

# Report

Report to:	<b>Risk and Audit Scrutiny Committee</b>
Date of Meeting:	<b>23 May 2023</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Audit Scotland – Financial Bulletin 2021/2022</b>
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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 entitled 'Local government in Scotland: Financial bulletin 2021/2022', published in January 2023

## 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 Financial bulletin 2021/2022 (detailed in sections 4 and 5), be noted; and
- (2) that the commentary on the Council's position, as included in the Audit Scotland report (section 6), be noted.

## 3. Background

3.1. In January 2023, Audit Scotland published the Financial bulletin 2021/2022 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 is expected to be published in Summer 2023. A copy of the [Local government in Scotland: Financial bulletin 2021/2022](#) report can be found on the Audit Scotland website.

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

- ◆ Part 1: councils' financial summary 2021/2022
- ◆ Part 2: councils' financial outlook

3.3. The key messages from each of the 2 parts are outlined in sections 4 and 5 of this report. Comments in relation to the Council's position on these are included in italics alongside the Audit Scotland key messages. Section 6 notes commentary on the Council's data included in the Audit Scotland report.

## 4. Part 1 – 2021/2022 Councils' Financial Position

4.1. A number of key messages are presented by Audit Scotland in their report in relation to the 2021/2022 Financial Performance of councils:

### Total Revenue Funding and Income

- ◆ The average Council Tax collection rate across Scotland increased during 2021/2022. It is now more in line with pre pandemic levels. The Council's Council

Tax collection rate (exc. Water) was 94.89% in 2021/2022. This compares to 95.36% in 2020/2021.

### **Scottish Government Funding**

- ◆ An increasing proportion of local government funding is now either formally ring-fenced or provided with the expectation it will be spent on specific services. The Council's formal ring-fenced grants for 2021/2022 totalled £43.734 million. There are other funding sources that are informally ring-fenced where the money is allocated to the Council with specific policy intent attached that covers the majority of the councils' spend
- ◆ 2021/2022 funding levels from the Scottish Government to local government (excluding COVID-19 funding) increased in real terms for the first time since 2015/2016 and converged with other Scottish Government revenue funding. The Council does not have the equivalent real terms increase, however, in cash terms, the 2021/2022 budget was an increase of £13.054 million on the previous year. This excludes the impact of non-recurring COVID-19 Funding.

### **Council Budgets and Outturn 2021/2022**

- ◆ In 2021/2022, budget gaps were largely consistent with previous years. For 2021/2022, the Council's Revenue Budget Strategy identified an initial budget gap of £52.741million (June 2020) before any corporate solutions or savings were identified.
- ◆ Savings performance improved in comparison to previous years. For 2021/2022, the Council had an underspend in its Revenue Budget.
- ◆ Total usable reserves increased by £0.3 billion to £4.1 billion in 2021/2022. The Council's useable Reserves increased by £6.4 million (including COVID-19 monies) to £152.2 million by the end of 2021/2022. The vast majority of these are set aside for future commitments, with only £13.043 million unearmarked.
- ◆ Councils have improved the way in which COVID-19 funds are disclosed in their accounts, but the level of detail varies. The Council included a COVID-19 spend section as part of its Management Commentary.

### **Capital**

- ◆ Capital expenditure increased in 2021/2022 though was still below the level in 2019/2020. The Council had General Fund capital spend of £61.6 million in 2021/2022 and Housing spend of £73.2 million.
- ◆ COVID-19, inflationary costs and shortages in construction materials had an impact on capital projects. The Council acknowledged the risk of increased market costs on its capital projects, with any issues managed on a project-by-project basis.
- ◆ National net debt (being total debt less cash and investments) has increased by £0.2 billion since 2020/2021.

### **Local Government Pension Funds**

- ◆ 2021/2022 Pension Fund investment returns, although largely positive, were 62 per cent lower than in the previous year.
- ◆ Scottish Pension Fund's funding positions have generally improved since the last triennial valuation.

## 5. Part 2 – Councils’ Financial Outlook

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

### Financial Challenges

- ◆ Councils are having to deal with a number of significant financial challenges and will need to make some difficult decisions with their spending priorities. The Council’s Medium Term Financial Strategy shows a significant Budget Gap in the coming years.
- ◆ The future funding settlements set out in the Scottish Government’s Resource Spending Review reflects flat cash funding settlements for 2022/2023 to 2025/2026. The Council’s Medium Term Budget Strategy takes account of the Spending Review outcome.

### Budgets for 2022/2023

- ◆ Councils intend to bridge the budget gap of £0.4 billion for 2022/2023 with planned savings and reserves, but the reliance on non-recurring reserves is not sustainable in the medium to long-term. The Council’s Budget for 2022/2023 relied on £30.575 million of non-recurring funding solutions. These were reinstated as part of the 2023/2024 Budget Strategy.

### 2022/2023 Funding Settlement

- ◆ Scottish Government revenue funding in 2022/2023 decreased by 0.1% in real terms when non-recurring funding elements are excluded. The Council does not have the calculation of its budget movement in real terms, however, in cash terms, the 2022/2023 budget was an increase of £23.925 million on the previous year. This excludes the impact of non-recurring COVID-19 funding but does include funding for specific government policies .

### Capital Funding

- ◆ The Local Government capital settlement in 2022/2023 increased from £649 million in 2021/22 to £685 million. The Council’s General Capital Grant decreased by £0.011 million to £21.362 million into 2021/2022.

## 6. South Lanarkshire Council – Financial Overview 2021/2022

- 6.1. The Audit Scotland report contains a number of tables that set out information for all councils, however, there are 5 tables of data which show the performance of individual councils. Commentary on the Council’s position in each of these tables is provided below.
- 6.2. The **Budget Gap as a proportion of net cost of services in 2021/2022** ranged between 1% and 22%. The Council’s Budget Gap was circa 5%, fourth behind Shetland (22%), Orkney (6%) and Perth and Kinross (5.5%). Argyll and Bute were the lowest at 1%.
- 6.3. In terms of the **Savings Achieved compared to Targets**, fourteen councils achieved their savings target. The Council had an underspend in its budget in 2021/2022.
- 6.4. Re the **Changes in Councils’ Usable Reserves** during 2021/2022, 23 councils recorded an increase, ranging from c£1 million (Aberdeen) to c£55 million (North Lanarkshire). The report notes that South Lanarkshire Council is ranked ninth in terms of increase as the usable reserves increased by £6.4 million. East Renfrewshire had

a decrease of c£2 million and Glasgow had the greatest decrease at c£50 million which will reflect each council's planned use of reserves.

6.5. The Council's **COVID-19 Reserves as a Percentage of General Fund Balance** total 25%. This is ranked 17 out of 32. The highest percentage was Moray with 49% and the lowest being Shetland with no COVID-19 Reserves. Glasgow sits slightly lower than the Council with c22% and Renfrewshire sit at c26%.

6.6. Regarding the **Budget gap as a proportion of net cost of services** for all 32 councils in 2022/2023, the Council sits fifth at 6% behind Shetland (22%).

## **7. Employee Implications**

7.1. None.

## **8. Financial Implications**

8.1. 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.

## **9. Climate Change, Sustainability and Environmental Implications**

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

## **10. Other Implications**

10.1. None.

## **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)**

4 May 2023

## **Link(s) to Council Values/Priorities/Outcomes**

◆ 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:-

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