

REPORT TO AUDIT COMMITTEE - WEDNESDAY, 17 APRIL 2024

AUDIT SCOTLAND: LOCAL GOVERNMENT IN SCOTLAND FINANCIAL BULLETIN 2022/23

1 Executive Summary/ Recommendations

1.1 The Accounts Commission [Local Government in Scotland Financial Bulletin 2022/23](#) was published on 16 January 2024. The bulletin provides a high-level analysis of the financial performance of Scottish Councils during 2022/23, their financial position at the end of that year and the financial outlook. It also reflects on councils' funding and expenditure in 2022/23, and the potential impacts of the Verity House Agreement made between COSLA and the Scottish Government in June 2023.

1.2 The Committee is recommended to:

1.2.1 Consider and comment on the findings of the Audit Scotland report on the financial performance of councils across Scotland in 2022/23 and the long-term challenges that are faced going forward.

2 Decision-Making Route

2.1 The Accounts Commission and Audit Scotland work together to deliver public audit in Scotland and in January 2024 Audit Scotland published the [Local Government in Scotland - Financial Bulletin 2022/23](#). The report looks at Scottish Councils' financial performance during 2022/23, along with long term challenges they face.

3 Discussion

3.1 *Scottish Councils' Financial Summary 2022/23*

3.1.1 In 2022/23, Scotland's 32 councils received a total of £21.3 billion in revenue funding and income (funding for day-to-day spending). In cash terms this is £757 million more than the year before but in real terms (that is adjusting for inflation) it represents a decrease of 2.8 per cent (£619 million).

3.1.2 Council tax is an important source of income for councils, accounting for 13 per cent (£2.7 billion) of total funding in 2022/23. Councils received more income from council tax, due to an overall increase of 4.5 per cent in the amount of council tax billed and an increase in in-year collection rates of 0.5 per cent (from 95.7% to 96.2% for councils across Scotland).

3.1.3 However, the amount received has not kept pace with inflation and in real terms this represents a fall in income of 2.5 per cent compared to 2021/22. In 2022/23, a one-off grant of £278 million was received by councils, to distribute the £150 Cost of Living Award to eligible households.

3.1.4 Aberdeenshire Council's collection rates are shown below - it should be noted that the increase for 2022/23 was likely due to the Cost-of-Living Award which was paid to eligible households as part of billing.

	2020/21	2021/22	2022/23
Aberdeenshire Council Tax Collection Rate	95.48%	96.56%	96.93%

3.1.5 Revenue funding and income comes from a variety of sources. Almost 60% of total revenue funding comes from the Scottish Government with core revenue funding to councils amounting to £12.2 billion in 2022/23. This was an increase to core funding in both cash terms (7.4% increase) and real terms (0.7% increase) from the previous year.

3.1.6 Aberdeenshire Council saw an increase in revenue funding in 2022/23. The table below shows the revenue funding from the Scottish Government, demonstrating an increase year on year since 2020/21, excluding the additional Covid-19 funding received in 2020/21 and 2021/22.

	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)
General Revenue Grant	405,376	381,139	360,475
Ring-Fenced Revenue Grant	26,664	32,328	31,133
Non-Specific Revenue Grant	13,648	-	-
Non-Domestic Rates	80,112	104,867	138,786
Total	527,800	518,334	530,384
Covid-19 Funding	68,382	7,401	-
Total excluding Covid-19 funding	459,418	510,933	530,384

3.1.7 In 2021/22, councils received an additional £0.5 billion in nonrecurring revenue funding from the Scottish Government to support their Covid-19 response. When this is included, councils experienced a real terms reduction of 3.6 per cent in revenue funding from the Scottish Government in 2022/23 compared to 2021/22. Excluding this amount, councils experienced a real term reduction of 4.2 per cent.

3.1.8 Specific revenue grants funding totaled £786 million in 2022/23 and was allocated to fund specific policies or initiatives such as for early learning and childcare expansion and the pupil equity fund. In addition to specific revenue grants, other funding received by councils is directed for national policy initiatives.

3.1.9 Local government is the second largest area of Scottish Government spending; however, this proportion has reduced over the last decade. In 2013/14 local government (capital and revenue) accounted for 30 per cent of the total spend. In 2022/23, it has fallen to 23 per cent. It should be noted that local government

spend has been relatively static while Scottish Government spend increased by 37 percent and with Health and Social Security there have been areas of growth for both.

- 3.1.10 At the time of budgeting, the thirty councils that Audit Scotland sampled identified budget gaps totaling £476 million for 2022/23, compared to £350 million for the same sample of councils for 2021/22. This represents a budget gap of 2.9 per cent of the net cost of services. Use of reserves and making recurring savings were expected to bridge 71 per cent (£342 million) of the budget gap. The relative use of reserves to bridge the budget gap has doubled from 17 per cent in 2021/22 to 34 per cent in 2022/23.
- 3.1.11 Councils' capital expenditure in 2022/23 was £3.6 billion. This is a 16 per cent (£0.5 billion) increase in cash terms compared to 2021/22. This was driven by a 52 per cent increase in borrowing. At £1.41 billion, this was the largest source of capital financing, surpassing government grants which accounted for £1.35 billion of capital expenditure. The higher costs associated with borrowing place further pressure on revenue budgets over the longer term.
- 3.1.12 Aberdeenshire Council increase in borrowing is shown in table below:

	31 March 2021 £000	31 March 2022 £000	31 March 2023 £000
Total net borrowing	807,198	865,464	900,136

- 3.1.13 In 2022/23 capital funding from the Scottish Government rose by 19 per cent in real terms to £0.82 billion compared to 2021/22. However, it still remains lower than previous years leading up to the Covid-19 pandemic.

3.2 Scottish Councils' Financial Position and Outlook

- 3.2.1 In 2022/23, Scottish Councils increased their total usable reserves by £0.31 billion, from £4.15 billion to £4.46 billion. Revenue reserves increased by 2.2 per cent (£80 million) and capital reserves increased by 40 per cent (£232 million). The increase in capital reserves may be linked to slippage against capital projects, noted by auditors in some Annual Audit Reports for 2022/23.
- 3.2.2 Councils' borrowing costs have reduced over the past nine years. A key contributing factor to this has been the decision by Councils to re-profile principal repayments over a longer period, in line with the 2016 Loans Fund regulations. Some Councils also used the financial flexibility afforded by the Scottish Government that permitted a reduction in the statutory repayment of debt in 2020/21, 2021/22 and 2022/23. Although borrowing costs have reduced, the long-term affordability of these payments is an important element of councils' financial sustainability. There is a risk that decisions to reschedule debt repayments may add pressure on future budgets as it defers costs to later years and does not tackle the underlying challenges to financial sustainability.

- 3.2.3 Scottish Councils' total net debt increased by six per cent (£1billion) between 2021/22 and 2022/23.
- 3.2.4 At the time of budgeting, from the sample of thirty councils, a total budget gap of £725 million was identified for councils' 2023/24 budgets, a significant increase on the £476 million identified in 2022/23. This represents 4.2 per cent of the net cost of services (in real terms) compared to 2.9 per cent in 2022/23.
- 3.2.5 Aberdeenshire Council demonstrated a 2.7% budget gap in 2022/23 identifying the Council in the mid-range of the table against the 31 other councils for that reporting year.
- 3.2.6 The most common bridging actions taken to set balanced budgets in 2023/24 were:
- recurring savings (33 per cent)
 - the use of reserves (27 per cent)
 - increases to council tax (18 per cent)
- 3.2.7 Some councils have already taken difficult decisions to address budget gaps through implementation of recurring savings options. However, in the face of public opposition, some councils have reversed decisions that related to the reduction or cessation of services as part of savings put forward for 2024/25. This illustrates the increasing challenges that councils are facing in delivering balanced budgets and highlights the need for proper and timely consultation over budget proposals.

3.3 Financial Sustainability

- 3.3.1 The core allocation received by councils in 2022/23 was £12.2 billion compared to the value of £12.1 billion in 2013/14, a 1.3 per cent increase.
- 3.3.2 Overall, the general revenue grant in 2022/23 is 2.9 per cent (£262 million) lower than in 2013/14 and income from non-domestic rates is 8.1 per cent (£244 million) lower
- 3.3.3 Specific revenue grants funding must be used to fund specific policies or initiatives such as for early learning and childcare expansion and the pupil equity fund. In addition, other funding received by Councils is directed for national policy initiatives. Though not formally ring-fenced, this funding is provided with the expectation that it will be spent on specific services.
- 3.3.4 Specific revenue grants have increased by over five hundred per cent (£663 million) across the last decade (although there was a reduction in 2022/23). This significant increase has been a key contributory factor in keeping the overall local government budget at a similar level.
- 3.3.5 Some Councils use indicators to assess their financial resilience but the extent to which they are used and their effectiveness varies. Auditor returns indicated that in some cases, financial resilience indicators are not used to any great extent by councils on a regular basis. Financial resilience is instead built into

day-to-day financial processes and strategies. In other cases, auditors highlighted the use of key financial ratios recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) Directors of Finance within the management commentary of the accounts or reporting upon financial resilience monitoring in their medium-term financial plans.

- 3.3.6 The pensions' triennial funding valuation has been completed during 2023/24 and was a key component of the Medium-Term Financial Strategy agreed by Full Council for 2024/25.
- 3.3.7 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 it is recognised that 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.

3.4 Verity House Agreement

- 3.4.1 In June 2023, the Verity House Agreement, was agreed between the Scottish Government and COSLA.
- 3.4.2 The partnership agreed that:
- From June 2023, a default position of no ring-fencing or direction of funding unless there is a mutual understanding of the reasons for a ring-fenced funding arrangement.
 - By the end of September 2023, to agree a new fiscal framework which will govern the allocation of funding for local authorities and provide councils with increased control over their budget-setting processes. This includes multi-year settlements wherever possible to support strategic planning and investment.
 - By the end of October 2023, to undertake a joint review of specific grants and in-year transfers to local government.

3.5 Overall Recommendations

- 3.5.1 Audit Scotland made a number of recommendations that all Scottish councils should consider. Aberdeenshire Council is already demonstrating financial leadership in these areas, as set out below.
- 3.5.2 **Recommendation 1:** Prioritise the achievement of recurring savings and avoid reliance on non-recurring savings to enhance longer-term financial sustainability.
- As part of the 2024/25 budget setting process and the development of the Medium-Term Financial Strategy (MTFS), one of the key principles is that financial sustainability will be achieved and maintained through transformation, greater partnership working, targeted investment, reducing

costs and more efficient ways of working. Currently, the value of the transformation proposals is insufficient to bridge the budget gap for 2024/25, so budget savings proposals have been identified to close the gap. In future years, it is expected that more transformation proposals will be agreed and implemented thus generating additional savings and reducing the need for further targeted budget savings proposals.

3.5.3 Recommendation 2: Ensure that management commentaries, set out within their annual accounts, are open and transparent, include a clear link between budget outturn and the financial performance in the accounts and report on the achievement of planned savings targets.

- The management commentary included in the 2022/23 annual accounts included links between budget outturn and financial performance and achievement of savings. The Council continues to review the format and content of the management commentary to ensure that it is in line with best practice.

3.5.4 Recommendation 3: Provide clear statements about reserves policy and explicitly set out the purpose of committed reserves within their annual accounts. This will enhance the level of assurance that councils can provide regarding their ongoing financial sustainability.

- A clear reserves strategy, including the purpose of committed reserves, was approved as part of the 2024/25 budget setting process. The management commentary included in the 2022/23 annual accounts also included a clear statement about reserves and the purposes of committed reserves. The Council continues to review the format and content of the management commentary to ensure that it is in line with best practice.

3.5.5 Recommendation 4: Ensure effective and timely consultation and engagement with communities on the options that must be considered to achieve a balanced budget.

- A budget engagement exercise was carried out between 4 October 2023 and 17 November 2023, with the outcome reported to the Council in November 2023. Further engagement took place in the period before the formal budget meeting in February 2024. The Council continues to evolve and adapt its processes year on year based on past experience.

3.5.6 Recommendation 5: Strengthen their monitoring and reporting of financial resilience including clearer and more public-facing use of performance against financial resilience indicators and measures. Financial resilience indicators should be a component of councils' medium and longer-term financial plans to provide assurance that they are balancing short-term pressures with robust planning for long-term financial sustainability.

- A series of financial performance indicators are reported as part of the management commentary within the annual accounts, and also reported regularly throughout the year to Strategic Leadership Team. The Council

continues to evolve and adapt monitoring and reporting of financial resilience in line with best practice.

3.5.7 **Recommendation 6:** Work with the Scottish Government to build momentum and accelerate progress in the development of a fiscal framework for local government to enhance the clarity and certainty of budgets for councils in future years.

- The Council continues to regularly engage with the Scottish Government through a number of fora including COSLA Leaders and the Settlement and Distribution Group.

4 Council Priorities, Implications and Risk

4.1 This report is relevant to all Council priorities.

Pillar	Priority
Our People	<ul style="list-style-type: none"> • Learning for Life • Health & Wellbeing
Our Environment	<ul style="list-style-type: none"> • Climate Change • Resilient Communities
Our Economy	<ul style="list-style-type: none"> • Economic Growth • Infrastructure and public assets

4.2 The table below shows whether risks and implications apply if the recommendation(s) is(are) agreed.

Subject	Yes	No	N/A
Financial			x
Staffing			x
Equalities and Fairer Duty Scotland			x
Children and Young People's Rights and Wellbeing			x
Climate Change and Sustainability			x
Health and Wellbeing			x
Town Centre First			x

4.3 The screening section as part of Stage One of the Integrated Impact Assessment process has not identified the requirement for any further detailed assessments to be undertaken for this report as it provides an overview of the financial position of all thirty-two councils across Scotland for 2022/23 by Audit Scotland.

4.4 The following Risks have been identified as relevant to this matter on a Corporate Level:

- ACORP001 Budget Pressures
- ACORP002 changes in government policy, legislation and regulation

5 Scheme of Governance

- 5.1 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report and their comments are incorporate within the report and are satisfied that the report complies with the [Scheme of Governance](#) and relevant legislation.
- 5.2 The Committee is able to consider this item in terms of Section G.1.3 of the List of Committee Powers in Part 2A of the Scheme of Governance.

Rob Simpson

Director of Business Services

Report prepared by Katie Insch, Policy Officer, Karlyn Watt, Strategic Finance Manager and Fiona McCallum, Strategy & Innovation Manager
25 March 2024