
NORTH AYRSHIRE COUNCIL

30 May 2024

Audit and Scrutiny Committee

Title: Accounts Commission's Report: Local Government in Scotland: Financial Bulletin 2022/23

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 2022/23 local government finance bulletin in January 2024. The report provides a high-level independent analysis of the financial performance of local authorities during 2022/23, including funding and expenditure for 2022/23, financial position at the end of 2022/23 and the financial outlook from 2023/24. A link to the report is attached below:

[Local Government in Scotland: Finance Bulletin 2022/23](#)

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 messages and recommendations, with more detail provided in two parts:

- Part 1 – Funding and outturn in 2022/23; and
- Part 2 - Councils' financial position and outlook from 2023/24.

1.3 Appendix 1 provides relevant North Ayrshire Council feedback on each of the key messages identified.

2. Background

2.1 The report provides a high-level independent analysis of the financial performance of local authorities during 2022/23, including funding and expenditure for 2022/23, financial position at the end of 2022/23 and the financial outlook from 2023/24.

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

- Part 1 – Funding and outturn in 2022/23; and
- Part 2 - Councils' financial position and outlook from 2023/24.

2.3 The key messages within the report are summarised below:

- Scottish Government revenue funding to councils fell by £619m (2.8%) in real terms;
- Councils received more core revenue funding, increasing by £87m (0.7%) in real terms. However, an increasing proportion is ring-fenced or provided with the expectation it will be spent on specific services;
- Pressure on public-sector capital budgets presents risks to the viability of local government capital programmes;
- Councils' anticipated budget gaps for 2022/23 were over £476m with increased reliance on savings and reserves to balance budgets;
- Overall usable reserves grew to £4.45 billion with half of councils reporting increases in 2022/23;
- Although no council has been identified as unstable in the short term, Scottish councils face unprecedented financial and demand pressures;
- While councils' medium and long term financial plans recognise the difficult financial context, some are experiencing significant resistance when seeking service reductions to balance budgets; and
- The Verity House Agreement includes a commitment to offer councils longer term funding and greater local financial flexibility.

2.4 The key recommendations indicate that councils should:

- Prioritise the achievement of recurring savings and avoid reliance on non-recurring savings;
- Ensure that management commentaries include a clear link between the budget outturn and the financial performance in the accounts;
- Provide clear statements on reserves policies and the purposes of committed reserves;
- Ensure effective engagement with communities on the options to achieve a balanced budget;
- Report on financial resilience, including use of financial resilience indicators within medium and long term financial plans; and

- Work with the Scottish Government to develop a fiscal framework to enhance clarity and certainty of future years' budgets.

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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For further information please contact **David Forbes, Senior Manager (Strategic Business Partner)**, on **01294 324551** or **DavidForbes@north-ayrshire.gov.uk**.

Background Papers

None

Local Government in Scotland Financial Bulletin 2022/23

Part 1 Funding and outturn in 2022/23

Ref	Key Message	NAC Feedback
F1	Despite councils receiving more funding and income in cash terms, due to high inflation in 2022/23 total revenue funding from all sources fell by £619 million (2.8 per cent) in real terms to £21.3 billion compared to 2021/22.	During 2022/23 NAC received a total of £347.192m income from the Scottish Government, including General Revenue Grant, Non Domestic Rates and Specific Grants. Although this was an increase of £13.180m from 2021/22, due to high inflation, this represented a 2.6% real terms reduction in grant income.
F2	Councils received more core revenue funding from the Scottish Government than in 2021/22, rising from £12.1 billion to £12.2 billion (0.7 per cent) in real terms. However, an increasing proportion is ring-fenced or provided with the expectation it will be spent on specific services. This means that the amount of funding available for councils to spend freely on local priorities is reducing. There are commitments in the Verity House Agreement to move to a default position of removing ring-fencing or direction of funding wherever possible.	During 2022/23 £184.084m (53%) of Scottish Government grant funding was identified as ringfenced or provided with the expectation that it would be spent on specific services, including: HSCP £90.803m, Support for Teachers £70.835m, ELC Expansion £13.093m, PEF £4.211m, Child Payment Bridging £2.575m and DHP £2.477m.
F3	There is pressure on all public-sector capital budgets, and this presents risks to the viability of local government capital programmes, many of which impact on key services (eg, the construction and maintenance of schools, libraries, roads). Capital funding from the Scottish Government rose in 2022/23 but remains lower than before the pandemic and has been volatile over the past decade. Driven by increased borrowing councils' capital expenditure increased in 2022/23 by 16 per cent in cash terms to £3.6 billion. Borrowing costs have reduced in recent years as many councils have used permitted financial flexibilities to reprofile debt payments. While helping with immediate budget pressures, these decisions defer costs to later years and do not tackle the underlying challenges to financial sustainability. Additional borrowing also places further pressure on revenue budgets over the longer term.	<p>During 2022/23, NAC invested £66.978m in our General Fund and HRA capital programmes. Major cost risks were reported across the Capital Investment Programmes as a result of the uncertainty arising from inflationary pressures and supply chain issues, which impacted on tender returns, and the cost of materials across a number of General Fund and HRA projects.</p> <p>In addition, upward movements on the interest rates applicable to public sector borrowing presented further risks to the deliverability of both the General Fund and HRA capital programmes over the medium term resulting in an additional revenue cost of £1.132m per year to support the additional costs of borrowing.</p>

F4	<p>At the time of setting their 2022/23 budgets, councils anticipated budget gaps of over £476 million for the year, higher than the previous year. Councils are increasingly having to rely on savings and reserves to balance budgets. Achievement of savings targets was good in 2022/23 and improved on 2021/22. Greater transparency is required in the reporting of financial outturn in council accounts, including savings performance. This transparency and timely public engagement are essential as councils make increasingly difficult decisions to reduce or stop services to help balance budgets.</p>	<p>As detailed in the Medium Term Financial Plan for 2022/23, the budget gap for the year was £12.317m. This was met through a 3% Council Tax increase and the identification of net savings totalling £9.876m. The indicative funding gaps for 2023/24 and 2024/25 were identified as £10.718m and £8.785m respectively.</p>
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Part 2 Councils' financial position and outlook from 2023/24

Ref	Key Message	NAC Feedback
O1	<p>Despite the financial pressures of recent years, half of councils increased their usable reserves in 2022/23, and overall usable reserves grew to £4.45 billion. This is driven by growth in committed reserves. Some of this is remaining Covid-19 funding, some is attributable to the permitted use of financial flexibilities for the repayment of longer-term debt but there are also indications councils are building up reserves to manage the known financial challenges in future years. However, the lack of transparency in some councils' annual accounts makes it difficult to draw firm conclusions on councils planned use of reserves.</p>	<p>During 2022/23, NAC's total usable reserves increased by £22.439m to £135.680m. This was primarily related to the release of £24.311m through the review of accounting arrangements for PFI and similar contracts. These funds have been ringfenced to help address the impact of construction cost volatility as part of delivering the Council's ambitious Capital programme, by helping to mitigate the significant cost pressures and resultant revenue budget gaps over the medium-term, support Workforce Planning and invest in Child Poverty and Cost of Living interventions.</p>
O2	<p>Local appointed auditors did not identify any councils in Scotland as being financially unsustainable in the short term. However, the financial outlook is extremely challenging with Scottish councils facing unprecedented financial and service demand pressures which present real risks for the future. Although Scottish Government core funding increased in cash and real terms in 2023/24, councils reported a significant increase in the total budget gap to £725 million.</p>	<p>NAC's Medium Term Financial Plan for 2023/24 to 2025/26 highlighted an increase in the budget gap for 2023/24 from £10.718m to £19.266m. This was addressed through the application of a 5% Council Tax increase, the use of £3.410m of reserves and the identification of £12.448m of savings. The indicative funding gaps for 2024/25 and 2025/26 were identified as £11.688m and £11.382m respectively.</p>

O3	<p>Councils' medium- and longer-term financial plans demonstrate a clear recognition of the difficult financial context and the need to continue to innovate at pace and make difficult decisions to become more financially sustainable. But some councils are already experiencing significant resistance when seeking to make service reductions to balance budgets. This reinforces the need for effective consultation and engagement with communities on planned local service changes.</p>	<p>NAC carries out a range of community engagement activities to support the development of our medium term financial plans. During 2023, NAC developed an on-line Budget Challenge tool which provided citizens with the opportunity to set their own virtual Budget. This helped demonstrate the challenges faced by the Council in allocating financial resources across services against the backdrop of funding constraints and cost pressures. This was followed up by an on-line locality engagement session which included representation from a range of community groups and associations and additional engagement with young people around the Budget challenges to determine what is important to them.</p>
O4	<p>The Verity House Agreement includes a commitment to offer councils longer term funding and greater local financial flexibility. These proposed changes will be important, in providing greater financial certainty to support better long-term planning and more flexible direction of resources to meet local need. However, the recent announcement of a proposed council tax freeze significantly reduces discretion and flexibility at individual council level. The impact this will have on financial sustainability is not yet known, but councils have placed an increased reliance on raising council tax to help deliver a balanced budget over the past two years.</p>	<p>NAC continues to engage with the Scottish Government at both a political and officer level through COSLA and the Directors of Finance group. There are ongoing discussions and progress around various areas of financial flexibility including potential changes to Council Tax through the multiplier and second homes levy. Discussions continue on the feasibility of a tourist visitor levy and budget discussions on the Verity House agreement, and what this means within the context of budget conditions.</p> <p>The latest developments in these areas will be addressed as part of the next iteration of the Medium Term Financial Outlook.</p>