

Item: 7

Policy and Resources Committee: 18 February 2020.

National Audit Report – Local Government in Scotland – Financial Overview 2018/19.

Report by Head of Finance

1. Purpose of Report

To present the national audit report, Local Government in Scotland – Financial Overview 2018/19, prepared by Audit Scotland and issued in December 2019.

2. Recommendations

The Committee is invited to note:

2.1.

The national audit report, Local Government in Scotland – Financial Overview 2018/19, published in December 2019 by Audit Scotland, attached as Appendix 1 to this report.

2.2.

The key messages in the national audit report, a summary of which is detailed in section 4 of this report.

2.3.

That references to Orkney in the national audit report generally present the Council as being in a favourable financial position, with low levels of debt and generous levels of reserves, despite receiving a lower per head level of income than the other island authorities.

2.4.

The negative comment on the Council's performance in relation to capital programme slippage at paragraph 38 of the national audit report.

3. Background

3.1.

Audit Scotland has developed its approach to overview reporting for local government into a series of output reports that are issued throughout the year.

3.2.

The national audit report, attached as Appendix 1 to this report, provides a high-level independent analysis of the financial performance of councils during, and their financial position at the end of, financial year 2018 to 2019. The national audit report also looks ahead and comments on the financial outlook for councils with funding forecast to fall further in the medium term.

3.3.

The national audit report also provides an overview of Integration Joint Boards, which are also local government bodies supporting health and social care integration.

4. Audit Report Findings

4.1.

The national audit report highlights similar issues to the report issued for the previous financial year, that councils face an increasingly complex range of challenges and continuing pressure on finances. Challenges include increasing demand across many of the wide range of services councils deliver to local communities. Demand has to be met against tightening budgets in many service areas along with uncertainty stemming from external factors such as European Union withdrawal.

4.2.

The key messages arising from the national audit report are as follows:

- In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).
- Scottish Government revenue funding remains the most significant source of income and this increased by 1.1% in cash terms in 2018/19, a 0.7% decrease in real terms. Since 2013/14, Scottish Government funding to councils has reduced by 7.6% in real terms.
- In 2018/19, the funding gap was 3% of total budget. Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that more of the funding gap was met from reserves than planned.
- Councils are increasingly drawing on their revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Twenty-three councils have reduced their general fund reserves over the last three years.
- Capital expenditure increased by £62 million (2.3%) to £2.75 billion, with more spent on housing and less on education.
- All councils have medium-term financial planning covering three years or more. Long-term financial planning has not improved since last year and more progress is needed.
- Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

- A majority of Integration Joint Boards (IJBs) struggled to achieve break-even in 2018/19, either recording a deficit or relying on additional funding from partners.
- Around a third of the IJBs failed to agree a budget with their partners for the start of financial year 2019/20.
- Medium-term financial planning is improving but no IJB had a financial plan that extended for more than five years. A focus on developing longer-term financial planning is required by IJBs.
- Over a third of IJB senior staff have changed during 2018/19.

4.3.

Orkney Islands Council receives mention in the national audit report in relation to the following:

- The Council having significant harbour activities which generate locally significant income streams and a harbour reserve.
- The low level of the Council Tax base from which the Council realises less than 10% of its total income in comparison to East Dunbartonshire and Perth and Kinross councils which realise 19% of their total income.
- Capital programme slippage is mentioned at paragraph 38 of the national audit report with two Council examples cited of £3 million for the Scapa Flow Visitor Centre and Museum and £4 million for a new tug.
- The Council's low level of underlying borrowing position of 58% of net annual revenue is equal to that of Renfrewshire as the lowest in Scotland and is contrasted with that of Aberdeen City at 237%.
- Related to the low underlying borrowing position is the cost of interest payments, with Orkney spending the least of all councils at 2% of net annual revenue on debt servicing which is contrasted with Aberdeen, where 10% of net annual revenue is expended on debt servicing.

4.4.

Throughout the national audit report are examples of questions that councillors may wish to consider, to help with understanding their council's financial position and to scrutinise financial performance. These are detailed in a supplement called 'Scrutiny tool for councillors', which is attached at Appendix 2 to this report.

5. Corporate Governance

This report relates to governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

There are no financial implications for the Council arising from the recommendations contained within this report.

7. Legal Aspects

The Council must make arrangements which secure best value. An authority securing best value will be able to show that it is making best use of its financial resources.

8. Contact Officer

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9. Appendices

Appendix 1: Local Government in Scotland – Financial Overview 2018/19.

Appendix 2: Scrutiny tool for councillors.