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# NORTH AYRSHIRE COUNCIL

31 May 2022

## Audit and Scrutiny Committee

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**Title:** **Accounts Commission's Report: Local Government in Scotland: Financial Overview 2020/21**

**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.

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## 1. Executive Summary

1.1 The Accounts Commission published its 2020/21 financial overview of local government in Scotland in March 2022. The report provides a high-level independent analysis of the financial performance of local authorities during 2020/21. A link to the report is attached below;

[Local Government Financial Overview Report](#)

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 four parts;

- Part 1 - Councils' income in 2020/21;
- Part 2 - Councils' financial position in 2020/21; and
- Part 3 - 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 2020/21 and their financial position at the end of that year

2.2 A summary of the key messages is provided within the report with further information provided in 3 main sections:

- Part 1 - Councils' income in 2020/21;
- Part 2 - Councils' financial position in 2020/21; and
- Part 3 - Councils' financial outlook.

2.3 The key messages for Councils are summarised below:

- Councils received an additional £1.5 billion in Scottish Government funding to address the impacts of the Covid-19 pandemic;
- There has been an underlying real terms reduction in local government funding of 4.2% since 2013/14;
- More than half of all additional funding received during 2020/21 was ringfenced to support the delivery of Scottish Government policies, removing local discretion over how these funds could be used;
- Council income from customers and clients reduced by £0.5 billion as a result of Covid-19 restrictions;
- All Councils increased their usable reserves as a result of late Covid-19 funding which was unspent at 31 March 2021;
- Councils administered £1.4 billion of Covid-19 grants on behalf of the Scottish Government, putting additional pressure on Council staff;
- Capital expenditure reduced by more than 20% as a result of Covid-19 restrictions; and
- Covid-19 pressures contributed to greater and more frequent errors in Councils' unaudited accounts.

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

- Scottish Government capital funding to Councils is expected to fall in 2021/22;
- Uncertainty over Covid related funding during 2020/21 led to difficulties in setting 2021/22 budgets; and
- Covid-19 resulted in revised medium term plans but longer term financial plans will need to be updated as the uncertainties arising from Covid-19 diminish.

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

- The impact of Scottish Government funding in relation to both the impact of Covid-19 and underlying Council funding is summarised in part 1 of appendix 1;

- Council reported £66m of General Fund Usable Reserves at 31 March 2021. This was an increase of £31.5m as detailed in part 2 of appendix 1;
- During 2020/21 the Council administered £40m of business grants plus a further £14.8m of Non Domestic Rates Covid related reliefs on behalf of the Scottish Government;
- The rephasing of £26.4m of Capital projects as a result of Covid related restrictions was reported to Council during 2020/21;
- The annual report of the Council's external auditors was presented to the Audit and Scrutiny Committee on 27 September 2021. This report identified no materials issues or errors in the unaudited accounts;
- Council approved the Capital Investment Programme 2022/23 to 2030/31 on 2 March 2022 which outlined the Council's investment plans and assumed levels of capital funding for the next nine years. This included assumed General Capital Grant funding of £9.8m each year;
- Council approved the General Services Revenue Estimates 2022/23 to 2024/25 on 2 March 2022 which provided Members with an overview of the Council's anticipated financial position on the General Fund revenue budget for the next three financial years and confirmed an additional investment of £1.7m to develop an energy based community support model to provide sustainable support to residents; and
- The Long Term Financial Outlook 2021/22 to 2030/31 was approved by Council on 16 December 2020 and provides the cornerstone of the Council's strategic financial framework and establishes a sound basis for the development of the Council's medium term financial plans and annual budgets. This is scheduled for a full review during 2023/24.

### **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 support recovery following the Covid-19 pandemic and bridge the anticipated funding gap. 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, including the impact of the Covid-19 pandemic, 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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**Head of Service (Finance)**

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## **Background Papers**

None

## Local Government in Scotland Financial Overview 2020/21

### Part 1 Councils' Income on 2020/21

Ref	Key Message	NAC Feedback
I1	The Covid-19 pandemic persisted throughout 2020/21, with the Scottish Government increasing funding to councils by £1.5 billion to support them in dealing with the impacts of the pandemic.	In 2020/21 NAC received £29.4m additional General Revenue funding and £4.5m additional specific revenue grants in relation to Covid pressures.
I2	The underlying increase in Scottish Government funding to councils of £358 million in 2020/21 was 1.1 per cent in real terms. But, over half of this increase is due to specific grants, which are now £710 million. Ring-fenced funding helps support delivery of key Scottish Government policies, such as expanding early learning and childcare services, but constrains a proportion of the total funding and resources and removes any local discretion over how these funds can be used by councils.	During 2020/21 the level of non Covid related Scottish Government funding received by NAC increased by £15.9m, equivalent to a 1.0% reduction in real terms. £5.6m of this increase was due to additional specific grants, primarily in relation to the expansion of Early Learning and Childcare.
I3	When Covid-19 funding is excluded, there has been a real terms underlying reduction in local government funding of 4.2 per cent since 2013/14.	Between 2013/14 and 2020/21 the level of non Covid related Scottish Government funding received by NAC increased by £34.3m. This was equivalent to a 4.1% reduction in real terms

## Part 2 Councils' financial position in 2020/21

Ref	Key Message	NAC Feedback
P1	Savings plans were mostly delivered across councils, but with significant variation.	<p>The 2020/21 General Services Revenue Estimates included savings targets of £4.439m across all services. Although the majority of savings were delivered in year, several were impacted by the Covid-19 pandemic. These were offset by other underspends within the services and will be further developed once all restrictions are lifted.</p> <p>The impacted savings included: Review of Facilities Management in Schools £0.155m; Property Rationalisation £0.140m; increased fee income linked to the Capital Programme £0.093m; increased factoring income £0.119m; and other minor savings £0.097m.</p>
P2	All councils increased their usable revenue reserves, mainly due to late Covid-19 funding which was unspent at 31 March 2021. The total increase was £1.2 billion	Total General Fund Reserves increased by £31.5m between 2019/20 and 2020/21, including £17.9m of Covid related funding, £8.0m of commitments delayed because of Covid related restrictions and £2.5m of agreed investment in recovery and renewal programmes.
P3	Capital expenditure reduced by more than 20 per cent in 2020/21 due to Covid-19	The total value of General Fund capital projects rephased during 2020/21 as a result of Covid restrictions was £26.4m, 33% of the original planned expenditure.
P4	Councils administered a further £1.4 billion of Covid-19 grants on behalf of the Scottish Government. The need to administer payment of these grants quickly to support the local economy put additional pressure on finance staff across councils.	<p>NAC administered £40m of business grants during 2020/21, plus a further £14.8m of Non Domestic Rates Covid related reliefs.</p> <p>Several sections across the Council were involved in the administration of these grants, including Revenues, Legal and Business Development. Where additional funding for administration was provided by the Scottish Government, the timescales involved did not allow for the recruitment or training of additional staff.</p>

P5	<p>Covid-19 pressures contributed to greater and more frequent errors in councils' unaudited accounts. Auditors also reported wider issues relating to Covid-19, including the slowing of progress in some councils' transformation plans, the impact of reduced income on arm's-length external organisations (ALEOs) and what that means for their financial sustainability, identified weaknesses in internal control systems, and adverse impacts on long-term planning and capacity.</p>	<p>No material errors were reported in the NAC annual accounts for 2020/21 which were completed and audited within statutory timescales. However, a number of adjustments were required to the accounts during the audit phase as a result of late or incomplete guidance from the Scottish Government and Audit Scotland in relation to the treatment of Covid related issues including mobilisation funds provided to the IJB and PPE provided to the Council by the NHS.</p> <p>KA Leisure reported significant reductions in income for the year resulting a trading deficit of £1.9m. A detailed financial recovery plan, including the provision of additional cash flow support from NAC, was approved by Cabinet in February 2021.</p>
P6	<p>In line with the recovery in global stock markets, pension fund investments performed well. In addition, the triennial funding position improved</p>	<p>Although the value of returns on pension scheme assets increased during 2020/21, this was offset by an increase in the value of pension liabilities linked to inflation assumptions. This resulted in a net increase in NAC's share of the Scheme's liabilities of £58.5m for the year.</p>

### Part 3 Councils' Financial Outlook

Ref	Key Message	NAC Feedback
O1	<p>Uncertainty over the amount of funding available for Covid-19 recovery at the end of 2020/21 led to difficulties in setting budgets, and many councils established updated Covid-19 budgets in autumn 2021.</p>	<p>£16.9m of additional Covid related funding was confirmed on 18 March 2021, after Council had approved the 2021/22 budget. These funds were not recurring and would not have been available to offset savings requirements. However, the majority of funds could not be expended before the end of the financial year and were</p>

		earmarked to support ongoing Covid Recovery and Renewal and Investment activities in 2021/22 and beyond.
O2	Initial Scottish Government revenue funding in 2021/22 has increased by 1.1 per cent in real terms	Following confirmation of funding in relation to the Council Tax freeze in 2021/22, the level of Scottish Government funding for NAC increased by £7.2m, 2.4%. However, the increase in core funding, excluding specific grants and Scottish Government policy commitments was only £2.5m, 0.9%.
O3	Covid-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes	<p>NAC's Long Term Financial Outlook was presented to Council in December 2020. This is the cornerstone of the Council's strategic financial framework and identified an estimated funding shortfall of £120m over the next ten years based on best estimates with sensitivity analysis highlighting the implications of changes to the underlying assumptions.</p> <p>The Long Term Financial Outlook is scheduled for a full review during 2023/24.</p>
O4	Scottish Government capital funding in 2021/22 is expected to fall again. This may have a significant adverse impact on councils' investment plans	<p>Excluding ringfenced funding in relation to Flooding projects, NAC's General Capital Grant was reduced by £0.140m, 1%, in 2021/22 and a further £0.022m in 2022/23.</p> <p>However, this has been offset by additional ringfenced capital funding linked to Scottish Government manifesto commitments including Play Park Renewal and Local Bridge Maintenance.</p>

O5	<p>The long-term funding position for councils remains uncertain, with significant challenges ahead as councils continue to manage and respond to the impact of Covid-19 on their services, finances and communities.</p>	<p>NAC approved the 2022/23 to 2024/25 Medium Term Financial Plan on 2 March 2022. This identified indicative budget gaps for 2023/24 and 2024/25 of £10.7m and £8.8m respectively.</p> <p>The Long Term Financial Outlook 2021 -2031 has identified an estimated shortfall of £69m over the period 2025/26 to 2030-31. This is scheduled for a full review during 2023/24.</p> <p>Additional funding received as a result of Covid-19 has been retained for investment across Education, KA Leisure, the HSCP and the general Recovery and Renewal programme to address the long term impact of Covid-19 on the Council and our communities.</p>
O6	<p>In the longer term, uncertainty creates challenges for councils as they seek to address cost and demand pressures that existed before the impact of Covid-19, as well as develop long-term plans with their partners to address complex issues such as child poverty and inequalities, to improve economic growth and to deliver Scotland's net zero ambitions</p>	<p>Work continues across NAC to develop the Council's long term plans. This is supported by earmarked reserves and investment funds approved by Council in relation to financial insecurity, recovery and renewal and sustainability, including a £1.7m non-recurring investment approved by Council to develop an energy based community support model to provide sustainable support to residents.</p>