



REPORT TO: East Lothian IJB Audit and Risk Committee

MEETING DATE: 10 March 2020

BY: Chief Finance Officer

SUBJECT: Audit Scotland Report on Local Government in Scotland:
Financial Overview 2018-19

1 PURPOSE

- 1.1 To provide the Committee with a summary of the findings and key messages contained in the Accounts Commission report, 'Local Government in Scotland: Financial Overview 2018-29, as they relate to the East Lothian Integration Joint Board.

2 RECOMMENDATIONS

- 2.1 The Committee is asked to:
- i. Note the key messages contained in the report.

3 BACKGROUND

- 3.1 The Accounts Commission overview report of the 2018/19 financial year, provides an independent, public assessment of how effectively Scottish local government is managing public money and responding to the financial challenges it faces. It is aimed primarily at councillors and senior council officers as a source of information and to support them in their complex and demanding roles. This report summarises its findings and key messages in the context of East Lothian Integration Joint Board
- 3.2 Audit Scotland published a report on 17 December 2019 - "Local Government in Scotland Financial Overview 2018-19" "The full publication of the report can be found here: <https://www.audit-scotland.gov.uk/report/local-government-in-scotland-financial-overview-201819> The report cover the following topics in four parts:

- Part 1 Councils' income in 2018/19

- Part 2 Councils' financial position in 2018/19
- Part 3 Councils' financial outlook
- Part 4 Integration Joint Boards' overview 2018/19

Key Messages

- 3.3 The report recognises that councils face the increasing challenge of meeting changing and growing demands on their services, but their income is straining to keep pace. Although Scottish Government funding to councils has been relatively stable this year, since 2013/14 it has fallen in real terms.
- 3.4 Funding is forecast to fall further in the medium term against a backdrop of increasing volatility in public finances.
- 3.5 The Commission also notes that two-thirds of councils have reduced their general fund reserves over the last three years rather than maintaining or building their reserves. The signs of a trend in reducing reserves may be emerging.
- 3.6 The Accounts Commission previously highlighted that ongoing use of reserves to manage funding gaps is not sustainable.
- 3.7 The report further noted that after several years of tightening budgets, the Accounts commission recognise that councils have already made savings through restructuring and efficiencies, but transformation in terms of service redesign is required to deal with the further reductions forecast.
- 3.8 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.
- 3.9 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.

Report Breakdown

- 3.10 Part 1 - Councils' income in 2018/19.
- In addition to the key messages above the report highlights that an increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities.

- In its response to the Local Government and Communities Committee on the 2019/20 budget, COSLA's view is that Scottish Government policies and fixed commitments represented 58 per cent of local government revenue expenditure budgets in 2018/19 and 60 per cent in 2019/20.

3.11 Part 2 – Councils' Financial Position in 2018/19.

- 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.
- 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.
- There is no doubt that difficult decisions lie ahead for all Councils and the report highlights the importance of being proactive in addressing the financial pressures.

3.12 Part 3 – Councils' Financial Outlook.

- 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).
- 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.

3.13 Part 4 – Integration Joint Boards' overview 2018/19

- 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 health to social care.
- Overall, IJB budgets increased by three per cent in 2018/19. 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).

- 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.
- 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.
- A focus on long-term financial planning is required by IJBs to assist effective decision making that will support long-term financial sustainability.
- The Commission has a strong interest in the performance and development of IJBs and are planning to review their progress in delivering Best Value for their communities.
- Over a third of IJB senior staff have changed during 2018/19. This instability inevitably impacts on leadership capacity and the pace of progress.
- East Lothian IJB delivered a £1.7 million underspend against budget in 2018/19 and now has a useable reserve. The IJB's reserve is split £0.695 million earmarked for committed projects and £1.077 million general. Like all IJB's East Lothian continues to face significant financial challenges given the increasing demand for services.

4 ENGAGEMENT

- 4.1 The IJB's Audit and Risk committee is held in public and the papers are available on the Council's website.

5 POLICY IMPLICATIONS

- 5.1 There are no policy implications arising from this paper.

6 INTEGRATED IMPACT ASSESSMENT

- 6.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

7 RESOURCE IMPLICATIONS

- 7.1 Financial – none

7.2 Personnel – none

7.3 Other – none

8 BACKGROUND PAPERS

8.1 None

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