

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	22 June 2022
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Audit Scotland – Financial Overview 2020/2021
----------	--

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 2020/2021, published in March 2022

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 2020/2021 (detailed in sections 4 to 6), be noted; and
- (2) that the Council's position in relation to these messages/recommendations (section 7), be noted.

3. Background

3.1. In March 2022, Audit Scotland published the Financial Overview 2020/2021 report on behalf of the Accounts Commission. Audit Scotland publish 2 overview reports each year, this one focuses on financial matters, and the other report on councils' performance and outcomes was published in May 2022 (a report on that publication will follow at a later date). A copy of the [Local Government in Scotland: Financial Overview 2020/21](#) report can be found on the Audit Scotland website.

3.2. The report recognises the impact that COVID-19 is likely to have had on 2020/2021, and that future reports will re-focus to take cognisance of this.

3.3. The Audit Scotland report is divided into 3 parts:-

- ◆ Part 1: Councils' Income in 2020/2021
- ◆ Part 2: Councils' Financial Position
- ◆ Part 3: Councils' Financial Outlook

3.4. The key messages from each of the 3 parts are outlined in sections 4 to 6 of this report. Comments in relation to the Council's position on these are included in italics alongside the Audit Scotland key messages with a summary noted in section 7.

4. Part 1 – Councils' Income in 2020/2021

4.1. A number of key messages are presented by Audit Scotland in their report, in relation to councils' funding and income in 2020/2021:-

- ◆ Revenue funding and income received by councils grew by £1.8 billion (10% in cash terms) in 2020/21, mainly as a result of additional COVID-19 funding (£1.5 billion). *South Lanarkshire Council (SLC) received additional grant funding (GRG and specific) of £65.227m in respect of COVID-19 in 2020/2021 resulting in a total increase of £94.675m (16.3%) from 2019/2020.*
- ◆ When COVID-19 funding is excluded, total revenue and income increased by £0.3 billion or 1.6% in cash terms (decreased by 0.7% in real terms), compared with the previous year. *The Council's GRG/NDR grant funding (excluding COVID-19) increased by £29.448m (5.1%) from 2019/2020 to 2020/2021.*
- ◆ Specific grant funding accounted for 40% of the cash increase in revenue funding from 2019/2020 to 2020/2021, with more than half of this being to fund the expansion of early learning and childcare services. *The Councils' specific grant increased from £11.996m mainly due to Early Years, accounting for 40.7% of increase in funding from 2019/2020.*
- ◆ Over the last 7 years (2013/2014 to 2020/2021), funding from the Scottish Government to local government (excluding COVID-19 funding) decreased by 4.2% in real terms. The increased funding in 2020/2021 improved the position that existed in 2019/2020, when the total reduction was 4.7%. SLC does not have the equivalent real terms position, which will include the impact of inflation, however, in cash terms *since 2013/2014, SLC grant has increased by 23% in cash terms, however, this includes ring fenced monies for specific policy intent.*
- ◆ Councils' income from customer and client receipts reduced by £0.5 billion, an average of 25%, mainly due to significant reduction in income streams, including cultural and community income and car parking income, as a result of the COVID-19 restrictions and measures. *The Council's lost income from customers due to COVID-19 in 2020/2021 was £7.299m, including licensing and registration, school meals, planning applications and parking. This doesn't include South Lanarkshire Leisure and Culture (SLLC).*
- ◆ Council Tax rates increased by an average of 4.5% across Scotland in 2020/2021. Twenty councils increased the council tax rate by the maximum 4.8%, while 3 councils, including South Lanarkshire, increased by the lowest, at 3%.
- ◆ Council Tax collection rates across Scotland fell by 1%, which contributed to a reduction in income of £30 million. *The Council's Council Tax collection rates excluding the water element in 2020/2021 was 95.55%, behind comparable performance achieved in 2019/2020 by 0.31%.*

5. Part 2 – 2020/2021 Councils' Financial Position

5.1. A number of key messages are presented by Audit Scotland in their report in relation to the 2020/2021 Financial Performance of councils:-

- ◆ In 2020/2021, councils identified an initial funding gap of £0.5 billion (1.7%), consistent with the £0.5 billion identified in 2019/2020. *In 2020/2021, SLC's Revenue Budget Strategy identified an initial budget gap of £41.551m.*
- ◆ Councils planned to manage this mainly through savings, although the degree to which savings were achieved varied significantly across councils.
- ◆ All councils reported surpluses and increased their usable reserves in 2020/2021. The total increase of £1.2 billion (46%), being mainly due to late COVID-19 funding, which is earmarked to be spent on COVID-19 recovery activity over the next 2 financial years. *SLC reported an increase in their usable reserves of £42.230m, of which £32.390m related to COVID-19 funding carried forward.*
- ◆ Audit Scotland state that the elements of COVID-19 funding that are being carried forward in general earmarked and unearmarked reserves in the accounts should

be clearly identified. *SLC reports its COVID-19 carry forward and spend position as part of its routine monitoring reports.*

- ◆ Capital expenditure decreased by £1.2 billion (29%) to £2.4 billion in 2020/2021. Glasgow City Council's sale and leaseback transactions, as part of their equal pay funding strategy, make up £0.5 billion of the decrease. Excluding this, the overall reduction in capital expenditure in 2020/2021 was £0.7 billion (22%, based on the underlying spending last year). *The progress in delivery of SLC's Capital Programmes during 2020/2021 was severely impacted by the lockdown due to COVID-19. General Services Capital spend was £37m less than original budget, and HRA was £84m less.*
- ◆ Auditors reported that COVID-19 restrictions have had a significant adverse impact on the cost and delivery plans of capital projects in 2020/2021.
- ◆ 26 councils reported reduced capital expenditure (average decrease was 31%) in 2020/2021.
- ◆ The number of new houses completed fell by 92% in the first quarter of 2020/2021, due to COVID-19, but this was recovered over the year.
- ◆ Capital project costs increased in 2020/2021, largely because of the impact of COVID-19. The key factors included increases in the cost of raw materials and supply chain delays.
- ◆ Most councils decreased their net debt (total debt less cash and investments) in 2020/2021, with only 7 councils increasing their net debt balances. Total net debt across councils decreased by £1 billion (5.7%) to £16 billion. The most significant element of this change is the increase in cash and investment balances: unspent COVID-19 funding received late in 2020/2021 contributed £720 million to the decrease in net debt. *SLC's net debt decreased in 2020/2021 from £880m to £835m.*
- ◆ It is noted that councils administered £1.4 billion of COVID-19 grants on behalf of the Scottish Government in 2020/2021 and acted as agents in administering and disbursing these grants to businesses and individuals. This additional administrative burden put additional pressure on Council finance staff. *SLC administered £77.556m of COVID-19 grants on behalf of the Scottish Government.*
- ◆ Some councils have updated their long-term financial plans to reflect the ongoing impact of COVID-19.
- ◆ Auditors at 9 councils reported issues relating to workforce capacity in 2020/2021, including additional pressures because of staff absences, unsuccessful recruitment and sickness.
- ◆ Pension fund investment returns were positive in 2020/2021, ranging from 15.6% to 38.3%. The improvement in asset valuations during 2020/2021 followed the global impact on investment values due to COVID-19 in the last quarter to March 2020.
- ◆ Audit Scotland state that councils review and improve how they comply with the key expectations of transparency in their management commentaries within the financial statements. South Lanarkshire Council was one of 7 councils whose management commentaries did include these key aspects.

6. Part 3 – Councils' Financial Outlook

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

- ◆ Uncertainty over the amount of funding available for COVID-19 recovery at the end of 2020/2021 led to difficulties in setting budgets. *SLC prepared an updated COVID-19 position in early 2020/2021, including funding carried forward from 2020/2021, and reported it to the Executive Committee on 25 August 2021 established updated COVID-19 budgets in the autumn of 2021.*

- ◆ Initial Scottish Government revenue funding in 2021/2022, excluding COVID-19 funding, has increased by 3.4% in cash terms (1.1% in real terms). *SLC's Scottish Government funding (excl COVID-19) increased by £15.456m from 2020/2021. However, the majority of this was ring fenced for new policy commitments including Health and Social Care.*
- ◆ Councils approved net expenditure budgets of £13.8 billion for 2021/2022, including a budget gap of £0.2 billion (1.5%). *SLC's initial budget gap for 2021/2022 was £52.741m, however, through corporate solutions, management and operational savings, and funding from the Scottish Government, a balanced budget was approved.*
- ◆ Non-recurring funding related to COVID-19 has fallen from £1.3 billion in 2020/2021 to £0.3 billion in 2021/2022. As a result, total revenue funding has fallen by 7.4% in real terms, from £11.9 billion in 2020/2021 to £11.3 billion in 2021/2022.
- ◆ As COVID-19 funding was not incorporated into Council budgets for 2021/2022, many councils presented additional "COVID-19 budgets" in autumn 2021.
- ◆ Councils consistently identified short and long-term cost pressures in their initial 2021/2022 budget papers, including costs associated restarting services, inflation, increased pay awards, demand pressures and pressures on capital budgets.
- ◆ COVID-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as COVID-19 uncertainty diminishes. *Longer term plans will consider the longer term impacts of COVID-19.*
- ◆ Capital funding increased significantly up to 2019/2020 before falling in 2020/2021 and 2021/2022 (33% increase between 2018/2019 and 2019/2020). Total capital funding has fallen to a level below that in 2013/2014 in real terms. The fall in capital funding may have a significant impact on councils' investment plans. *General Capital Grant increased significantly from £24m in 2016/2017 up to £33m in 2019/2020 before falling in 2020/2021 and 2021/2022 to c£21m. This has had a significant impact on the level of Capital spend which can be undertaken.*
- ◆ Councils' future funding position remains uncertain, with many challenges ahead.
- ◆ The funding settlement from the Scottish Government to councils continues to be provided on an annual basis, which makes it challenging for councils to plan and budget effectively for the medium and longer term and creates uncertainty over future funding.
- ◆ COSLA expects that uncertainty over the continuity of COVID-19 funding in future years will bring substantial challenges to councils in developing effective medium and longer-term financial plans.
- ◆ The report states that the Scottish Government and COSLA are discussing the extent of ring-fencing in the local government budget.

7. South Lanarkshire Council – Financial Overview 2020/2021

- 7.1. The Audit Scotland report contains a number of tables that set out information for all councils, however, there are only 2 tables of data which show the performance of individual councils, being the Council Tax Collection rates and the Increase in Councils' Usable Reserves during 2020/2021.
- 7.2. The average Council Tax collection rate across Scotland fell by 1% (greatest fall was 2.3%, and the smallest 0.1%), contributing to a £30 million drop in Council Tax income collected across Scotland during 2020/2021. South Lanarkshire Council's rate fell by 0.31%. This drop in income is on a par with that of Argyll and Bute, East Dumbarton and West Lothian, with only Shetland Council's collection reducing by less. Glasgow had the greatest reduction at 2.3% (ranked 1), East Renfrewshire fell 1.1% (ranked 8) and North Lanarkshire by 0.8% (ranked 18).

7.3. In terms of the Increase in Councils' Usable Reserves during 2020/2021, all councils recorded an increase, ranging from £7 million (Inverclyde) to over £130m (Edinburgh). South Lanarkshire Council's usable reserves increased by £42.230m (ranked 8 in terms of increase), with East Renfrewshire ranked 25, North Lanarkshire at 4 and Glasgow at 3.

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. Climate Change, Sustainability and Environmental Implications

10.1. There are no implications for climate change, sustainability or the environment in terms of the information contained in this report.

11. Other Implications

11.1. None.

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)

25 May 2022

Link(s) to Council Values/Ambitions/Objectives

♦ Accountable, Effective, Efficient and Transparent

Previous References

♦ None

List of Background Papers

♦ Local Government in Scotland – Financial Overview 2020/2021 - Audit Scotland, March 2022.

Contact for Further Information

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

Jackie Taylor, Head of Finance, Finance (Strategy)

Ext: 5637 (Tel: 01698 455637)

E-mail: jackie.taylor@southlanarkshire.gov.uk