over the next three years
- The impact of EU withdrawal is not yet clear, but councils need to identify the risks and develop contingency plans to manage these risks as far as possible

7. South Lanarkshire Council – Financial Overview 2017/18

7.1. The Audit Scotland report contains a number of tables that set out information for all councils. For the majority of indicators, South Lanarkshire Council’s results were in the main grouping of councils. However, there were two areas where results could potentially be classed as outliers, these are detailed below:

7.2. **Increase in Council Tax Income in 2017/18:** The Council is 8th lowest in terms of an increase in Council Tax income. For the majority of councils, the increase in their Council Tax income included the impact of an increase in their rate of band D. The Council is one of 8 councils who did not increase their Band D rate into 2017/18. The Council’s increase in Council Tax income was due primarily to changes in the nationally set Council Tax multiplier of Bands, as well as increases in property numbers.

7.3. **Useable Reserves Represented by Cash or Investments:** South Lanarkshire Council has the lowest percentage of useable reserves backed by cash or investments (32%). The level of cash reserves held at the end of 2017/18 was low which reflected the fact that cash balances have been used in lieu of borrowing. Given that borrowing has now been taken during 2018/19, it is anticipated that, by the end of 2018/19, more of the Council’s reserves will be backed by cash.

8. Questions for Councillors

8.1. Throughout the Audit Scotland report there are a number of 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?’.

8.2. The questions, which cover a variety of issues, are listed within Appendix 1 along with the Council’s position in relation to each of the areas of questioning identified.

9. Employee Implications

9.1 None.

10. Financial Implications

10.1 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.

11. Other Implications

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

12. Equality Impact Assessment and Consultation Arrangements

12.1. 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.

12.2. 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 March 2019

Link(s) to Council Values/Objectives/Ambitions

♦ Accountable, Effective and Efficient

Previous References

♦ None

List of Background Papers

♦ Local Government in Scotland – Financial Overview 2017/18 – Audit Scotland November 2018

Contact for Further Information

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

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Audit Scotland Questions for Elected Members	South Lanarkshire Council Perspective
<p>Financial Planning and Budget</p> <ul style="list-style-type: none"> • Does your council have a long-term financial strategy (ten years or more) that reflects the anticipated changes in demographics and demands on services? • Do medium and long-term financial plans include a range of potential funding and financial scenarios? • What is your council's financial position? What particular challenges does the council face? • How do you engage with the budget setting process and ensure you have the opportunity to influence the development and content of a strategic budget? • How does annual budget setting link to medium and long-term financial planning in your council? 	<ul style="list-style-type: none"> • A Financial Strategy for 2019/2020 to 2021/2022 and Longer Term Outlook to 2028/2029 was presented to the Executive Committee in August 2018. Similar to the previous strategies, the paper provided commentary and assumptions where possible – including assumptions about demographics, economic conditions and inflation. • In arriving at the expenditure assumptions within the financial strategy, a number of factors are taken into account including investments in Council Priorities, and the impact of changing demographics: the cost of social care has increased significantly in recent years and this trend is expected to continue. National pay negotiations for all employees, continue to be a significant element of the budget investments required. <p>One of the main budget assumptions is the level of government grant. In recent years, scenarios have focussed on the level of funding reductions. This has formed an integral element of the medium term budget process. The Council's new longer term strategy (August 2018) expands this scenario further to reflect changes to social care demand, as well as other key areas of assumption.</p> <ul style="list-style-type: none"> • For 2018/19, a Probable Outturn position was prepared and reported to Elected Members. This included previously approved Transfers to Reserves to assist in future Revenue Budget strategies. • Members' awareness sessions take place each year, prior to approval of the annual budget (to discuss updates the budget and proposals for savings). Elected Members have the opportunity to ask questions and obtain written responses up to the point at which the budget is approved. • As has been the case in previous years, the annual budget setting process serves as an update to the medium term financial plan. The Council's priorities are considered in the development of the medium term strategy, as well as the annual budget updates.

Audit Scotland Questions for Elected Members	South Lanarkshire Council Perspective
<p>Savings and Transformation Plans</p> <ul style="list-style-type: none"> Does your council have a savings plan? What are the options to close future funding gaps? How well are you kept informed about progress in delivering those savings? Which service areas are under the most pressure to make savings? What impact will savings have on the delivery of services and outcomes for service users, the wider community and the local economy? What are the potential risks? Does your council have a transformation plan? Does it clearly set out the aims and objectives and how and when these will be achieved? Does the transformation programme of work aim to make positive change to improve outcomes for communities? Is it about seeking opportunities to do things differently to maintain or improve performance or is the focus only on making savings? Are projects within the transformation 	<ul style="list-style-type: none"> The 2019/20 Budget Strategy position relied on making savings, with some reduction to the requirement due to corporate solutions such as loan charges, previous year underspends and increase in council tax property numbers. The revenue budgets reported to Committee and the Financial Resources Scrutiny Forum throughout the year incorporate the reduction in budgets as a result of approved savings. Any variances that arise due to non-achievement of savings would be considered at these meetings as appropriate. <p>The Annual Efficiency Statement is reported to Elected Members and highlights the levels of savings achieved in the year.</p> <ul style="list-style-type: none"> Savings packages were compiled to focus, as far as possible, on efficiency and outturn savings, thus minimising the impact on front line services. In terms of service impact, every effort is made to mitigate the impact on service delivery, where possible still delivering, but perhaps in a new or more innovative way. <p>Equality Impact Assessments (EQIAs) were undertaken on the savings package, and where appropriate, mitigating action considered. These were provided to members to assist in the decision making process. An assessment of the Fairer Scotland Duty has also been undertaken.</p> <p>There is a risk that non-achievement of savings will impact on the overall revenue position for the current, and future years.</p> <ul style="list-style-type: none"> Over a number of years, there has been an approach where through integrated cross Resource working, real proposed efficiencies have been identified, rather than having an aspirational transformational target. Through this process, the Council focuses on looking to maintain or improve performance, and not solely focus on savings. <p>The aims and objectives are detailed in the Council Plan, Connect, which sets out the Council's vision, values, ambitions and what the Council hopes to achieve over the next five years. The plan takes account of the context within which it must be delivered. Connect makes links to issues which influence the context for service delivery including: legislative changes, population changes and tackling disadvantage.</p>

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<p>programme achieving their aims in terms of service quality, performance and cost?</p> <p>How effectively are you engaged and informed about the council's transformation programme and kept informed about progress?</p> <ul style="list-style-type: none"> Are detailed options appraisals or business cases set out for changes to services planned within transformation activity? 	<p>Progress towards meeting Council objectives is the subject of regular monitoring and reports on progress towards milestones are regularly presented to committees and the public. Where measures are not on course to achieve, these will be referred to individual resource committees for consideration.</p> <ul style="list-style-type: none"> Capital projects with a value greater than £1m require the full documented Options Appraisal to be completed as part of the Capital Bid process. Business Cases set out the Strategic Need and Fit with Council plans such as the Local Development Plan, Local Transport Strategy and other associated plans, priorities and visions.
<p>Reserves</p> <ul style="list-style-type: none"> What is the council's reserves policy? What have reserves been used for in recent years? Supporting services and bridging the funding gap or transforming services? What are the different types of usable reserves your council holds? Do you know what these can be spent on? What is the likely use of unearmarked reserves for 2018/19? How does the remaining unearmarked reserve compare to forecast 	<ul style="list-style-type: none"> The Council has a Reserves Strategy which forms part of the Council's overall Budget Strategy. 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. In the past, a number of the Council's specific Reserves, such as HRA, Repairs and Renewals and the Capital Fund, were used to support services by carrying forward committed sums. More recently, on a multi-year basis, reserves have formed part of the Council's medium term revenue budget strategy. This includes use of the Capital Receipts Reserve (Capital Fund) and the Earmarked General Fund. Members were provided with the details of the Council's useable reserves. In addition, the Council's medium term revenue budget strategy details the types of reserves held and how they can be used/are anticipated to be used moving forward. <p>During 2018/19, underspends were anticipated due to reduced loan charges and increased council tax collection, these have been identified as transfers to Reserves in 2018/19. An element of these monies has been earmarked for use in future budget strategies.</p> <ul style="list-style-type: none"> The balance on the uncommitted General Fund reserve at the 31 March 2018 was £13.043m. In comparison the estimated funding gaps noted in the Financial Strategy report to Executive Committee in August 2018 are £33m for 2020/21 and £28m for 2021/22.

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<p>funding gaps?</p> <ul style="list-style-type: none"> • What are the plans for using the different reserve funds in 2019/20 and beyond? Are these plans appropriate and reasonable? • Is it clear that the reserves are needed for the purposes they are assigned? Are the reserves sufficient for those purposes? Could the reserves be better used for something else? 	<ul style="list-style-type: none"> • The Financial Strategy (reported to Executive Committee in August 2018), details the Reserves Strategy. The balance on each Reserve at the end of financial year 2017/2018 is noted as well as an estimate of its year of use across the period of the medium term Strategy. The total balance of reserves currently held is considered an appropriate level in relation to the Council's financial position. • All reserves are held for specific purposes, as approved by members, after they have been provided with the rationale for their retention and use.
<p>Levels of debt and affordability</p> <ul style="list-style-type: none"> • What is the council's current debt position? Do you have clear information about the potential need for future borrowing when agreeing authorised borrowing limits? • What share of the council's budget is taken up with interest payments and debt repayment? • What proportion of the council's debt is linked to inflation or at fixed rates? What does this mean for longer-term affordability? 	<ul style="list-style-type: none"> • Updates on the Council's budget strategy, reported to Executive Committee for approval, detail the position in relation to planned capital expenditure and the Treasury Management Strategy. The updates provide information on borrowing and debt projections. Information was also included in the recently approved long term capital strategy. In addition, quarterly updates are given to the Finance and Corporate Resources Committee on the Treasury Management function, and includes the position on debt levels. • The Council's loan charges budget is presented to Executive Committee on a 4 weekly basis. For 2018/19, this represents 8.4% of the total net expenditure budget. • As at 30 September 2018 98.1% of the council's external debt was at fixed rates, with the remaining 1.1% being variable. <p>Also, the Council has a PPP arrangement for the provision of its Secondary School estate. This includes an annual payment for running the schools and for financing the build costs. Payments are index linked. The financial implications are included in the Council's Budget Strategy.</p> <p>The requirement to make debt repayments is considered as part of the overall revenue budget strategy.</p>

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<p>Budget outturn reports and management commentaries</p> <ul style="list-style-type: none"> Do budget monitoring reports clearly explain financial performance against plans and any changes to plans, including the reasons for change? Does the management commentary clearly explain the council's financial performance and the changes to plans and reasons for those changes? 	<ul style="list-style-type: none"> Any significant variances against budgeted expenditure/income are reported to Executive Committee on a 4 weekly basis, then onwards to the Financial Resources Scrutiny Forum and the relevant Resource Committees. <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> <ul style="list-style-type: none"> At year end outturn reports, and the management commentaries, include details of the financial performance for the year, including a comparison of the planned outturn and the actual position, and reasons for the variances.
<p>Financial scrutiny</p> <ul style="list-style-type: none"> What additional training would you like to receive to develop your knowledge and skills for financial scrutiny? 	<ul style="list-style-type: none"> All members were invited to attend initial financial training after the 2017 Council elections. This training was carried out by senior finance officers of the council, and covered an introduction to Local Government Finance as well as specifics about each of the functions of the Finance Service. In addition, a financial training session was also provided by CIPFA. <p>There was also a specific session delivered by Internal Audit regarding the role of elected members on the Risk and Audit Scrutiny Forum. External Audit also played a part in this training session.</p> <p>A structured, tailored and relevant programme of learning and training for councillors, based upon feedback from members, and subsequent discussion/training needs analysis with group leaders has been underway since January 2018.</p> <p>In the past year, specific training sessions have included Governance and the Council's Longer Term Financial Strategy. These sessions were led by senior officers of the Council.</p> <p>Future members training sessions are planned with members being able to input into the agenda.</p> <p>At all Committees and Forums, senior Finance officers talk through any financial papers and are available to answer any questions.</p>

Audit Scotland Questions for Elected Members	South Lanarkshire Council Perspective
<p>Charging for services</p> <ul style="list-style-type: none"> Does your council have a charging policy? Is this in line with corporate plans and objectives? When was this last reviewed? Do you receive sufficient information about the potential impact on the service and the wider community when making decisions about changing fees and charges? What information do you need to be able to explain increases in fees and charges to your constituents? 	<ul style="list-style-type: none"> A Council-wide charging policy was approved by the Executive Committee on 21 November 2018. The Charging Policy sets out clearly the Council's approach to charging, stating what the Council charges for, and what will be considered when we make a charge. It states that every year existing charges will be subject to inflationary increases. Also, each chargeable service will review its costs and make recommendations on any additional changes to charges. New charges will also be considered on an annual basis. Consideration is made to the impact of proposed changes on service users and benchmarking with others is undertaken. The charging policy provides details of charges and proposed changes.
<p>Integration Joint Boards</p> <ul style="list-style-type: none"> What is the IJB's financial position? Is it financially sustainable? What are the levels of reserves held by the IJB? Are these in line with the IJB's reserve policy? What does the IJB's financial position mean for the council and for the delivery of services? 	<ul style="list-style-type: none"> The year ending 31 March 2018 saw the IJB report a surplus of £2.159m, (representing 0.5% of total funding available), with an element of this underspend identified as non-recurring. The balance of reserves (as at end October 2018) is £7.348m, of which £6.797m is ring-fenced and earmarked and £0.551m is a contingency balance. The IJB is responsible for setting budgets. Through the Council's budget setting process, a contribution to the IJBs delegated services are covered.
<p>EU Withdrawal</p> <ul style="list-style-type: none"> What planning and measures has your council undertaken in preparation for EU withdrawal? 	<ul style="list-style-type: none"> In recognition that Brexit is considered a strategic risk to the Council, detailed work has recently been completed to look at the potential implications for the Council. This has been added as a category two risk in the Council's top risk register.

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<ul style="list-style-type: none"> • What are the risks and potential impacts of EU withdrawal for the function of your council and for the communities of your council area, In terms of workforce, regulation and funding? 	<ul style="list-style-type: none"> • The work undertaken to date has considered issues associated with: <ul style="list-style-type: none"> • Funding and finance • Workforce and employment • Procurement and trade • Legislation, and, • Support to businesses located within the South Lanarkshire area <p>The Council will continue to closely monitor Brexit negotiations with contingency arrangements being implemented where required.</p>