
To: Audit, Scrutiny & Petitions Board

On: 13th February 2017

Report by: Director of Finance & Resources

Heading: Report by Audit Scotland, “Local government in Scotland – financial overview 2015/16”

1. Summary

- 1.1 Audit Scotland issued the above report, which is the first in a new series of overview reports to be prepared by Audit Scotland. The purpose of these overview reports are to provide a high level independent view of matters affecting local government with the purpose of assisting councillors and senior officers. It should be noted that the next overview report in the series will be published in March 2017 and will focus on the performance of council services and the challenges facing councils.
- 1.2 This Audit Scotland overview report provides a strategic financial analysis for local government in Scotland for 2015/16. The report concentrates on four key themes, namely (a) the overall financial health of local government, (b) the significant challenges for local government finance, (c) the need to change the way councils deal with financial challenges and (d) the requirement for a long term financial strategy.
- 1.3 In their report Audit Scotland conclude that overall councils have responded well to controlling their spending and have, in most cases, increased their reserves and reduced debt. Whilst the report highlights that councils continue to face current and future cost pressures it acknowledges that councils have taken a disciplined approach to delivering savings. The report also states that this approach will need to continue in future years to deal with a number of significant emerging challenges such as increasing pensions, wage costs and increasing demands on council services.
- 1.4 The report also highlights that councils must consider how and when to use their cash reserves in line with their financial plans. This will be essential as reserves can only be used once and relying on them to fund ongoing services is not financially sustainable, prudent or a recommended mechanism for bridging funding gaps or dealing with emerging recurring financial pressures.

- 1.5 Whilst Renfrewshire Council is well placed in addressing the key issues raised by Audit Scotland, significant financial and demand pressures continue to be experienced and ongoing action is required to ensure continued sound financial stability.
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2. **Recommendations**

- 2.1 It is recommended that the Board

1. **Note** the Audit Scotland report, "Local Government in Scotland – Financial Overview 2015/16"
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Background

- 3.1 The key messages contained within the Audit Scotland report are summarised below in bold text, in addition Renfrewshire Council's position in relation to each key message is provided in italics.

- 3.2 **The overall financial health of local government was generally good in 2015/16 and there was a slight increase in overall reserves and a reduction in overall debt. Auditors did not raise concerns about the immediate financial position of Scotland's councils and, for the fifth year in a row, issued unqualified opinions on councils' accounts.**

Renfrewshire Council Position

Renfrewshire Council performed well in the context of a difficult financial environment in 2015/16. The annual accounts for 2015/16, as approved by external audit, show that after incurring all general fund expenditure of £580.3m and collecting all income of £582.8m (including grant income) there was a net contribution of £2.5m to reserves. The level of unallocated reserves reduced to £7m in line with Council's financial planning parameters.

- 3.3 **Significant challenges for local government finance lie ahead. Councils' budgets are under increasing pressure from a long-term decline in funding, rising demand for services and increasing costs, such as pensions. There is variation in how these pressures are affecting individual councils, with some overspending their total budgets or budgets for individual services such as social care. It is important that councils have effective budgetary control arrangements in place to minimise unplanned budget variances that can affect their financial position.**

Renfrewshire Council Response

The Council has effective financial planning and budgeting systems in place, which allow managers and elected members to closely monitor the current

and projected financial position of the organisation. The report to Council in September 2016, "Financial Outlook 2017/18 -2019/20" outlined the financial challenges facing the Council in the medium term. Directors have clear responsibilities in managing their service budgets and the financial pressures associated with their specific areas.

Budgetary control is regarded as an important integrated function within Renfrewshire Council. Budget management reports/information and data, operational discussions and the resultant management actions are reviewed every four weeks throughout the organisation.

Budget information is communicated in suitable formats which are both timeous and relevant to the various tiers of management within the organisation and to members via summary budget monitoring reports to Policy Boards. Further improvements in the systems of budget and financial management are anticipated from the Enterprise Resource Planning (ERP) system which is currently being implemented across the Council.

3.4

Councils need to change the way they work to deal with the financial challenges they face. All councils face future funding gaps that require further savings or a greater use of their reserves. There is variation in how well placed councils are to address these gaps.

Renfrewshire Council Response

Renfrewshire Council acknowledges that every financial year there has been, and there will continue to be significant financial challenges. The outlook for the funding of public services is characterised by uncertainty and very likely diminishing resources, and this is acknowledged by Renfrewshire Council in its annual budget setting process and longer term financial outlook.

The Council acknowledges that almost continual change is necessary to ensure it continues to deliver on its financial obligations and provide services that aim to meet the requirements of best value and the expectations of customers.

The council has made positive progress in taking forward an ambitious programme of change through the Better Council Change Programme which continually assesses service delivery to release financial savings and modernise the council via demand mitigation measures, its organisational structures & functions, its workforce, and exploiting the use of technology.

To date the Council has managed to achieve a total of £117m of savings and otherwise unavoidable cost pressures, and this alongside effective programme implementation and robust budget monitoring, coupled with effective operational management by dealing with financial related issues has kept the council financially stable.

This modernisation programme acknowledges the demands placed on Renfrewshire Council through rising standards, increasing customer expectations and seeks to address these demands through greater levels of efficiency and value for money from within its existing resource base by using modern working practices and technology, all of which are key components of the ethos of the "Better Council Change Programme"

3.5

Long-term financial strategies must be in place to ensure council spending is aligned with priorities, and supported by medium-term financial plans and budget forecasts. Even where the Scottish Government only provides councils with one-year financial settlements, this does not diminish the importance of medium and longer-term financial planning. This is necessary to allow councillors and officers to assess and scrutinise the impact of approved spending on future budgets and the sustainability of their council's financial position.

Renfrewshire Council Response

The council undertakes both short term and medium to longer term financial planning and reporting.

The report to Council on 3th March 2016 titled "Revenue Budget and Council Tax 2016/17" established the council's anticipated short term financial position to 2017/18.

A comprehensive financial outlook report was provided to Council in September 2016 - the report was framed to take into account good practice recommendations as made by Audit Scotland in relation to financial planning and budgetary control.

The report provided a three year financial outlook but supplemented this outlook by including commentary and analysis in relation to the longer term financial position facing the council. Equally a number of additional factors were incorporated within the report to assist in informing it's audience about strategic priorities, economic factors and resource allocations all of which will be used to influence decision making at all levels within the organisation. A comprehensive supporting document was also appended to the Financial Outlook Report and this specifically focused on the medium to longer term financial strategy.

To support and compliment long term financial planning within the council the Chief Executives Service, via its Policy and Commissioning function, is developing a Data Analytics Service which will provide a range of information to assist in making informed, evidenced based decisions such as projecting demand for services, offering alternative service delivery mechanisms and cover the wider strategic matters all of which will compliment and act as a facilitator for the implementation of the councils longer term financial strategy.

Implications of the Report

1. **Financial** – As outlined in the report.
2. **HR & Organisational Development** - None.
3. **Community Planning** – None.
4. **Legal** – None.
5. **Property/Assets** – None.
6. **Information Technology** – None.
7. **Equality & Human Rights** - None.
8. **Health & Safety** – None.
9. **Procurement** – None.
10. **Risk** – The Audit Scotland report highlights the key risks facing local government in the future and potential routes to mitigate these.
11. **Privacy Impact** – None.

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