
NORTH AYRSHIRE COUNCIL

28 March 2023

Audit and Scrutiny Committee

Title: **Accounts Commission's Report: Local Government in Scotland: Financial Bulletin 2021/22**

Purpose: To inform the Audit and Scrutiny Committee of the findings of the recently published report.

Recommendation: That the Committee i) notes the findings of the recent Accounts Commission report, and (ii) notes the current position of North Ayrshire Council in relation to the findings.

1. Executive Summary

- 1.1 The Accounts Commission published its 2021/22 local government finance bulletin in January 2023. The report provides a high-level independent analysis of the financial performance of local authorities during 2021/22 and sets out some of the longer term financial challenges facing councils. A link to the report is attached below:

[Local Government in Scotland: Finance Bulletin 2021/22](#)

- 1.2 The report analyses the annual accounts produced by local authorities, together with the reports of each body's external auditors, to identify their relative performance, highlight the challenges faced and assess their responses to these challenges. The report has a summary of key findings with more detail provided in two parts;
- Part 1 - Councils' financial summary 2021/22; and
 - Part 2 - Councils' financial outlook.
- 1.3 Appendix 1 provides Council relevant feedback on each of the key messages identified.

2. Background

General Fund

- 2.1 The report provides a high-level independent analysis of the financial performance of local authorities during 2021/22 and their financial position at the end of that year. It also sets out some of the longer term financial challenges facing councils.

2.2 A summary of the key messages is provided within the report with further information provided in 2 main sections:

- Part 1 - Councils' financial summary 2021/22; and
- Part 2 - Councils' financial outlook.

2.3 The key messages for Councils are summarised below:

- Councils continued to face significant financial challenges during 2021/22 requiring significant savings to deliver balanced budgets;
- Councils' savings performance continued to improve and total usable reserves increased;
- Scottish Government revenue funding to councils increased by 5.3% in real terms. The first real terms increase since 2013/14;
- 23% of local government funding is either formally ringfenced or provided with the expectation that it will be spent on specific services, removing local discretion and flexibility over how these funds can be used; and
- Covid-19 and inflationary pressures are having an impact on capital projects, presenting risks to councils' capital programmes.

2.4 In addition, the report identifies a number of issues in relation to the outlook for local government finances, including:

- The ongoing impacts of Covid-19, inflation and the cost of living crisis means that councils will need to make increasingly difficult choices on spending priorities and potential service reductions; and
- 2/3's of councils intend to use reserves to help bridge the 2022/23 budget gap. However, this is not sustainable and recurring savings will be key to ensuring long term financial sustainability.

2.5 An update on the position for North Ayrshire Council is noted below:

- In 2021/22 North Ayrshire Council's total General Services budget gap was £7.7m, 2.1% of the gross expenditure budget. This was met through a combination of savings and the use of reserves;
- Although the majority of savings were delivered during 2021/22, some options, including a planned reduction in external residential placements for children, were impacted by the Covid-19 pandemic and were offset by alternative underspends across the services;
- Scottish Government revenue funding to North Ayrshire Council increased by 4.8% in real terms during 2021/22. However, funding on a like for like basis experienced a (1.6%) reduction;

- 22.5% of Scottish Government funding to North Ayrshire Council during 2021/22 was either formally ringfenced or was provided with the expectation that it would be spent on specific services, including Health and Social Care, Support for Teachers, Expansion of Early Learning and Childcare, Pupil Equity Funding, Child Bridging Payments and the Council Tax freeze;
- Significant cost risks have been identified across the Capital Investment Programme which are impacting on contractor and material costs across a number of projects. This has resulted a volatile tendering landscape affecting both delivery timescales and tender costs.;
- North Ayrshire Council's Medium Term Financial Plan has identified key pressures arising in relation to the legacy impact of the Covid-19 pandemic, high levels of construction inflation, future pay settlements and other inflationary pressures including utilities, fuel, food and contractual commitments linked to inflation indices. The Council's approach to addressing these financial challenges has been developed in light of our key priorities, including addressing poverty and the cost of living crisis, supporting communities and sustainability, and recognises that investment in areas not aligned to these priorities may need to be reduced in future years; and
- North Ayrshire Council's budget strategy includes the controlled, limited use of reserves combined with the identification of further recurring sustainable savings to enable a transition into a more sustainable financial position. In line with this strategy, no reserves were utilised in achieving a balanced budget for 2022/23.

3. Proposals

- 3.1 It is proposed that the Committee i) notes the findings of the recent Accounts Commission report, and (ii) notes the current position of North Ayrshire Council in relation to the findings.

4. Implications/Socio-economic Duty

Financial

- 4.1 The Accounts Commission report highlights the reliance of local government on Scottish Government grant funding and the need for the development of robust medium and longer term financial plans to develop sustainable solutions to bridge anticipated future funding gaps. North Ayrshire Council develops medium term financial plans on a three year rolling basis and Council has approved a Long Term Financial Outlook covering the next 10 year period. The financial sustainability of the Council is monitored regularly and reported to Cabinet throughout the year.

Human Resources

- 4.2 As part of a sustainable financial strategy the Council continues to actively manage the size of its workforce. Regular communication and consultation takes place with the workforce and Trade Unions.

Legal

4.3 None.

Equality/Socio-economic

4.4 Equality impact assessment are carried out for all options identified as part of the medium and long term financial plans.

Climate Change and Carbon

4.5 None.

Key Priorities

4.6 In addressing the financial challenges which it faces, the Council seeks to minimise the impact on delivering its key priorities.

Community Wealth Building

4.7 None.

5. Consultation

5.1 Executive Directors are consulted in the development of the Medium and Long term Financial plans and the development of investment and recovery and renewal strategies.

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Background Papers

None