
NORTH AYRSHIRE COUNCIL

North Ayrshire Council

12 February 2020

Title: **Audit Scotland Report: Local Government in Scotland: Financial overview 2018/19**

Purpose: To inform Council of the findings of the recent Audit Scotland report.

Recommendation: That Council (i) notes the findings of the recent Audit Scotland report, (ii) notes the current position in North Ayrshire and (iii) considers these as part of the budget deliberations

1. Executive Summary

1.1 Audit Scotland published its 2018/19 financial overview of local government in Scotland in December 2019. The timing of the report is intended to give councils the opportunity to use its findings to inform their budget setting. A link to the report is attached below;

[Local Government in Scotland : Financial Overview 2018/19](#)

1.2 The report provides an independent assessment of how effectively Scottish local government is managing public funds and responding to the financial challenges it faces. The significant challenges facing Integrated Joint Boards (IJB) and the requirement to do more to address their financial sustainability is also highlighted. The report has a summary of key findings with more detail provided in four parts;

- Part 1 - Councils' income in 2018/19;
- Part 2 - Councils' financial position in 2018/19;
- Part 3 - Councils' financial outlook; and
- Part 4 - Integration Joint Boards' overview 2018/19.

1.4 The report sets out a number of questions that councillors may wish to consider to help them understand their council's financial position and scrutinise its financial performance. These questions are published in a separate supplement. A link to the document is attached here;

[Local Government Financial Overview 2018/19 : Scrutiny Tool for Councillors](#)

- 1.5 Appendix 1 to this report highlights the key messages identified within the Audit Scotland report and notes the current position of North Ayrshire Council and the IJB in relation to these.

2. Background

Financial Overview 2018/19

- 2.1 The report examines the strategic financial position of local government in Scotland in 2018/19.
- 2.2 A summary is provided within the report with further information provided in 4 main sections:
- Part 1 - Councils' income in 2018/19;
 - Part 2 - Councils' financial position in 2018/19;
 - Part 3 - Councils' financial outlook; and
 - Part 4 - Integration Joint Boards' overview 2018/19.

2.3 Key Messages

Audit Scotland Report

- 2.3.1 Common themes emerge across the Summary and the four Parts of the report, some of which have been contained within previous Audit Scotland overview reports. These are summarised below for the Council and Integrated Joint Board (IJB);

Council

- councils dependency on Scottish Government funding setting out funding trends since 2013/14 with more detailed information being provided for 2018/19 and 2019/20, presented in both cash terms and real terms with the latter taking account of the impact of inflation;
- the more significant reduction in local government funding than the rest of the Scottish Government budget since 2013/14;
- the growing proportion of Scottish Government funding for national policy initiatives reducing the flexibility councils have in responding to local priorities;
- councils responses to the funding challenge include; savings, service redesign, reduction to services, increasing charges and increasing use of reserves, with a reduction in reserves over the last three years;
- Councils progress on medium term financial planning with no significant progress in long term financial planning;
- the need for transparency in the Management Commentary of Council's Annual Accounts Report, a key element of Public Performance Reporting; and

- councils preparation for EU withdrawal.

Integration Joint Board (IJB)

- Majority of IJB's struggling to breakeven;
- One third of IJBs not agreeing their budgets for the start of 2019/20;
- Improvement in IJBs developing medium term financial plans but no progress on long term financial planning;
- Turnover of IJB senior staff;
- Pace of integration slow with limited evidence of a shift in resources from acute based hospital spend to community health and social care.

North Ayrshire Council

2.3.2 An update on the North Ayrshire position is noted below;

- The impact of the historic Scottish Government funding trend on North Ayrshire is summarised in appendix 1;
- the Long Term Financial Outlook, approved at Council on 4 October 2017, is the cornerstone of the Council's financial planning framework and outlines the scale of the potential financial challenge facing North Ayrshire Council by 2027/28, this is due for refresh during 2020;
- the council continues to review its 3 year rolling medium term financial plan as part of the annual budget setting;
- having delivered savings of £102m over the last ten years identification of new options is becoming increasingly challenging;
- The Council's current transformation programme aligns with the 2019-24 Council Plan, this continues to evolve as the Council responds to the anticipated future funding challenge;
- Having used £16.161m of reserves to support non-recurring investment and the core budget since 2017/18 the Council's unearmarked reserves are sitting at the minimum acceptable level of 2%, with a bi annual review of all reserves undertaken;
- continued financial support through the Council's core budget for the Health and Social Care Partnership to repay the £5.139m debt to the Council;
- regular reporting to Audit and Scrutiny on the risks and mitigation of Brexit;
- the Management Commentary to the Council's Accounts has been identified as an example of best practice in the last two years.

Integration Joint Board

2.3.3 An update on the Integrated Joint Board position is noted below;

- The North Ayrshire IJB has overspent in each financial year up to 2018-19. Since 2016/17 North Ayrshire Council has not funded IJB in year overspends with a deficit accruing since then. During 2018-19 the IJB made the first instalment towards repayment of the debt of £5.8m to the Council and reduced it by £0.7m;
- The Partnership is reporting a projected overspend of £1.434m for 2019-20 as at the end of December. This is being actively managed and has been reducing since the implementation of a financial recovery plan approved by the IJB in September 2019;
- The North IJB and partners worked effectively together, and a 2019/29 budget was agreed in March 2019.
- The IJBs has a medium-term financial plan in place to 2020. A whole system shift to longer term financial planning is an aspiration for the IJB, this will be explored alongside the next refresh of the Strategic Plan;
- The IJB in North Ayrshire has experienced turnover of experienced senior staff, this does however create an opportunity to develop both existing HSCP talent and seek talent externally to support the IJB moving forward. The current HSCP Director has been part of the HSCP since the formation of the IJB and the Director since April 2017;
- The Ayrshire IJBs have been working with the Scottish Government to develop national directions guidance and a shared set of principles to allow the set aside budget to be fully delegated to IJBs. Outwith acute services, during 2018-19 the North IJB used £410k of NHS delegated budgets to offset overspends in social care services;
- Overall funding for IJBs has increased, however this additional funding is to support new expenditure requirements relating to Scottish Government Priorities for example, the living wage, Primary Care Improvement Fund, Carers Act and Mental Health investment;
- The budget gap for the North Ayrshire IJB has reduced from 2.33% to 1.63% from 2018-19 to 2019-20, both figures have been adjusted for unachieved savings from previous years. The 2019-20 gap was significantly reduced due to the Scottish Government Health settlement directive to pass through the annual budget uplift.

3. Proposals

3.1 That Council notes the findings of the recent Audit Scotland report and the current position in North Ayrshire and the IJB.

4. Implications/Socio-economic Duty

Financial

- 4.1 The Audit Scotland 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 the anticipated funding gap.

North Ayrshire Council develops medium term financial plans on a three year rolling basis and Council approved the (10 year) Long Term Financial Outlook on 4 October 2017, with an update planned during 2020.

Financial sustainability, including the need to ensure an appropriate level of reserves, is a focus of the annual external audit.

The challenging position of IJBs is noted, whilst this is a matter for IJBs it is important to the Council as a key funding partner.

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 There are no direct legal implications associated with this report.

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

Environmental and Sustainability

- 4.5 There are no direct environmental and sustainability implications associated with this report.

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 There are no direct community benefits associated with this report.

5. Consultation

- 5.1 Consultation took place with the Health and Social Care Partnership in the preparation of this report.

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Reference:

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Background Papers

None

Audit Scotland: Local Government in Scotland Financial Overview 2018/19

Summary

Ref	Key Message	NAC / IJB Feedback
S1	In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).	
S2	Scottish Government revenue funding remains the most significant source of income and this increased by 1.1 per cent in cash terms in 2018/19, a 0.7 per cent decrease in real terms. Since 2013/14, Scottish Government funding to councils has reduced by 7.6 per cent in real terms.	In 2018/19 NAC's grant increased by £3.545m, 1.3% in cash terms and a 0.5% decrease in real terms, this represented additional funding for national priorities of £4.334m (1.6%) and a reduction to core funding of £0.789m (0.3%). The real terms reduction in funding for NAC since 2013/14 is 2.2%, this comprises a reduction to core funding of 14.8% and new funding of 12.6%.
S3	In 2018/19, the funding gap was three per cent of total budget. Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that more of the funding gap was met from reserves than planned.	In 2018/19 the gross funding gap for NAC was £15.341m (4.5%), this was closed through; <ul style="list-style-type: none"> • £1.358m - 3% increase in council tax • £10.483m - savings • £3.500m - use of reserves
S4	Councils are increasingly drawing on their revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Twenty-three councils have reduced their general fund reserves over the last three years.	Refer to s3. NAC has used £10.821m of reserves to fund the recurring budget since 2017/18. In addition, reserves of £5.341m have supported non-recurring expenditure including the establishment of the HSCP Challenge Fund.
S5	Capital expenditure increased by £62 million (2.3 per cent) to £2.75 billion, with more spent on housing and less on education.	NAC's capital budget for the General Fund increased by £1.800m (5.0%) with a reduction in Housing of £23.678m (44.6%). Within the General Fund investment increased to support the Waste Collection, within Housing, expenditure aligned with government grants to support new build housing.
S6	All councils have medium-term financial planning covering three years or more. Long-term financial planning has not improved since last year and more progress is needed.	NAC presents a rolling three year medium term financial plan to Council each year. The current Long term Financial Outlook was approved in 2017/18 and covers the period to 2028. This will be refreshed during 2020.
S7	Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.	Regular reports have been submitted to Audit and Scrutiny setting out the risks, issues and mitigation associated with Brexit. The Council is as prepared as it can be given the high levels of uncertainty.

Ref	Key Message	NAC / IJB Feedback
S8	A majority of IJBs struggled to achieve break-even in 2018/19, either recording a deficit or relying on additional funding from partners.	<p>The North Ayrshire IJB has overspent in each financial year leading up to 2018-19. North Ayrshire Council has not funded the social care element of the overspend since 2016/17. As at the end of 2017/18 the IJB had accrued a debt to the Council of £5.8m. During 2018-19 the IJB made the first instalment towards repayment of the debt and reduced it by £0.7m.</p> <p>There Partnership is reporting a projected overspend of £1.434m as at the end of December for 2019-20. This is being actively managed and is reducing since the implementation of a financial recovery plan approved by the IJB in September 2019.</p>
S9	Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year.	This was not the case for the North Ayrshire IJB. The IJB and partners worked effectively together, and a budget was agreed in March 2019 prior to the start of the new financial year.
S10	Medium-term financial planning is improving but no IJB had a financial plan that extended for more than five years. A focus on developing longer-term financial planning is required by IJBs.	The IJB has in place a medium-term financial plan to 2020. The settlement conditions attached to funding for IJBs in recent years together with increasing demand for services makes it very difficult to develop longer term financial planning with any confidence, however a whole system shift to longer term financial planning is an aspiration for the IJB. This will be explored alongside the next refresh of the Strategic Plan.
S11	Over a third of IJB senior staff have changed during 2018/19.	The IJB in North Ayrshire has experienced turn over of experienced senior staff as a result of retirements and secondments to National posts. The turnover of senior staff does however create an opportunity to develop both existing HSCP talent and seek talent externally to support the IJB moving forward. The current HSCP Director has been part of the HSCP since the formation of the IJB and Director since April 2017.

Part 1 Councils' income in 2018/19

Ref	Key Message	NAC Feedback
P1 (1)	In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).	
P1 (2)	Scottish Government revenue funding remains the most significant source of income and this increased by 1.1 per cent in cash terms in 2018/19 (0.7 per cent decrease in real terms).	Refer to S2

Ref	Key Message	NAC Feedback
P1 (3)	Since 2013/14, Scottish Government revenue funding to councils has reduced by 7.6 per cent.	Refer to S2
P1 (4)	A growing proportion of Scottish Government revenue funding to councils is committed to national policy initiatives.	There has been an increase in the proportion of funding allocated in support of national policy initiatives including PEF, ELC Expansion, the Carers Act, HSCP funding commitments and SWF, CT Reduction, Free School Meals, Carers Act and Free School Meals.

Part 2 Councils financial position in 2018/19

Ref	Key Messages	NAC position
P2 (1)	The 2018/19 funding gap of three per cent was less than the previous year (four per cent). Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that a higher proportion of the funding gap was met from reserves than planned.	Refer S3
P2 (2)	Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed, with councils increasingly drawing on their revenue reserves.	Refer to S4
P2 (3)	Twenty-three councils have reduced their general fund reserves over the last three years. No council has a position where this rate of depletion would eliminate the total general fund within three years.	Refer to S4. General Fund Reserves have increased over the three years to 2018/19 in line with future plans. The level of unearmarked reserves has been reduced to 2% of General Fund expenditure over this period. The current policy is to maintain unearmarked reserves at this minimum level.
P2 (4)	Capital expenditure increased by £62 million or 2.3 per cent in 2018/19 to £2.75 billion, with more spent on housing and economic development and less on education.	Refer to S5
P2 (5)	The value of pension liabilities in councils increased by £0.5 billion to reflect the impact of the McCloud case.	The revised actuarial assessment of North Ayrshire's pension liabilities in light of the McCloud case increased North Ayrshire's total pension liabilities by £11.606m (1.8%) during 2018/19.
P2 (6)	Councils should continue to improve the transparency of the management commentary.	In the last two years NAC's Management Commentary has been recognised as an example of best practice. As part of our commitment to continuous improvement we review opportunities for enhancement each year.

Part 3 Councils' Financial Outlook

Ref	Key Messages	NAC position
P3 (1)	Scottish Government revenue funding to local government in 2019/20 increased by 2.9 per cent in cash terms (0.9 per cent in real terms).	North Ayrshire's total grant increased by £6.671m (2.4% in cash terms and a 0.4% increase in real terms), this represented an increase of funding of £10.503m (3.8%) for new policy initiatives and a reduction to core grant of £3.832m (1.4%)
P3 (2)	In 2019/20, the Scottish Government increased the cap on council tax increases. Twelve councils decided to increase council tax by the full amount (4.8 per cent).	North Ayrshire increased its Council Tax in line with the cap at 4.79%.
P3 (3)	Many councils are also seeking other ways to increase income, including increasing fees and some have introduced new charges in 2019/20. Some councils also continue to pursue new local taxes.	North Ayrshire had a number of strands to its charging policy. In 2019/20; <ul style="list-style-type: none"> • A 5% uplift was applied across the board with the exception of; • Those set in statute; • Where additional income could be generated as part of our municipalisation agenda
P3 (4)	Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (three per cent of income). This continues the increasing pressure on councils to find further cost savings, redesign services, reduce services, increase income or use reserves. These decisions are likely to become increasingly difficult for councillors. Councils planned to manage their funding gaps mainly through identified cost savings.	NAC's gross funding gap in 2019/20 was £19.639m, 5.5%. This was achieved through; <ul style="list-style-type: none"> • £2.980m Additional council tax income • £12.779m Savings • £3.880m Use of reserves
P3 (5)	All councils have medium-term financial planning covering three years or more. Long-term financial planning has not progressed since last year.	Refer to S6
P3 (6)	The Scottish Government has made a commitment to set out multi-year budgets, which will assist councils with financial planning.	NAC welcomes multiyear settlements as a means to ensuring more robust medium and long term financial planning. This will support the longer time frame required to deliver the significant transformation and savings that are required to ensure financially sustainable service delivery models.
P3 (7)	Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.	Refer to S7

Part 4 Integration Joint Boards Overview 2018/19

Ref	Key Messages	IJB position
P4 (1)	The pace of health and social care integration has been too slow and there is limited evidence to suggest any significant shift in spending from acute based hospital spend to community health and social care.	The IJBs in Ayrshire were one of few areas nationally that worked effectively with their Health Board to identify and agree an acute hospital set aside budget at the start of integration. There is a shared understanding of how that resource splits across Ayrshire and where IJBs are over or under their NRAC share. The financial pressures on the NHS acute services mean there are significant challenges in releasing any resources. The Ayrshire IJBs have been working with the Scottish Government to develop national directions guidance and a shared set of principles to allow the set aside budget to be fully delegated to IJBs. Outwith acute services, during 2018-19 the North IJB used £410k of NHS delegated budgets to offset overspends in social care services and the IJB continue to manage the budget on the basis of funding losing its identity.
P4 (2)	Overall, IJB budgets increased by three per cent in 2018/19.	Overall total Scottish IJB funding increased by three per cent in 2018/19 and this was reflected in a three per cent increase in total expenditure of £0.3 billion to £8.6 billion. The total contributions from councils increased from £2.4 to £2.5 billion and NHS contributions from £5.9 to £6.1 billion. North Ayrshire IJB received a 2.98% increase and an additional share of the £66m Scottish Govt funding which increased this to 3.8% However, this additional funding was to support new expenditure requirements relating to Scottish Government Priorities for example, the living wage, Primary Care Improvement Fund, Carers Act and Mental Health investment.
P4 (3)	The identified budget gap reduced from £248 million (2.9 per cent of total income) in 2018/19 to £208 million (2.5 per cent of total income for 2019/20).	The budget gap for the North Ayrshire IJB is: $18/19 \text{ gap } £5.4m / £230.991m \text{ budget} = 2.33\%$ $19/20 \text{ gap } £3.9m / £238.654m \text{ budget} = 1.63\%$ The budget gap reflects the savings gap from the financial settlement each year, excluding unidentified CRES savings from previous financial years, which have now been identified and included in savings plans for 2019-20. The 2019-20 gap was significantly reduced due to the Scottish Government Health settlement directive to pass through the annual budget uplift, this led to the IJB being protected from a CRES target from the NHS.

Ref	Key Messages	IJB position
P4 (4)	A majority of IJBs struggled to achieve break-even and 19 would have recorded a deficit without additional funding from partners at the year end.	Refer to S8
P4 (5)	Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year. For several IJBs, although the budget was set on time, it still had an element of unidentified savings which meant it was unbalanced at the start of the year.	Refer to S9
P4 (6)	A focus on long-term financial planning is required by IJBs to assist effective decision making that will support long-term financial sustainability.	Refer to s10
P4 (7)	Over a third of IJB senior staff have changed during 2018/19.	Refer to S11