



AGENDA ITEM

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Accounts Commission “Local Government in Scotland – Financial Overview 2015/16”

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Falkirk Council

Title: Accounts Commission “Local Government in Scotland - Financial Overview 2015/16”

Meeting: Executive

Date: 10 January 2017

Submitted By: Director of Corporate & Housing Services

1. Purpose of Report

- 1.1 The purpose of this report is to present the key messages from the Accounts Commission’s report entitled “Local Government in Scotland – Financial Overview 2015/16”. This report was published on 29 November 2016. This should help inform Members’ consideration of the Council’s 2017/18 Budget.

2. Recommendation

- 2.1 **Executive is asked to consider the key messages from the Accounts Commission report entitled “Local Government in Scotland – Financial Overview 2015/16”.**

3. Background

- 3.1 The Accounts Commission has previously produced an annual overview report for Local Government in Scotland, usually published around March. In 2016, the Accounts Commission changed their approach to overview reporting. This earlier release Financial Overview report is the first of their new overview reports. A further performance overview report is expected in March 2017. The Financial Overview report can be accessed at http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr_161129_local_government_financial_overview.pdf
- 3.2 The Financial Overview report has been brought forward from March so that councils and councillors can consider it when setting their 2017/18 budgets. An interactive exhibit and further financial information are also available on the Audit Scotland website.
- 3.3 The report looks at the overall financial position of Scottish local authorities and collates the data to provide a national picture. It also, on occasion, highlights particular points to note for individual councils. Where Falkirk Council has been specifically mentioned, this is highlighted in section 4 of this report.

4. Considerations

4.1 Income & Spending

- 4.1.1 The report notes that the overall financial health of local government was generally good. More than two thirds of councils operated within their budgets and there was a slight increase in overall reserves and a reduction in overall debt. Whilst 15 councils had planned to apply reserves to support service expenditure, only seven councils drew on their reserves.
- 4.1.2 Spending on providing services remains lower than in 2011/12, but it is increasing in key services, most noticeably social care, because of rising demand from an aging population. Many councils overspent in this area which poses a significant risk to their financial position. Falkirk Council is specifically mentioned alongside Clackmannanshire and Dundee councils for reporting overspends relating to fostering services and residential school placements.

Funding

- 4.1.3 The report considers aggregate Scottish local government funding levels. Between 2010/11 and 2016/17, Scottish Government funding reduced by 8.4% in real terms for capital and revenue combined. An increasing proportion of funding comes from Non Domestic Rates (NDR), although this has not fully offset reductions in revenue grant funding. Since 2010/11, combined revenue funding (NDR and revenue grants) has fallen by 6.8%.
- 4.1.4 Paragraph 20 of the report refers specifically to Falkirk Council and states that Falkirk Council saw a 16% annual reduction in NDR income from 2014/15 to 2015/16. It is important to note that the NDR income figures at that time were based on estimated data collected c.2 years earlier. It is also important to note that the forecast reduction in NDR income collected by the Council did not result in reduced income to the Council due to a compensatory adjustment in the revenue support grant.
- 4.1.5 The NDR figure for 2014/15 was based on the 2011/12 mid year estimate (MYE), whilst the 2015/16 NDR figure was based on the 2013/14 MYE. The MYE included an estimate of the financial impact of valuation roll appeals that were likely to be resolved within the financial year. The basis for the estimate is provided by the Assessor for Central Scotland but fewer appeals than expected were resolved within the financial year. The difference between the estimate and actual impact was c. £10m.
- 4.1.6 The Council refined the process for the calculation of appeals estimates for subsequent years, following the 2013/14 MYE.

Fees & Charges

- 4.1.7 Councils are raising an increasing proportion of their income through fees, charges and specific grants and this represents the largest growth area in council income. The most significant increase was in social work and social care services. The report notes that councils must be clear about the impact of their charging policies. For Falkirk Council, this should be addressed by the EPIA process.

Capital Funding

- 4.1.8 Scottish Government capital funding has increased by 3% in real terms between 2010/11 and 2015/16. 28 councils underspent significantly against their combined general fund and housing revenue account capital budgets in 2015/16, mainly as a result of project delays.

Workforce

- 4.1.9 The report highlights that councils continue to generate savings through workforce reductions with 2,246 staff leaving councils in 2015/16 at a cost of £79.7m. A more detailed consideration of workforce reductions will be published as part of the Performance Overview report in March 2017.
- 4.1.10 Equal pay is also highlighted as being a significant issue, particularly the potential impact on usable reserves. Again, work is being carried out by Audit Scotland in this area and will be published in 2017.

4.2 Financial Outlook

- 4.2.1 The report notes that all councils face future funding gaps and there is significant variation in how well placed individual councils are to address them. It also states that relying on reserves is not sustainable and councils will have to make further savings and/or generate additional income. However, opportunities to make savings are partly affected by national policy commitments and the cost of servicing debt.

Reserves (see also subsequent references)

- 4.2.2 Twenty three councils increased their general fund reserves in 2015/16. When planning to use reserves, councils must consider the impact on the future financial position as using reserves to support services in the short term is not sustainable.

Debt

- 4.2.3 Servicing debt accounts for 12% of available funding nationally and the report notes that those councils with PFI/PPP/NPD debt will have to make more complex affordability assessments for future borrowing. In addition, as council's revenue budgets decrease, and the repayments increase in line with inflation, the proportion of revenue budgets being used to service the payments on these contracts will increase.

Pensions

- 4.2.4 The report highlights the pressure that councils administering Local Government Pension Schemes (LGPS) have been under, mainly as a result of the new scheme introduced in 2015, pensions auto-enrolment and an increase in severance calculations. Whilst councils have coped well, the ongoing administrative pressures are acknowledged.
- 4.2.5 Council contributions to the LGPS are reviewed every three years with the next review scheduled for 2017.

Financial Planning

- 4.2.6 The importance of robust financial planning is again emphasised, building on themes already reflected in the Best Value Follow Up report of Falkirk Council. Falkirk Council is specifically mentioned as one of two councils that have financial plans covering less than three years, the other being Glasgow City Council. Falkirk's current medium term financial plan in fact covers three years, as demonstrated by the budget gap projections previously presented to Council. The Executive will be aware that Falkirk Council has already given a commitment to develop medium and long term financial planning beyond the current three years and progress in this area was covered in the report to Council on 19 December.
- 4.2.7 The importance of presenting Council with appropriate financial information to allow fully informed decision making is highlighted, noting that councillors should fully understand the implications of budget decisions.

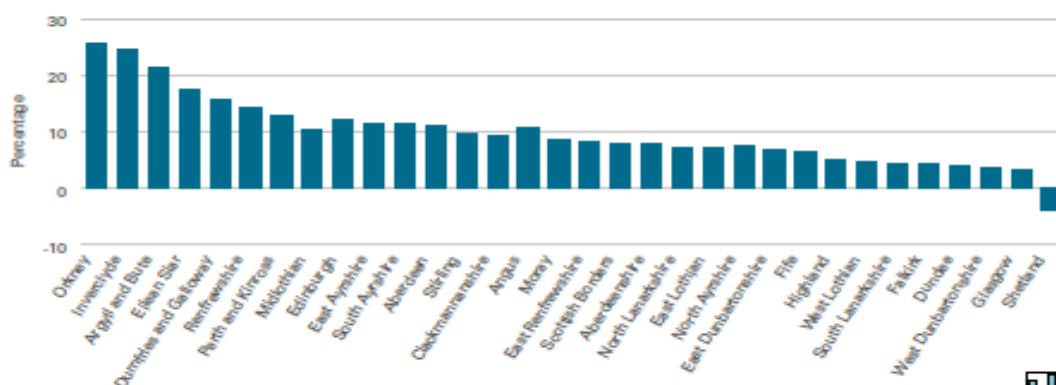
Funding Gap

- 4.2.8 The report focuses on the general fund revenue budget for 2016/17, the level of savings within the budget and the potential impact of this on reserves. Most councils are forecasting a continuing reduction in revenue grant, rising demand through demographics and wage inflation of between 1 and 1.5% in both 2017/18 and 2018/19.
- 4.2.9 The report includes an exhibit which shows general fund reserves as a percentage of council's income, adjusted for planned reserve use in 2016/17. The graph has been reproduced below and shows that Falkirk has the fifth lowest percentage of reserves to income.

Exhibit 15

2015/16 General Fund reserves as a percentage of councils' income, adjusted for planned reserve use in 2016/17

The level of reserves held as a percentage of income varies widely among councils.



Note: Shetland Islands Council classifies its reserves differently. This is not an indication of financial difficulties or an unbalanced budget.
Source: Councils' audited accounts 2015/16 and auditor returns

- 4.2.10 In 2016/17 all councils had general fund reserves that could be used to fund any budget gaps not addressed by savings. Falkirk is highlighted as one of two councils (the other being South Lanarkshire) forecasting a funding gap in excess of general fund reserves for 2017/18. A further 11 councils forecast a funding gap in excess of their general fund reserves in 2018/19. In reality, there is no expectation that reserves would be applied in such a way. The report does, however, recognise that since the budget data was collated, councils will have identified further budget savings to bridge their funding gaps.
- 4.2.11 The Accounts Commission clearly raises concerns about the reliance on using general fund reserves to bridge funding gaps and the need to appraise all possible options for delivering services to avoid reliance on reserves is emphasised.
- 4.3.12 The report includes at exhibit 17 a graph highlighting the percentage of councils' income spent on education, social work and interest payments in 2015/16. It is noted that savings will be more difficult to find where councils devote more spending to education, social work and paying interest on external debt. Falkirk Council sits in the middle of the table with spend in these areas of between 70 and 75%.

5. Consultation

- 5.1 No consultation is required on this report.

6. Implications

Financial

- 6.1 The financial implications of the report are noted in section 4 of this report.

Resources

- 6.2 All services will be required to feed into the process of further developing financial plans.

Legal

- 6.3 There are no legal implications in this report.

Risk

- 6.4 The report highlights the challenging financial environment that local authorities are operating within. The importance of robust financial planning in meeting these challenges is emphasised.

Equalities

- 6.5 There are no equalities implications in this report.

Sustainability/Environmental Impact

6.6 There are no sustainability/environmental implications in this report.

7. Conclusions

7.1 The report highlights that councils face tough decisions around their finances that require sound financial management. Long term financial strategies are needed to ensure that spending is aligned with priorities.

Director of Corporate & Housing Services

Author –Amanda Templeman, Depute Chief Finance Officer, 01324 506371,
amanda.templeman@falkirk.gov.u

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Appendices

None

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- None