

Report

Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	13 June 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Audit Scotland – Financial Overview 2016/17
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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 2016/17' published in November 2017.

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 2016/17, as detailed in sections 4 to 6, be noted; and
- (2) that the Council's position in relation to these messages/recommendations, as detailed in section 7, be noted.

3. Background

3.1. In November 2017, Audit Scotland published the Financial Overview 2016/17 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 challenges, was published in April 2018. A copy of the report can be found on the Audit Scotland website ([Audit Scotland - Financial Overview 2016/17](#)).

3.2. The Audit Scotland report is divided into 3 parts, namely:

- Part 1: Councils' Income and Budgets for 2016/17
- Part 2: 2016/17 Financial Performance
- Part 3: Financial Outlook

3.3. The key messages from each of the 3 parts of this report are outlined in sections 4, 5 and 6 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 7.

4. Part 1 – Councils' Income and Budgets for 2016/17

4.1. A number of key messages are presented in the report in relation to councils' income and budgets for 2016/17, namely:

- 2016/17 was a challenging year for councils with a real-terms reduction in revenue funding, a continuation of the council tax freeze, inflationary pressures and the cost of new UK and Scottish Government policy commitments.

- Councils depend on Scottish Government funding for the majority of their income. The largest element of Scottish Government funding, relating to Grant Aided Expenditure, has remained largely unchanged since 2008/09, with additional funding linked to supporting national policies. The report says that the Scottish Government and COSLA must be sure that the funding formula remains fit for purpose. It is important that it is suited to improving outcomes for local communities while continuing to reflect priorities within and across council areas.
- In response to funding reductions, councils approved about £524 million of savings and the use of £79 million of their reserves when setting budgets for 2016/17. Councils' savings plans have focused on reducing staff numbers, rationalising surplus property and improving procurement of goods and services. Councils were not always clear in their budget-setting reports about the risks associated with savings and their potential impact on levels of service.
- Councils' budget-setting processes for 2016/17 were complicated by later confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care.
- Councils set larger capital budgets in 2016/17 than in 2015/16. The Scottish Government capital grant fell and councils planned to fund expenditure through increased borrowing.

5. Part 2 – 2016/17 Financial Performance

5.1. A number of key messages are presented in the report in relation to the 2016/17 Financial Performance of councils, namely:

- All councils received an unqualified audit opinion on their 2016/17 accounts but the accounts could more clearly explain their financial performance.
- Councils are showing signs of increasing financial stress with 20 councils drawing on their usable reserves in 2016/17.
- Councils' actual use of reserves was often quite different from that originally planned. The reasons why are not always clear.
- Auditors found that budget-setting needed to be more robust and that financial management could be improved in several councils.
- Levels of net debt increased by £836 million in 2016/17. On average, councils spent almost ten per cent of their revenue budgets servicing this debt.
- Councils that have been proactive in making difficult decisions will be better placed to deal with future financial pressures.

6. Part 3 – Financial Outlook

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

- The financial outlook for councils remains challenging with further real-term reductions in funding and a range of cost and demand pressures on budgets
- In total, councils approved £317 million of savings and the use of £105 million of reserves when setting budgets for 2017/18

- Some councils relying heavily on the use of reserves to fund services will need to take remedial action or they will run out of General Fund reserves within two to three years
- Robust medium-term financial strategies and savings plans are increasingly critical to the financial sustainability of councils
- Strong leadership is increasingly important and it is essential that councillors work effectively with officers, their partners and other stakeholders to identify and deliver necessary savings.

7. South Lanarkshire Council – Financial Overview 2016/17

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 results were in the main grouping of councils. However, there were four areas where results could potentially be classed as outliers, these are detailed below:

7.2. Change in Revenue Reserves (excluding HRA) as a percentage of Income

South Lanarkshire Council's change in revenue reserves as a proportion of annual income is 3.6%, the highest increase in Scotland. This increase in reserves can be explained by a transfer to Reserves of £18.3m in lieu of planned early debt repayments that were not made in 2016/17. In addition to this, in year underspends for 2016/17 were also approved for transfer to Reserves at the end of the year.

7.3. Difference between planned and actual use of General Fund reserves as a proportion of income

South Lanarkshire Council used significantly less reserves than planned in 2016/17, ranking 2nd in terms of less use of reserves. This reflects the impact of the additional transfers to Reserves made instead of the planned early repayment of debt, as well as underspends experienced in-year.

7.4. Revenue Costs of General Fund Borrowing

South Lanarkshire Council ranks 16th in terms of the revenue costs of General Fund borrowing expressed as a percentage of income. However, in terms of principal repayment, the Council has the lowest proportion of principal costs (2%) compared to other authorities. This reflects the profile of debt servicing payments made by the Council in 2016/17.

7.5. Council Net External Debt

South Lanarkshire Council has the highest level of General Fund external debt, expressed as a percentage of income for 2016/17. This includes the Councils commitments in relation to PPP arrangements, which are managed through the Councils Revenue account, as well as funding for the Primary School Modernisation Programme. However, as noted above in Section 7.4, the costs of servicing the Council's debt are within the mid-range of all authorities, even though the debt level is the highest.

8. Questions for Councillors

8.1. 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?'

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 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)

17 April 2018

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 2016/17 – Audit Scotland November 2017

Contact for Further Information

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

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<p>Audit Scotland Questions for Elected Members</p>	<p>South Lanarkshire Council Perspective</p>
<p>Budget Setting</p> <ul style="list-style-type: none"> • Does your council have a medium term financial strategy aligned with corporate objectives? • How does annual budget setting link to medium term financial planning? • How is your council preparing for any further real terms reduction in Scottish Government funding? • If your council plans to raise council tax do you know how much it will raise? How will you communicate and explain the reasons for the rise to constituents? • What impact will savings have on the delivery of services? What are the potential risks? 	<p>The Council’s current 3 year (medium term) financial strategy ends with financial year 2018/19. A new medium term financial strategy, covering 2019/20 to 2021/22 is being prepared and will be presented to members during 2018. Similar to the previous strategy, this will also highlight the longer term strategy including commentary and assumptions where possible</p> <p>As has been the case in previous years, the annual budget setting process will serve 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.</p> <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.</p> <p>The budget strategy for 2018/19 was refreshed following the receipt of the local government settlement in December 2017, and update in March 2018. A 3% increase in Council Tax for 2018/19 was agreed by members as part of the 2018/19 budget setting exercise.</p> <p>Savings packages were compiled to focus, as far as possible, on efficiency and outturn savings, thus minimising the impact on front line service delivery. 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>

Audit Scotland Questions for Elected Members	South Lanarkshire Council Perspective
<p>Financial and Savings Plans</p> <ul style="list-style-type: none"> • What is your council's financial position? What particular challenges does the council face? • Does your council have a savings plan? What are the options to close future funding gaps? • What measures in the council's corporate and transformational plans are aimed at addressing the underlying demand for some services? 	<p>For 2017/18, the Council has presented a positive Probable Outturn position with transfers to reserves proposed which will assist in future Revenue Budget Strategies.</p> <p>Moving forward, the 2018/19 Budget position currently relies on making savings with a lesser reliance on Reserves than previously anticipated. This will assist the Council into the following years.</p> <p>The ongoing uncertainty brought about by single year financial settlements from the Scottish Government continues to pose a challenge. Better planning for budgets could take place if grant allocations for future years were available earlier. Preparation of detailed budgets for the financial year begin more than a year in advance. Single year grant settlements, mean that budget are currently prepared using estimates, bringing uncertainty into the process.</p> <p>The medium term financial strategy will identify the medium term savings requirements and officers will work to identify savings as well as corporate financial solutions to close any funding gaps.</p> <p>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> <p>Connect is the Council Plan for South Lanarkshire, it sets out the Councils' 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. Progress towards meeting objectives is the subject of regular monitoring and reports on progress towards milestones are regularly presented to committees and the public.</p>

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<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 reserves your council holds? Do you know what these can be spent on? • What is the likely use of reserves for 2017/18? How does this compare to forecast funding gaps? • What are the levels of reserves held by your council's IJB? Are these in line with the IJB's reserve policy? 	<p>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.</p> <p>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.</p> <p>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.</p> <p>The 2017/18 Probable Outturn has shown a positive outcome for the year and it is proposed that monies be transferred to Reserves at the end of the year.</p> <p>The South Lanarkshire IJB carried forward monies at the end of its first year, 2016/17. This was in line with the agreed reserves policy.</p>
<p>Levels of debt and affordability</p> <ul style="list-style-type: none"> • What share of your council's budget is taken up with interest payments and debt repayment? 	<p>Updates on the Council's budget strategy, as 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.</p>

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<ul style="list-style-type: none"> What proportion of the council's debt is linked to inflation (ie, subject to indexation)? What does that mean for longer term affordability? 	<p>The Council's loan charges budget is presented to Executive Committee on a 4 weekly basis. For 2017/18, this represents 8.6% of the total net expenditure budget.</p> <p>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.</p> <p>The Council also 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>Budget outturn reports and management commentaries</p> <ul style="list-style-type: none"> Do budget monitoring reports clearly explain performance against plans and any changes to plans? Do management commentaries clearly explain council performance and any changes to plans? 	<p>Any significant variances against budgeted expenditure/income are reported to Executive Committee on a 4 weekly basis, then onwards to the Revenue Budget Scrutiny Forum and the relevant Resource Committees.</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>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>

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<p>Financial scrutiny</p> <ul style="list-style-type: none"> • What additional training would you like to receive to develop your knowledge and skills in financial scrutiny? 	<p>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> <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 playing a part in this training session.</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>
<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? • What information do you need to be able to explain increases in fees and charges to your constituents? 	<p>The Council has policies for charging for Social Care Services. A Council-wide charging policy is being developed. Information on charges for most services is readily available.</p> <p>Throughout the year, income from fees and charges are 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. When proposals are put forwards to increase fees, the level of existing charge, and how other providers of similar services charge are taken into account (including other councils' charges). Consideration is also made to who is affected by the charges, and whether individuals or groups may be affected by more than one charge increase. Cost recovery is a key consideration in setting the charges for non-statutory services.</p>

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<p>Exit packages</p> <ul style="list-style-type: none"> • Are staff severances in line with the council's workforce plan? • How does the council ensure that councils have the capacity to delivery transformational change? • Do you know the implications of your council's pension liabilities of staff retiring early? 	<p>The Councils Strategic Workforce Plan, covering the period 2017 to 2020, was approved by Executive Committee in March 2017, with Resource specific plans being approved at the appropriate Resource Committees thereafter. These plans are reviewed on an annual basis and close attention is paid to projected savings and ongoing service reviews in looking at any changes required. This highlights any potential severance requirements, but more importantly also provides a managed process for workforce reduction.</p> <p>Workforce planning is an integral element of Connect, and is key to ensuring that the right people, are in the right place, at the right time, to deliver the objectives of the plan. The strong link between workforce planning and the Council plan ensures that the Council is able to work towards achieving its objectives and delivering change.</p> <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 sought from 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>Capital programmes</p> <ul style="list-style-type: none"> • How clearly does the council's capital programme link with the asset management plan and corporate objectives? • Has non-delivery of the capital programme (ie. slippage) been significant at your council in recent 	<p>The Council's capital programme is presented to Committee for approval after having been collated by officers giving consideration to service need and the corporate objectives of the Council. Asset Management Plans inform the requirement for physical build projects as well as other Council Resources such as Fleet and Roads. For any project value over £2m an option appraisal is carried out, showing the service delivery options considered and justifying the proposed project.</p> <p>The Council's capital programme is a multi-year programme and variances in spend over years,</p>

Audit Scotland Questions for Elected Members	South Lanarkshire Council Perspective
years? Why?	<p>reflect the wide and varied programme, where issues such as negotiating land purchases, managing a multi project schools modernisation programme or liaising with partners to achieve the best outcomes for a project, are managed.</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>