

# Report

Report to:	<b>Risk and Audit Scrutiny Committee</b>
Date of Meeting:	<b>15 September 2021</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Audit Scotland – Financial Overview 2019/2020</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 'Financial Overview 2019/2020' published in January 2021

## 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 2019/2020, 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 January 2021, Audit Scotland published the Financial Overview 2019/2020 report on behalf of the Accounts Commission. Audit Scotland publish two overview reports each year, this one focuses on financial matters, and the other report, on councils' performance and outcomes, was published in May 2021. A copy of the [Audit Scotland - Financial Overview 2019/2020](#) report can be found on the Audit Scotland website.

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

3.3. The Audit Scotland report is divided into 4 parts:-

- ◆ Part 1: Councils' Income in 2019/2020
- ◆ Part 2: Councils' Financial Position
- ◆ Part 3: Councils' Financial Outlook
- ◆ Part 4: Integration Joint Boards' Overview 2019/2020

3.4. The key messages from each of the 4 parts are outlined in sections 4 to 7 of this report, with comments on South Lanarkshire Council's position specifically noted in section 8.

#### **4. Part 1 – Councils’ Income in 2019/2020**

4.1. A number of key messages are presented by Audit Scotland in their report, in relation to councils’ funding and income in 2019/2020:-

- ◆ Revenue funding and income received by councils grew by £0.8 billion (8%) in cash terms. The funding to councils from the Scottish Government increased in 2019/2020 by 5.4% in cash terms (3.4% in real terms).
- ◆ Specific grant funding accounted for 45% of the cash increase in revenue funding from 2018/2019 to 2019/2020, with almost half of this being to fund the expansion in Early Learning and Childcare.
- ◆ Over the last six years (2013/2014 to 2019/2020), funding from the Scottish Government to local government decreased by 4.7% in real terms. The increased funding in 2019/2020 improved the position that existed in 2018/2019, when the total reduction was 7.6%. Funding to other areas decreased by 0.8% over the same period, demonstrating that local government funding has undergone a larger reduction than the rest of the Scottish Government budget over this period.
- ◆ Council tax changes raised an additional £100 million in 2019/2020. The increase was due to all councils choosing to increase Council Tax, with 12 councils increasing the council tax rate by the maximum 4.8%.

#### **5. Part 2 – 2019/2020 Councils’ Financial Position**

5.1. A number of key messages are presented by Audit Scotland in their report in relation to the 2019/2020 Financial Performance of councils:-

- ◆ In 2019/2020, councils identified an initial funding gap of £0.5 billion (3%), similar to the £0.4 billion identified in 2018/2019.
- ◆ Councils planned to manage this mainly through savings, although the degree to which savings were achieved varied significantly across councils.
- ◆ The effect of COVID-19 was not material in 2019/2020, with the financial effect (excluding social care) estimated at £20 million - £25 million. Two thirds of this related to lost income and unachievable savings, and with additional Scottish Government funding not being received until 2020/2021, councils were able to manage this within existing budgets.
- ◆ In 2019/2020 councils’ auditors reported wider financial consequences of COVID-19 in their annual reports including: the impact on the requirement for additional borrowing, impact on savings achievement, medium term planning, impact on capital programmes, delays in bad debt collection and going concern of subsidiaries and joint ventures.
- ◆ 22 councils increased their usable revenue reserves in 2019/2020, with the overall total net increase across all councils being £65 million (3%). Of this, Glasgow City Council experienced an £85 million (80%) increase mainly due to their equal pay strategy.
- ◆ 17 councils have decreased their General Fund reserves over the last 3 years. No Council is in a position where this rate of depletion would eliminate the total General Fund within 3 years. However, two councils, Fife and Aberdeenshire are at risk of running down their general fund balance within 4 to 5 years if the current trend of using these continues.
- ◆ Councils recorded the highest level of capital expenditure over the last 5 years.
- ◆ Capital expenditure increased by £0.8 billion (29%) in 2018/2019 to £3.6 billion. Glasgow City Council’s sale and leaseback transactions, as part of their equal pay funding strategy, make up £0.5 billion of the increase. Excluding this, capital expenditure is still the highest level recorded by councils over the last 5 years.

- ◆ Most councils' auditors reported a material valuation uncertainty in Council property valuations related to the potential impact of COVID-19.
- ◆ Most councils increased their net debt by 4% or more in 2019/2020. Total net debt across councils increased by £1.4 billion (9%) to £17 billion.
- ◆ Pension fund investment returns were negative in 2019/2020, ranging from - 1.9% to - 8.3%, as a result of COVID-19, but the overall investment returns still tended to outperform their benchmarks.

## **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:-

- ◆ Councils' 2020/2021 initial budgets identified savings targets as the main way to close an initial budget gap of £0.5 billion (3%), with more councils setting multi-year indicative budgets.
- ◆ Before the impact of COVID-19, Scottish Government revenue funding to local government in 2020/2021 increased by 3.4% in cash terms (1.4% in real terms), with the majority of the increase being specific grant to fund the expansion in Early Learning and Childcare.
- ◆ The financial cost of COVID-19 on councils in 2020/2021 is estimated to be £767 million (excluding health and social care), with just over half due to lost income.
- ◆ In March 2020, the Scottish Government announced grants were being made available to eligible businesses, with councils receiving an initial £950 million of this in 2020/2021, with the remaining amount up to a maximum of £1.2 billion to be distributed as required. By September 2020 over £1 billion had been awarded to eligible businesses.
- ◆ By November 2020, further funding of £936 million (£873 million Revenue and £63 million Capital) of Scottish Government COVID-19 support for councils had been either announced or allocated.
- ◆ Audit Scotland estimated that by November 2020, funding announced by the Scottish Government meets 60% to 70% of the cost pressures identified by councils through COSLA's cost-gathering exercise, although total costs and funding are still uncertain. However, some of the £936 million is ring fenced for specific purposes such as Food Fund and Free School Meals. Councils may have cost pressures in other areas that cannot be met from this funding.
- ◆ The report stated that councils have been given additional areas of financial flexibility to respond to the COVID-19 crisis, including enabling the use of capital receipts to meet one-off revenue funding pressures, extension of debt repayment periods and allowing councils to take a repayment holiday to defer internal loan fund repayments. We are still awaiting final agreement on these.
- ◆ There is also flexibility around the guidance for Pupil Equity Funding, Challenge Authority and Schools Programme funding, Regional Improvement Collaboratives and Early Learning and Childcare funding to deliver critical provision. Extent of use is currently unclear, and judgments will be required by each council based on current commitments.
- ◆ Due to the uncertainty around COVID-19, medium term financial plans will need to be revised to take into account additional pressures, updated funding arrangements, financial assumptions and updated savings requirements.

- ◆ Scottish Government capital funding in 2020/2021 is decreasing by 30% in real terms. Capital funding had previously increased by 33% between 2017/2018 to 2019/2020 and, therefore, has now returned to levels more similar to those in 2017/2018, which could have a significant impact on councils' future investment plans.

## **7. Part 4 – Integrated Joint Boards' (IJBs) Overview 2019/2020**

7.1. A number of key messages are presented by Audit Scotland in their report in relation to IJBs, namely:-

- ◆ In 2019/2020, funding increased by £0.5 billion (6%) to £9.1 billion, with the majority of the increase coming from health board contributions.
- ◆ 16 of the 30 IJBs reported a total deficit of £32 million in 2019/2020 (8 reported a deficit of £11 million in 2018/2019), while 13 reported a total surplus of £17 million. One reported a breakeven position.
- ◆ Six of the IJBs that reported a surplus or breakeven position would not have achieved this without additional funding from partners.
- ◆ A total of 13 IJBs had extra financial support from partners of £50 million. Without this support, 22 IJBs would have reported a total deficit of £77 million (19 IJBs with a deficit of £58 million in 2018/2019).
- ◆ There was significant variation in how IJBs performed against 2019/2020 planned savings targets with savings achieved ranging from 37% to 100%.
- ◆ IJB reserves have decreased in 2019/2020 by £15 million (9%) to £143 million. The position in 2018/2019 was a £34 million (1.8%) increase, part of which was unspent funding from the NHS for specific purposes, which is now been utilised. The movement in reserves varies across IJBs, from an increase of 4% to a decrease of 7%.
- ◆ 11 IJB's had not agreed their budgets by the start of 2019/2020, reducing to 6 for the 2020/2021 budget,
- ◆ Prior to COVID-19 costs, the identified budget gap reduced from £208 million (2.5% of total income) in 2019/2020 to £185 million (2% of total income) in 2020/2021, with 62% to be met from identified savings and 25% from unidentified saving plans.
- ◆ As at October 2020, estimated total COVID-19 mobilisation costs for Health and Social Care Partnerships for 2020/2021 were £422 million and it was not yet clear if the Scottish Government will provide financial support to IJBs for the full impact of the pandemic.
- ◆ At September 2020, the Scottish Government confirmed that £2.6 billion received in consequential would be passed on for health and social care and should be sufficient to cover the projected COVID-19 related revenue costs of £1.62 billion. In late September 2020, they then announced additional funding of £1.1 billion.
- ◆ The impact of COVID-19 could be significant on health and social care and IJB's will need to revise their medium term plans to reflect this impact.

## **8. South Lanarkshire Council – Financial Overview 2019/2020**

8.1. 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 Movement in the General Fund (including HRA) over the last 3 years and the Percentage Movement in Net Debt between 2018/2019 and 2019/2020.

8.2. South Lanarkshire Council's results were in the main grouping of councils. For the Movement in General Fund over the last 3 years, 15 of the 32 councils saw an increase in their level of reserves, with South Lanarkshire being at number 10 of the 15 in terms of the level of increase. Glasgow and East Renfrewshire were both in the top 3, whilst North Lanarkshire experienced a reduction.

8.3. In terms of Percentage Movement in Net Debt, the movement ranged from an increase in 29% to a decrease of 8%. Of the 32 councils, 23 councils experienced an increase, 8 showed a decrease and one council has net investments. Most councils increased their debt by 4% or more. In terms of movement, South Lanarkshire is ranked 24 in terms of the percentage movement between the 2 years, with Renfrewshire and East Renfrewshire being at numbers 1 and 2, North Lanarkshire at 14 and Glasgow at 25. In terms of the 23 councils who experienced an increase, South Lanarkshire is sitting at 20 out of the 23.

## **9. South Lanarkshire Integration Joint Board – Financial Overview 2019/2020**

9.1. There was one area where South Lanarkshire IJB's result was outwith the main grouping. This was the Movement in IJB General Fund Reserves between 2018/2019 and 2019/2020.

9.2. The movement across all IJB's ranged from an increase of £4 million to a decrease of £7 million. South Lanarkshire IJB is the third highest in terms of its movement between these years, with a reduction in its General Fund Reserve of £4.850 million, from £11.023 million at 31 March 2019 to £6.173 million at 31 March 2020. This is due to the £4.850 million deficit on the provision of services for the year ended 31 March 2020.

9.3. In comparison to surrounding councils, both Glasgow and East Renfrewshire IJB's experienced reductions, whilst Renfrewshire and North Lanarkshire saw increases in the level of their General Fund.

## **10. Employee Implications**

10.1. None.

## **11. Financial Implications**

11.1. 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.

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

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

## **13. Other Implications**

13.1. None.

## **14. Equality Impact Assessment and Consultation Arrangements**

14.1. 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.

14.2. 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)**

5 July 2021

**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 2019/2020 - Audit Scotland, January 2020

**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: 2601 (Tel: 01698 452601)

E-mail: [lorraine.o'hagan@southlanarkshire.gov.uk](mailto:lorraine.o'hagan@southlanarkshire.gov.uk)