

To: Audit, Risk and Scrutiny Board

On: 13 March 2023

Report by: Director of Finance & Resources

**Heading: Audit Scotland report – Local Government in Scotland – Financial Bulletin
2021/22**

1. Summary

- 1.1 Audit Scotland published a [Local Government in Scotland Financial Bulletin 2021/22](#) on 12 January 2023, providing a high-level independent analysis of the financial performance of Councils during 2021/22 and their financial position at the end of the year.
- 1.2 The report sets out some of the longer-term financial challenges facing councils in the context of the Scottish Government's Resource Spending Review and the cost-of-living crisis. The Accounts Commission's wider local government overview report will be published in May 2023 and will include further analysis.
- 1.3 The report notes that councils are dealing with several significant financial challenges and will need to make some difficult decisions with their spending priorities. At a time when councils and their communities are still feeling the impact of the pandemic, councils are now faced with the cost-of-living crisis and inflationary pressures.
- 1.4 Councils consistently identified short and long-term cost pressure in their initial 2022/23 budget papers, including:
 - Pay inflation and living wage costs
 - Costs associated with Covid-19 recovery
 - Energy inflation
 - Inflation of costs of materials, construction, and contracts
 - Demand for and price of chargeable services and the related impact on income from charges.

- 1.5 Common themes across management commentaries from councils' unaudited accounts for 2021/22 are that they continue to face significant financial challenges going forward and will need to deliver consistent recurring savings and use reserves to deal with the immediate and on-going financial impacts. They also note that elected members will need to make increasingly difficult choices, which could include having to consider service reductions as the use of reserves is not sustainable in the medium to long term.
- 1.6 Renfrewshire Council's financial position was outlined in a report to Council on 15 December 2022, which reports that inflation, fuel and food price rises, construction costs and supply chain shortages, as well as an increased demand in services is projected to result in a £10-12 million overspend in 2022/23. This does not account for additional unconfirmed costs, such as teachers pay and changes to service demands.

2. Recommendations

- 2.1 It is recommended that the Audit, Risk and Scrutiny Board:
- Note the contents of this report;
 - Note that a report on the Local Government Overview will be brought to this board in due course.

3. Background

- 3.1 Audit Scotland states that Scottish Councils faced significant challenges during the 2021/22 financial year and that they are now entering one of the most difficult budget setting environments for many years. It is their view that choices regarding spending priorities will be exceedingly difficult in the current economic climate.
- 3.2 The report is based on Scottish Councils' 2021/22 audited accounts and 2021/22 external annual audit reports. The Commission also made a separate data request to local auditors in October 2022. The analysis in the report is based on 27 audited accounts and 5 unaudited accounts which had not yet be certified up to 20 December 2022.

4. Councils' Income and Funding

- 4.1. Total revenue funding and income to Councils was £20.3 billion in 2021/22, which was a 1% increase in cash terms, but a 1% decrease in real terms from the previous year. When excluding funding associated with Covid-19, total funding and income increased by 3% in real terms, from £19.3 billion to £19.8 billion.
- 4.2. Council tax collection rates are now more in line with pre-pandemic levels from an average of 94.8% in 2020/21 to 95.7% in 2021/22 (pre-pandemic 2019/20 was 95.8%). All councils reported an increase in collection rates between 2020/21 and 2021/22 with the exception of Orkney where it fell 2.5%, and Midlothian which remained the same.

Scottish Government Funding

- 4.3. In 2021/22 Councils received General Revenue Grant funding of £8.7 billion, Non-Domestic Rates distribution of £2.1 billion, specific grants of £0.8 billion, and Covid funding of £0.5 billion from the Scottish Government. This brings total revenue funding from the Scottish Government to £12.1 billion which was a 1.1% increase in cash terms, but a 1.6% decrease in real terms from 2020/21.
- 4.4. Within this £12.1 billion revenue funding, there are specific ring-fenced funds, for example Early Learning and Childcare expansion and Pupil Equity Fund, but also some funding directed for national policy initiatives, so although not ring-fenced there is an expectation it is for specific services. Collectively, ring-fenced and directed funding totalled £2.7 billion in 2021/22, or 23% of total revenue funding, compared to 18.2% in 2020/21.
- 4.5. Revenue funding from the Scottish Government increased by 6.1% in real terms between 2013/14 and 2021/22. However, the increase was only seen in the last 2 years and these figures include Covid-19 funding. When excluding Covid-19 funding, local government funding from the Scottish Government increased by 1.6%. The report notes that, due mainly to a policy of protecting NHS budgets, funding to other parts of the Scottish Government budget increased by 27.2%.

2022/23 Funding Settlement

- 4.6. The initial local government revenue settlement from the Scottish Government for 2022/23 was a decrease of 0.1% in real terms, excluding additional Covid-19 funding. The Covid-19 funding in 2021/22 was the last of its kind and added £0.5 billion to the local government settlement. The 2022/23 allocation therefore did not include a Covid-19 uplift, but did include £0.25 billion to reduce council tax bills, bringing the total revenue funding to £12.3 billion – a 2.4% reduction from the previous year in real terms.
- 4.7. Scottish Government funding for 2022/23 does not include Covid-19 allocations from the UK government, but there will be an increase in the overall Scottish Budget. With Covid-19 funding omitted in 2021/22 the Scottish Government budget is set to increase by 7% in real terms, as opposed to a real-terms cut in local government funding of 0.1%. However, including the Covid-19 funding in 2022/23 it falls in real terms by 10%, a bigger fall than local government.

5. Council Finances and Budgets

- 5.1. In 2021/22, Scottish Councils budgeted a net expenditure of £15.2 billion and identified budget gaps totalling £0.4 billion, or 3%, which was about the same gap as the previous two years. At a local level the budget gap as a proportion of net cost of services varied between 1% in Argyll & Bute and 22% in Shetland. Renfrewshire had the third lowest.
- 5.2. Councils set themselves savings targets totalling £0.2 billion in 2021/22. From these targets, 94% of savings were achieved compared to 84% the previous year, with 76% on a recurring basis. Fourteen councils achieved their savings targets in full on a recurring basis, whereas five councils had over half of their savings being delivered on a non-recurring basis. According to the report, four councils had no savings targets in place for 2021/22 – East Dunbartonshire, Midlothian, Shetland and Renfrewshire. However, while Renfrewshire had no 'new' savings incorporated in to budgets, there were full year savings of £1.7 million

delivered as a consequence of action taken under the Right for Renfrewshire transformation programme in previous years.

- 5.3. In 2021/22, 23 councils reported an increase in useable reserves (including Renfrewshire), compared to the previous year when all Councils reported an increase. Although General Fund reserves (excluding Housing Revenue Account) increased, uncommitted reserves decreased by £0.1 billion between 2020/21 and 2021/22. Carried forward Covid-19 funding accounts for 23% of the reserve balance, but this ranges locally from 49% in Moray and West Lothian, to 8% in Dumfries and Galloway. Audit Scotland notes a variance in the way councils report their Covid-19 reserves are disclosed with 9 councils only providing a single line narrative in their accounts.

Budgets for 2022/23

- 5.4. Councils have identified budget gaps totalling £0.4 billion in real terms, which is around 3% of the 2021/22 net cost of services, and consistent with the gap identified in previous years. The budget gap locally for 22/23 varies from a gap of 23% in Shetland (more than double the next highest gap in Orkney) to an estimated temporary surplus of 0.2% in Renfrewshire.. (Since publication of the reports on which Audit Scotland based this data, the Council's budget position has moved and an overspend is projected for 2022/23 – outlined in section 7.) Most of the estimated budget gap for 2022/23 was planned to be funded through agreed recurring savings (36%), use of reserves (32%), and increases in Council Tax (16%).

6. Capital Projects and Investment

- 6.1 Capital expenditure increased in 2021/22 with 26 councils reporting higher capital expenditure than 2021/22 but was still lower than 2019/20. Only 6 councils spent less in 2021/22 than the previous year. Auditors account slippage to Covid-19, inflationary costs, and shortages in construction materials.
- 6.2 Fifteen councils increased their net debt in 2021/22 compared to eight the previous year, increasing by a total of £0.2 billion. This may be related to the increased need to borrow to fund capital expenditure, with 19 out of 32 councils having increased long-term borrowing from the previous year.
- 6.3 The local government capital settlement increased by £36 million between 2021/22 and 2022/23, an increase of 1.4% in real terms. Funding had reduced in 2020/21 and 2021/22, so real terms capital funding has now returned to levels closer to 2016/17. Audit Scotland believe that higher interest rates and inflationary costs will present risks to councils' capital programmes going forward and the affordability of capital spend will be significantly impacted. They report that some councils have anticipated costs will double, which has meant they will need to consider the affordability of their capital programmes going forward.
- 6.4 Local Government Pension Fund investment returns in 2021/22 were positive, though 64% lower than the previous year in cash terms. Ten of the eleven main pensions funds had positive returns, with only the Orkney Islands Pension Fund recording a loss.

7. Renfrewshire Council's Position

- 7.1 The Council is affected by the financial pressures mentioned in the Audit Scotland report. Inflation is forecast to reduce from the current level of 10% over the first half of 2023 contributing to the cost-of-living crisis affecting Renfrewshire households and family, particularly due to the surge in fuel and food prices. The Council is seeing supply costs soar, not only because of food and fuel, but also vehicle parts and building and construction costs pressures and supply constraints. The Council is also experiencing higher service demands in some areas, mostly in children and families social care following the pandemic; there has been an increase in the level of risk for some children and young adults resulting in them being placed in kinship care, accommodated in foster care or residential accommodation. Covid-19 funding offset some of this pressure in 2021/22 but the service is forecasting an overspend of £4-5 million for 2022/23.
- 7.2 The Council has a projected overspend of £8.2 million in 2022/23, excluding a number of other challenges facing the Council, including:
- In setting the 2022/23 base budget, Council agreed a provision for pay awards based on the Scottish public sector pay policy, which broadly equates to a 2% level of provision. The agreement has been a core pay increase of 5% or £2,000 for the lowest paid (with some other provisions/ conditions) and while the Scottish Government will provide additional funding, the Council will be required to fund an estimated £3 million. Teachers pay settlement has not yet been agreed, which could add more on top of this.
 - While the Council made provision for increased costs in 2022/23, it is clear that this will not now be sufficient to meet the anticipated costs given spiralling gas prices. It is estimated that an additional £2m cost will be incurred in 2022/23 over existing energy budgets.
 - There are a range of other cost pressures the Council is facing in relation to reduced parking income, increased streetlighting maintenance costs, higher levels of overtime due to annual leave which was accrued over the pandemic period now being taken and under-recovery of planning fees. While much of these cost pressures are incorporated into the forecast outturn figure above, there is a risk that other pressures may emerge over the winter period.
- 7.3 The sum of these pressures balanced with savings, could result in the Council delivering a £10-12 million overspend, or 2.5% of total spend. Council has held a number of reserve balances and made additional provision at the close of the 2021/22 to support what was forecast to be an extremely challenging medium-term outlook. This included ringfencing funding related to the pandemic, anticipating longer term costs, and recognising that there was likely to be long term behavioural change by residents and communities which would have a financial impact on the Council (Full details of Council's financial positions in background paper linked below).

Implications of the Report

1. **Financial** – Recommendations to improve transparency and monitoring Covid-19 funding are included in Audit Scotland’s report.
2. **HR & Organisational Development** –Rising costs associated with pay and service costs are outlined, which contributes to the need for service redesign which may impact possible staffing levels.
3. **Community/Council Planning** – Recommendations for service redesign for long-term financial sustainability include a continued focus on service reform, based on strong engagement with communities.
4. **Legal** – none
5. **Property/Assets** – none
6. **Information Technology** – none
7. **Equality & Human Rights** – This report is for noting only and therefore an impact assessment is not necessary.
8. **Health & Safety** – none
9. **Procurement** – The report notes the rising costs of contracts, construction and materials due to inflation and shortages, which has major implications for the council’s ability to procure capital projects and services.
10. **Risk** – none
11. **Privacy Impact** – none
12. **COSLA Policy Position** – Audit Scotland’s report references the position of COSLA regarding proposed flat cash funding to local government in the Scottish Government’s first Resource Spending Review. It expressed concerns that such a settlement will result in fewer jobs and cuts to services.
13. **Climate Change** – none

List of Background Papers: [Financial Sustainability and General Fund Financial Outlook](#), Council meeting, 15 December 2022

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