

Item: 8.1

Policy and Resources Committee: 20 February 2018.

National Audit Report – Local Government in Scotland – Financial Overview 2016/17.

Report by Head of Finance.

1. Purpose of Report

To present the national audit report, Local Government in Scotland – Financial Overview 2016/17.

2. Recommendations

The Committee is invited to note:

2.1.

The national audit report, Local Government in Scotland – Financial Overview 2016/17, published in November 2017 by Audit Scotland, attached as Annex 1 to this report.

2.2.

The key messages in the national audit report, a summary of which is detailed in section 5 of this report.

2.3.

That references to Orkney in the national audit report are sparse but 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 level of income per head than the other island authorities.

3. Policy Aspects

The national audit report and its recommendations support the Council value “working to provide better services to improve the planning and delivery of services”, as outlined in the Council Plan 2013 to 2018.

4. Background

4.1.

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

4.2.

The national audit report, attached as Annex 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 2016 to 2017. The national audit report looks ahead and comments on the financial outlook for councils.

4.3.

The national audit report also provides some early information about Integration Joint Boards, which are also local government bodies, following their first full year of operation in supporting health and social integration.

4.4.

The national audit report includes four supplements. The first supplement is a scrutiny tool providing examples of questions that councillors may wish to consider with regard to understanding their council's financial position and to scrutinise financial performance. The other three supplements cover the Local Government Pension Scheme, councils' Housing Revenue Accounts and lastly, details of measures taken by councils to close their funding gaps in 2017 to 2018.

5. Audit Report Findings

5.1.

The national audit report highlights that councils face increasing challenges which require flexible responses that balance immediate needs, sound long term planning and limited financial resources. The overview report and its associated material, including the examples of questions provided to support scrutiny by councillors, is a useful source of information and guidance.

5.2.

The national audit report's key messages are as follows:

5.2.1.

Councils' financial challenges continue to grow. Funding reductions are compounded by increasing costs and demands on services. In response, councils have needed to achieve ambitious savings plans, including around £524,000,000 of savings for 2016 to 2017.

5.2.2.

Councils are showing signs of increasing financial stress. They are finding it increasingly difficult to identify and deliver savings and more have drawn on reserves than in previous years to fund change programmes and routine service delivery. Some councils risk running out of General Fund reserves within two to three years if they continue to use them at the levels planned for 2017 to 2018.

5.2.3.

Debt increased by £836,000,000 in 2016 to 2017 as councils took advantage of low interest rates to borrow more to invest in larger capital programmes. Councils' debt levels are not currently problematic, but some are becoming concerned about affordability of costs associated with debt within future budgets.

5.2.4.

Councils' budget setting processes for 2016 to 2017 were complicated by late confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care. Councils' expenditure and use of reserves often differed noticeably from that originally planned, indicating the need for budget setting to become more robust and reliable.

5.2.5.

All councils received an unqualified audit opinion on their 2016 to 2017 accounts but auditors found that, in several councils, financial management could be improved. Councils can use their accounts to more clearly explain their financial performance over the whole year to support better scrutiny.

5.2.6.

The financial outlook for councils continues to be challenging, with the need to deliver savings being increasingly critical to their financial sustainability. As such, robust medium-term financial strategies and effective leadership to deliver them are of increasing importance.

6. Local References in the Overview Report

6.1.

Page 4 of the national audit report comments that councils' usable reserves (excluding Orkney and Shetland) at 31 March 2017 amounted to £1.9 billion. It is also mentioned on Page 4 that councils' net debt (excluding Orkney and Shetland) in 2016 to 2017 was £14.5 billion.

6.2.

At page 9 there is an explanation that, throughout the national audit report, Orkney and Shetland have been excluded from exhibits that show usable reserves and debt. This is because the levels held mean inclusion would make it difficult to see relative positions of other councils.

6.3.

Page 12 of the national audit report illustrates that the level of funding per head received in Orkney is higher than for mainland local authorities but some way short of the other island authorities. The receipt of Special Islands Needs Allowance is highlighted for the authorities receiving this funding stream.

6.4.

The exhibit on Page 27 shows that the Integration Joint Board in Orkney was one of seven integration joint boards that did not hold any reserves at 31 March 2017.

6.5.

The exhibit on Page 35 illustrates the impact of the Council Tax re-banding and increases in 2017 to 2018. This graph shows that the re-banding raised the least amount in Eilean Siar at under 2% whilst it raised approximately 2% in Orkney and Shetland. All other councils did better in terms of income raised with East Renfrewshire Council raising an additional 9% through having proportionately more properties in higher Council Tax bands.

7. Financial Implications

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

8. 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.

9. Contact Officer

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10. Annexes

Annex 1: Audit Scotland Financial Overview Report 2016 to 2017.

Annex 2: Supplement 1 - Scrutiny tool for councillors.

Annex 3: Supplement 2 - Local Government Pension Scheme 2016 to 2017.

Annex 4: Supplement 3 - Housing Revenue Account 2016 to 2017.

Annex 5: Supplement 4 - Measures taken by councils to close their funding gaps in 2017 to 2018.