

**Audit Scotland report:****Local government in Scotland: Financial bulletin 2021/2022****Committee** Audit and Standards**Date of meeting** 17 February 2023**Date of report** 12 January 2023**Report by Chief Executive****1. Object of report**

To advise the committee on the issue of an Audit Scotland report titled '*Local government in Scotland: Financial bulletin 2021/22*' and outline the key messages and implications for SPT contained therein. Members are reminded that the full report was emailed separately.

2. Background

The report says that Councils across Scotland faced significant financial challenges during 2021/22 and are now entering the most difficult budget setting context seen for many years. Increasingly difficult choices about spending priorities will need to be made.

The report adds that the Accounts Commission, the independent body that holds councils to account, said that even with additional Covid-19 funding during 2021/22, councils had to make significant savings last year to balance their budgets. Many councils have also used reserves to bridge funding gaps and fund vital services. This is expected to be the case in 2022/23. The £570 million of additional funding for 2023/24, announced in the December budget, will help councils address upcoming cost challenges, but further change and reform across all councils is required to ensure longer-term financial sustainability.

The report says that when compared to the 2013/14 Scottish Government revenue funding position to local government, 2021/22 represented the first real-terms increase in six years (excluding one-off Covid-19 money). But an increasing amount of council funding is either formally ringfenced or provided on the expectation it will be spent on specific services and national policy objectives. This supports the delivery of key Scottish Government policies yet removes local discretion and flexibility over how these funds can be used by councils.

The full report can be found at:

<https://www.audit-scotland.gov.uk/publications/local-government-in-scotland-financial-bulletin-202122>

3. Outline of findingsKey messages in report

The key messages outlined in the report are:

Local government finances for 2021/22

1. Despite additional Covid-19 funding, councils continued to face significant financial challenges during 2021/22, requiring significant savings to deliver balanced budgets and increasingly difficult choices to be made about spending priorities.
2. In 2021/22, councils' savings performance continued to improve and total usable reserves increased, which councils have used to contribute towards meeting budget gaps arising from service demand and budget pressures.
3. In 2021/22, Scottish Government revenue funding to councils increased by 5.3 per cent in real terms. This represented the first real-terms increase on the 2013/14 revenue funding position since 2015/16 (excluding one-off Covid-19 money). In 2021/22, revenue funding levels for local government and other parts of the Scottish Government budget (excluding Covid-19 funding) have converged back to a level similar to eight years ago.
4. An increasing proportion of local government funding is now either formally ring-fenced or provided with the expectation it will be spent on specific services. We calculate this to be 23 per cent of total revenue funding in 2021/22. Ring-fenced and directed funding helps support delivery of key Scottish Government policies but removes local discretion and flexibility over how these funds can be used by councils.
5. Councils have noted that Covid-19 and inflationary costs are having an impact on capital projects. If these issues persist, they will present risks to councils' capital programmes which form a necessary component of modernising services to deliver improved outcomes for local communities.

Outlook for local government finances

6. Councils face the most difficult budget-setting context seen for many years with the ongoing impacts of Covid-19, inflation and the cost of living crisis. They will need to continue to make recurring savings and also make increasingly difficult choices with their spending priorities, including, in some cases, potential service reductions.
7. Two-thirds of councils intend to use reserves to help bridge the 2022/23 gap between anticipated expenditure and revenue (budget gap) of £0.4 billion but this reliance on non-recurring reserves is not sustainable in the medium to long term. Delivering recurring savings and reducing reliance on using reserves to fill budget gaps will be key to ensuring longer-term financial sustainability. This makes the case for a continued focus on service reform, based on strong engagement with communities, more important now than ever.

Implications from the Audit Scotland report key messages

Councils in the Partnership area fund SPT's revenue budget.

SPT has and continues to face similar challenges as set out in the report.

The key messages also apply to service provision.

4. Committee action

The committee is asked to note the contents of this report and the Audit Scotland report titled '*Local government in Scotland: Financial bulletin 2021/22*'.

5. Consequences

Policy consequences	<i>None.</i>
Legal consequences	<i>None.</i>
Financial consequences	<i>None.</i>
Personnel consequences	<i>None.</i>
Equalities consequences	<i>None.</i>
Risk consequences	<i>None.</i>
Climate Change, Adaptation and Carbon consequences	<i>None.</i>

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