

Local Government, Housing and Planning Committee

12th Meeting, 2024 (Session 6), Tuesday 23 March 2024

Accounts Commission: Local government in Scotland: Financial bulletin 2022/23

Introduction

1. The purpose of this paper is to provide information to help inform the Committee's evidence session with the Accounts Commission on its [Local government in Scotland: Financial bulletin 2022/23](#), published on 16 January 2024.
2. This will be the first occasion on which the Committee has taken evidence from the Accounts Commission new chair, Jo Armstrong, who was appointed on 1 February 2024 for an initial period of four years. As such, the session will also provide an opportunity for the Committee to discuss the new Chair's priorities and plans for her tenure.
3. The recently appointed Chair will also be joined by the following attendees at this meeting—
 - Andrew Burns, Deputy Chair of the Accounts Commission
 - Carol Calder, Audit Director, Audit Scotland
 - Blyth Deans, Senior Manager, Audit Scotland
 - Lucy Jones, Audit Manager, Audit Scotland.

The Accounts Commission

4. The Commission aims to hold councils in Scotland to account and help them identify and make improvements. It operates independently of councils and of the Scottish Government. Audit Scotland provides support to the Accounts Commission and ensures organisations that spend public money in Scotland use it properly, efficiently and effectively.
5. The Accounts Commission has a number of responsibilities, including—
 - Securing the external audit of local government accounts and the audit of Best Value and community planning.
 - Making recommendations to Scottish ministers and local authorities.
 - Carrying out or promoting national performance audit work to improve economy, efficiency and effectiveness.
 - Coordinating the scrutiny of local government in Scotland.

Local government in Scotland: Financial bulletin 2022/23

6. Based on its analysis of local authority annual accounts and Scottish Government budget documents, the [2022-23 Financial Bulletin](#) published in January discusses the state of local government finance in Scotland. Its “key messages” and recommendations are reproduced below.

Funding and outturn in 2022/23

1. 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.
2. 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.
3. 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.
4. 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.

Councils' financial position and outlook from 2023/24

5. 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.
6. 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.
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 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.
8. 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.

Recommendations

Councils should:

- Prioritise the achievement of recurring savings and avoid reliance on non-recurring savings to enhance longer-term financial sustainability (paragraph 29).
- Ensure that management commentaries 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 (paragraph 46).
- 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 (paragraph 55).
- Ensure effective and timely consultation and engagement with communities on the options that must be considered to achieve a balanced budget (paragraph 73).
- 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 (paragraph 83).
- 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 (paragraph 89).

Previous evidence sessions

7. The Committee last took evidence from the Accounts Commission on its [Local Government in Scotland: Overview 2023](#) on 13 June 2023. The meeting papers and official report can be accessed via the following link:

[Local Government, Housing and Planning Committee 17th Meeting, 2023 | Scottish Parliament Website](#)

8. Prior to that the Committee took evidence on the [Local government in Scotland Financial bulletin 2021/22](#) on 31 January 2023. The meeting papers and official report can be accessed via the following link:

[Local Government, Housing and Planning Committee 3rd Meeting, 2023 | Scottish Parliament Website](#)

LGHP/S6/24/12/1

Conclusion

9. The Committee is invited to consider the above information in its evidence session with the Minister for Housing.

**Clerks to the Committee,
April 2024**