

The background of the slide features a large, light blue coat of arms of Scotland. It includes a crown at the top with four thistles, a shield divided into four quarters (quarterly), and a motto scroll at the bottom. The quarters contain a saltire (X-shaped cross), a lion passant guardant, a ship, and a unicorn. The motto scroll reads 'AN FUR A'.

Agenda Item 9

Local Government in Scotland Financial Overview 2018/19

Falkirk Council

Title: Local Government in Scotland Financial Overview 2018/19
Meeting: Executive
Date: 14 January 2020
Submitted By: Director of Corporate and Housing Services

1. Purpose of Report

- 1.1. This report provides a summary of the Accounts Commission's "Financial Overview 2018/19". The four part structure used in the latter is also replicated in this report.

2. Recommendation

- 2.1. The Executive is invited to note the Financial Overview 2018/19 report.

3. Background

- 3.1 This is one of two overview reports that the Accounts Commission publishes each year. The second report comments on the wider challenges and performance of councils and will be published in April 2020.
- 3.2 The "Overview" report provides a wide range of information of interest to both Members and officers and offers a broad assessment of the financial state of local government in Scotland, albeit based on the previous financial year. The report is timed to help inform Councils' Budget preparation process.
- 3.3 The report can be accessed [here](#).

4. Considerations

4.1 Part 1 – Councils' Income in 2018/19

- 4.1.1 Scottish Government revenue funding remains the most significant source of income for local government. Funding from the Scottish Government to local government between 2013/14 and 2018/19 decreased by 7.6% over these six years, in real terms. Scottish Government revenue funding across other areas decreased by 0.4% over the same period, demonstrating that local government funding has undergone a more significant reduction than the rest of the Scottish Government budget over this period. The report also notes that in 2019/20 the grant increased by 2.9% in cash terms, a real terms

increase of 0.9%, with 80% of the increase attributable to growth in specific revenue grant funding.

4.1.2 An increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities.

4.1.3 All councils increased council tax rates by the maximum allowable 3% in 2018/19.

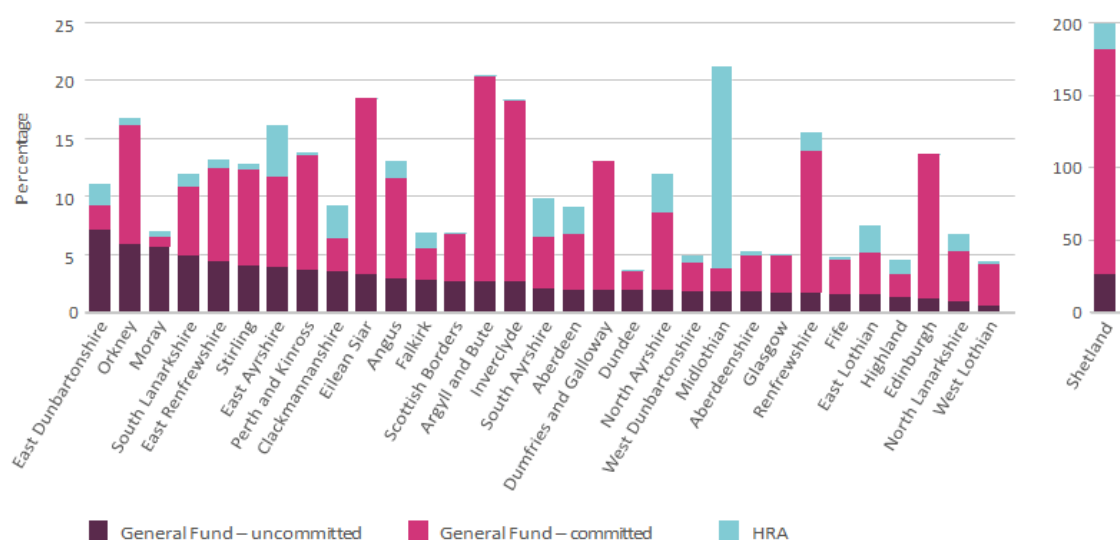
4.1.4 There are major differences between councils in the nature and scale of income. The report lists some explanations for this e.g. not all council are registered social housing providers.

4.2. Part 2 – Councils' Financial Position in 2018/19

4.2.1 Across Scotland, councils increased their use of revenue reserves. Reserves play an important role in good financial management, but they are a one-off resource so councils need to plan carefully for their use. The following chart from the report shows councils' relative position on reserves held.

Exhibit 7

General fund as a proportion of net annual revenue split between committed, uncommitted and HRA



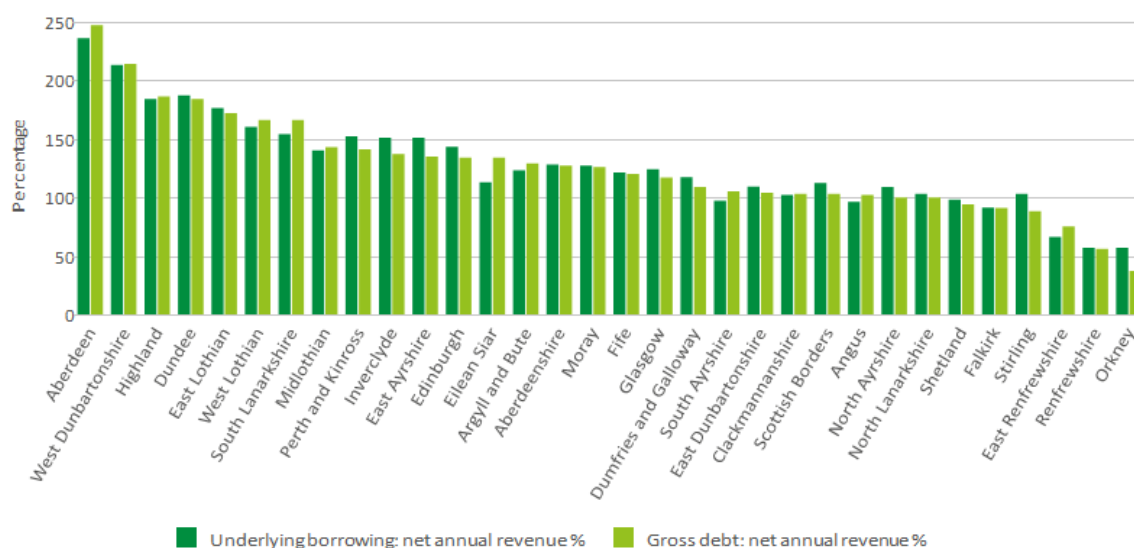
4.2.2 Capital expenditure increased by £62m (2.3%) in 2018/19 with a larger proportion spent on housing and economic development than in the previous year. Falkirk earns a specific mention in the report as one of the councils which have increased their housing stock by more than 100 homes. The report notes underspends in annual capital budgets at a number of councils.

4.2.3 The report notes that there is variation in the relative underlying borrowing position of councils. This is illustrated in the chart below extracted from the report.

Exhibit 10

Underlying borrowing and gross debt as a proportion of net annual revenue

The underlying borrowing position of councils varies from 58 per cent to 237 per cent of net annual revenue.



Source: Audited financial statements 2018/19

4.3 Part 3 – Councils' Financial Outlook

- 4.3.1 in 2019/20, the Scottish Government increased the cap on council tax increases. Twelve councils decided to increase council tax by the full amount (4.8%).
- 4.3.2 Many councils are also seeking other ways to increase income, including increasing fees and some have introduced new charges in 2019/20. Examples given include garden waste uplift and the expansion of parking charges. Some councils also continue to pursue new local taxes.
- 4.3.3 Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (3% of income). This continues the increasing pressure on councils to find further cost savings, redesign services, reduce services, increase income or use reserves. These decisions are likely to become increasingly difficult for councillors.
- 4.3.4 All councils have medium-term financial planning covering three years or more. Long-term financial planning has not progressed since last year.
- 4.3.5 The Scottish Government has made a commitment to set out multi-year budgets, which will assist councils with financial planning. The election impact on Westminster Budget timing and in turn of the Holyrood Budget has unfortunately delayed this initiative.

4.4 Part 4 – Integration Joint Boards

- 4.4.1 The pace of health and social care integration has been too slow and there is limited evidence to suggest any significant shift in spending from health to social care.
- 4.4.2 A majority of IJBs struggled to achieve break-even and 19 would have recorded a deficit without additional funding from partners at the year end.
- 4.4.3 Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year. For several IJBs, although the budget was set on time, it still had an element of unidentified savings which meant it was unbalanced at the start of the year.
- 4.4.4 Over a third of IJB senior staff have changed during 2018/19.

5. **Consultation**

- 5.1 No issues directly arising.

6. **Implications**

Financial

- 6.1 No issues directly arising.

Resources

- 6.2 No issues directly arising.

Legal

- 6.3 No issues directly arising.

Risk

- 6.4 No issues directly arising.

Equalities

- 6.5 No issues directly arising.

Sustainability/Environmental Impact

- 6.6 No issues directly arising.

7. Conclusions

- 7.1 The 2018/19 Overview reflects a similar situation to the previous year as councils face an increasingly complex range of challenges and continuing pressure on finances.
- 7.2 The forecast trend is for further reductions in funding from the Scottish Government in the medium term and with demand for services growing. Pressure therefore remains on councils to make further savings and find ways to meet service demand more efficiently and effectively by transformation. This will require difficult decisions and innovative thinking by Members and senior management working together.
- 7.3 Concerns are expressed at both the financial sustainability of IJB's and the slow pace of integration.

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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.