Committee report

SPT

Audit Scotland report:
Local government in Scotland – Financial overview 2018/19

Committee Audit and Standards

Date of meeting 14 February 2020 **Date of report** 28 January 2020

Report by Assistant Chief Executive

1. Object of report

To advise the committee on the issue of an Audit Scotland report titled *'Local government in Scotland – Financial overview 2018/19'.*

2. Background

Audit Scotland report

In December 2019, Audit Scotland published a report titled *'Local government in Scotland – Financial overview 2018/19'.*

The Accounts Commission says that most of Scotland's 32 councils are increasingly relying on money from reserves to keep up with demand for services and balance their budgets.

The report says the financial pressures are likely to get worse. Demand for services continues to grow, funding for councils from the Scottish Government has reduced by 7.6 per cent since 2013/14 and is forecast to reduce further.

The report adds that Integration Joint Boards (IJBs) are struggling to balance their budgets; in 2018/19, 19 of Scotland's 30 IJBs needed additional funding or recorded deficits.

There are two supplements to this report, a scrutiny tool for members and an overview of the Scottish Local Government Pension Scheme (SLGPS).

The report and supplements can be found at:

https://www.audit-scotland.gov.uk/report/local-government-in-scotland-financial-overview-201819

3. Outline of findings

Key messages

The key messages outlined in the *'Local government in Scotland – Financial overview 2018/19'* report are:

- In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion);
- 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, 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;
- Councils are increasingly drawing on their revenue reserves. Twenty-three councils have reduced their general fund reserves over the last three years;
- 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.

The key messages outlined in Supplement 2 - an overview of the Scottish Local Government Pension Scheme (SLGPS) are:

- A decision by the Supreme Court in June 2019 (the '*McCloud Ruling'*) came after the unaudited accounts were prepared. Funds requested revised reports from their actuaries in order to quantify the increase in estimated liabilities as a result of the ruling. The estimated combined increase in the value of promised retirement benefits totalled around £500m.
- Management expenses are under-disclosed and there is a complex relationship between risk, return and costs.

SPT's response to the Audit Scotland report

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

SPT is a member of, and contributes to, the Strathclyde Pension Fund.

4. Conclusions

Audit Scotland published a report titled *'Local government in Scotland – Financial overview 2018/19'.*

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

SPT is a member of, and contributes to, the Strathclyde Pension Fund.

5. Committee action

The committee is asked to note the contents of this report and the Audit Scotland report titled *'Local government in Scotland – Financial overview 2018/19'.*

6. Consequences

Policy consequences	*None.*
Legal consequences	*None.*
Financial consequences	*None.*
Personnel consequences	*None.*
Equalities consequences	*None.*
Risk consequences	*As detailed in the report.*

Name	Valerie Davidson	**Name**	Gordon Maclennan
Title	**Assistant Chief Executive**	**Title**	**Chief Executive**

For further information, please contact Iain McNicol, Audit and Assurance Manager on 0141 333 3195.

Local government in Scotland

Financial overview 2018/19

ACCOUNTS COMMISSION

Prepared by Audit Scotland
December 2019

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Information box

Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

These question mark icons appear throughout this report and represent scrutiny questions for councillors.

Audit team

The core audit team consisted of: Kathrine Sibbald, Lisa Duthie, Chris Lewis and Lucy Ross, with support from other colleagues and under the direction of Brian Howarth.

Key facts

0.7 per cent
Real terms reduction in Scottish Government revenue funding 2017/18 to 2018/19

£17.7 billion
Councils' income 2018/19

£2.75 billion
Councils' capital spending in 2018/19

£2.5 billion
Councils' usable reserves at 31 March 2019

£9.3 billion
Councils' share of the Local Government Pension Scheme deficit at 31 March 2019

£15.4 billion
Councils' net debt at 31 March 2019

£2.5 billion
Council budgets delegated to IJBs in 2018/19

£8.6 billion
IJBs' spending in 2018/19

Chair's introduction

This report, the Accounts Commission's overview 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. I believe our overview reports are an important tool to highlight to councillors, officers and the public the issues we are most concerned about.

Of particular note for us this year, Integration Joint Boards (IJBs) continue to face very significant challenges and they need to do much more to address their financial sustainability. The pace of progress with integration has been too slow and we have yet to see evidence of a significant shift in spending and services from hospitals to community and social care. I continue to be concerned about the significant turnover in senior staff in IJBs. This instability inevitably impacts on leadership capacity and the pace of progress. The Commission has a strong interest in the performance and development of IJBs and we are planning arrangements to review their progress in delivering Best Value for their communities.

Our report also sets out 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. Funding is forecast to fall further in the medium term against a backdrop of increasing volatility in public finances. 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. I have previously commented that ongoing use of reserves to manage funding gaps is not sustainable.

After several years of tightening budgets, we recognise 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. The Commission will continue to have a close interest in how councils and IJBs are redesigning services to meet the needs of their communities.

I also encourage councils and IJBs to continue to do all they can to improve and develop their approaches to medium- and long-term financial planning. This is not easy, but it is a fundamental tool to support councillors and officers to make well-considered decisions and effectively manage the continuing challenges ahead. The Scottish Government has committed to providing three-year indicative budgets in the future, which the Commission welcomes, as this will support improved medium-term financial planning in councils and IJBs.

Finally, we note that again there has been some improvement with the quality of reporting on financial matters in councils. I encourage councils and IJBs to continue to improve the transparency and clarity of management commentaries and wider financial information provided to councillors and the public.

I hope you find this overview useful and would welcome any feedback you may have.

Graham Sharp
Chair of the Accounts Commission

Summary

Key messages

Councils:

1. In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).

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, 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.

3. 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.

4. 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.

5. Capital expenditure increased by £62 million (2.3 per cent) to £2.75 billion, with more spent on housing and less on education.

6. 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.

7. Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

Integration Joint Boards (IJBs):

8. A majority of IJBs struggled to achieve break-even in 2018/19, either recording a deficit or relying on additional funding from partners.

9. Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year.

10. 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.

11. Over a third of IJB senior staff have changed during 2018/19.

About this report

1. This report provides a high-level independent analysis of the financial performance of councils during 2018/19 and their financial position at the end of that year. It also looks ahead and comments on the financial outlook for councils. It is one of two overview reports that the Accounts Commission publishes each year. The second report comments on the wider challenges and performance of councils. It will be published in April 2020.

2. Our primary sources of information for the financial overview are councils' 2018/19 audited accounts, including management commentaries and the 2018/19 external annual audit reports for each council. We have supplemented this with data submitted by councils through local audit teams and to the Scottish Government through the Capital Provisional Outturn and Budget Estimates (CPOBE).

3. We refer to 'real-terms' changes in this report. This means we are showing financial information from past and future years at 2018/19 prices, adjusted for inflation so that they are comparable. Similarly, where 2019/20 comparisons are made we have adjusted for inflation to 2019/20 prices. We also refer to figures in 'cash terms'. This means we are showing the actual cash or money paid or received.

4. Throughout the report, we identify examples of questions that councillors may wish to consider, to help with understanding their council's financial position and to scrutinise financial performance. The Accounts Commission encourages councillors to use an appropriate level of challenge in scrutiny and ensure they receive sufficient information to answer their questions fully. The example questions are also available on our website in ***Supplement 1: Scrutiny tool for councillors***.

5. Accompanying this report, and to facilitate insight and comparisons across the sector, we have provided additional financial information on our **website**. We have also produced a separate document ***Supplement 2: Local Government Pension Scheme 2018/19***. We hope the data and LGPS supplement will be useful for senior council finance officers, their staff and other interested stakeholders.

Part 1

Councils' income in 2018/19

Key messages

- In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).
- 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).
- Since 2013/14, Scottish Government revenue funding to councils has reduced by 7.6 per cent.
- A growing proportion of Scottish Government revenue funding to councils is committed to national policy initiatives.

In 2018/19, Scottish council revenue income totalled £17.7 billion

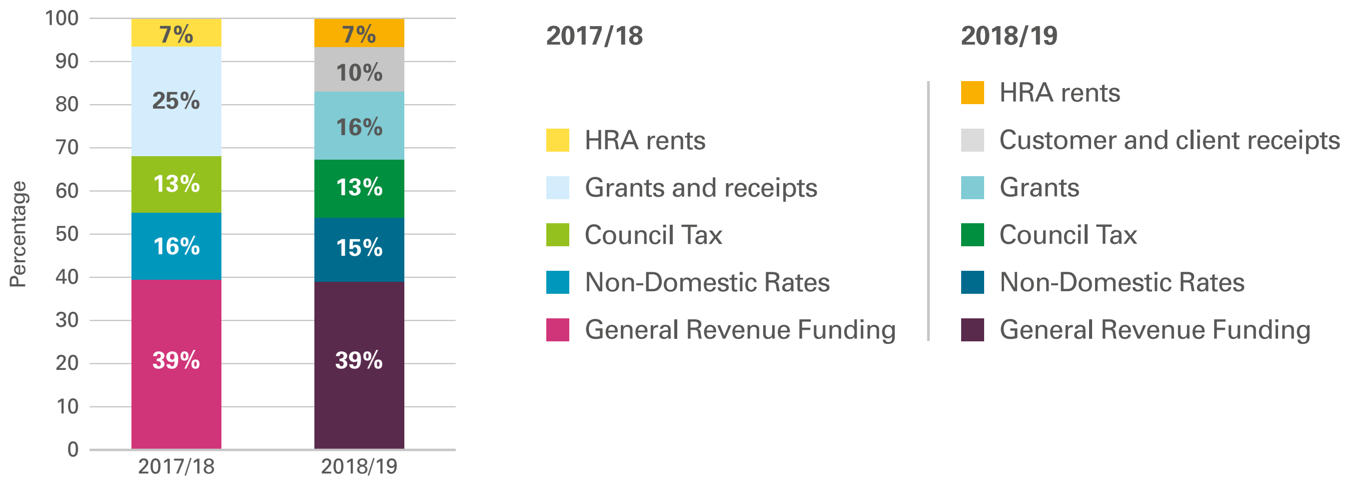
Councils' annual income increased slightly in 2018/19

6. Scottish councils get their annual funding and income from a range of sources (Exhibit 1). In 2018/19, these totalled £17.7 billion, which is an increase from 2017/18 (£17.3 billion). The main source of funding is the Scottish Government. In 2018/19, the Scottish Government provided £9.8 billion (compared to £9.7 billion in 2017/18).

Exhibit 1

Sources of council revenue income, 2018/19

Funding and income increased from last year to £17.7 billion.



Note: In the 2017/18 data, customer and client receipts are included in grants and receipts.
Source: Audited financial statements 2018/19 and 2017/18

Scottish Government funding

Scottish Government revenue funding fell by 0.7 per cent in real terms in 2018/19

7. In 2018/19, the **total revenue funding** from the Scottish Government increased by 1.1 per cent in cash terms and decreased by 0.7 per cent in real terms (Exhibit 2). The total revenue funding of £9.8 billion consists of the general revenue grant funding of £6.9 billion (70 per cent); Non-Domestic Rates (NDR) £2.6 billion (27 per cent); and specific grants making up the remaining £0.3 billion (3 per cent).

Exhibit 2

Changes in Scottish Government revenue funding in 2018/19

Scottish Government revenue funding reduced by 0.7 per cent in real terms in 2018/19.

	2017/18 £m	2018/19 £m	Cash %	Real %
Revenue Grant	7,019	7,159	2.0 ▲	0.2 ▲
NDR	2,666	2,636	-1.1 ▼	-2.9 ▼
Total revenue funding	**9,685**	**9,795**	**1.1 ▲**	**-0.7 ▼**
Health and Social Care funding via NHS	355	355		
	10,040	**10,150**	**1.1 ▲**	**-0.7 ▼**

Note: On 28 March 2018, the Scottish Government paid £34.5 million of additional funding to councils. This is included in the 2017/18 column above.

Source: Finance Circulars 4/2018 and 2/2019, and Scottish Government budget documents

Since 2013/14, Scottish Government revenue funding to councils has reduced more than to other areas

8. Funding from the Scottish Government to local government between 2013/14 and 2018/19 decreased by 7.6 per cent over these six years, in real terms (Exhibit 3, page 11). Scottish Government revenue funding across other areas decreased by 0.4 per cent over the same period, demonstrating that local government funding has undergone a more significant reduction than the rest of the Scottish Government budget over this period.

9. However, the gap between local government revenue funding and the rest of the Scottish Government revenue budget narrowed in the last year (between 2017/18 and 2018/19) to 7.2 per cent.

How Scottish Government funding is distributed is to become more transparent

10. Grant-aided Expenditure (GAE) is the main distributing methodology for determining Scottish Government revenue funding provided to councils. The remaining Scottish Government revenue funding is determined by a range of other separate non-GAE methodologies agreed by the Scottish Government and COSLA.[1] Over time, the proportion of the non-GAE element of funding has grown and in 2019/20 represents a third of the total funding.

Total revenue funding

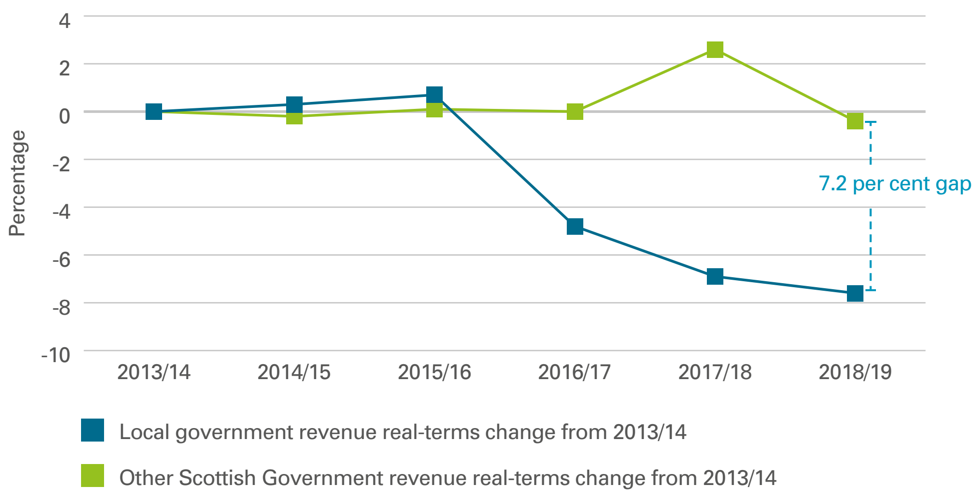
This consists of general resource grants, specific revenue grants (together known as revenue grants) and Non-Domestic Rates income (NDR).

It does not include health and social care funding paid to local government via the NHS.

Exhibit 3

A comparison of real-terms changes in local government and other Scottish Government revenue funding

Over the last six years local government revenue funding from the Scottish Government fell by 7.6 per cent, while other Scottish Government revenue funding fell by 0.4 per cent.



Source: Scottish Government budget documents and financial circulars

11. In our financial overview report in 2017/18, we reported on the lack of transparency of the calculations for the non-GAE distributions to individual councils. The Scottish Government has now provided this information to the Local Government and Communities Committee of the Parliament, SPICe[2] and COSLA. It is also planning to include the methodologies used for the specific revenue grants and other non-GAE funding within their annual Grant Aided Expenditure *Green Book* publication from 2020/21.

A growing proportion of funding is committed to national policy initiatives

12. The Commission commented in its report *Challenges and performance 2019* 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. There are different approaches to describing the scope of this flexibility by stakeholders; different figures and language complicate this.

13. Within the £9.8 billion Scottish Government revenue funding, a relatively small, but growing, element is identified by the Scottish Government as specific revenue grants, set out in the annual settlement to councils. This money is ring-fenced to fund identified policies, such as the Pupil Equity Fund, Criminal Justice and Early Years Expansion. These grants totalled £0.3 billion in 2018/19 (£0.5 billion in 2019/20). The Scottish Government's view is that other funding is not ring-fenced and it is therefore at the discretion of councils how they deliver commitments and services with these funds.

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

14. In addition to specific revenue grants, funding for other national policy initiatives is set out in the annual settlement but not formally ring-fenced. These are mainly initiatives linked to education and social care. Collectively, ring-fenced and funding linked to other national policy initiatives, increased from £0.6 billion to £1 billion, between 2018/19 and 2019/20. This is around 10 per cent of Scottish Government funding to councils. The Commission has previously highlighted that education and social care represent over two-thirds of councils' spending and, 'although it is possible to make savings in these areas, national priorities, statutory obligations and demand for services make this challenging'.[3]

COSLA identifies reducing flexibility based on estimated expenditure

15. COSLA has also described its position on the flexibility of councils' budgets. It has taken a different and wider approach to this. It focuses on estimated expenditure. It identifies expenditure areas that have been ring-fenced or are protected through obligations created by current and past Scottish Government policy initiatives, demand pressures, or fixed obligations such as loan charges. For 2019/20, the most significant areas that COSLA identified included:

- primary and secondary teacher staff costs (£2.5 billion)
- all adult social work costs devolved to IJBs (£2.7 billion)
- loan charges (including PPP costs) (£0.7 billion)
- and other areas such as Council Tax Reduction Scheme (£0.4 billion) and Early Learning (£0.4 billion).

16. 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; 60 per cent in 2019/20.

Other income

Council tax increases of three per cent increased total income slightly

17. As identified in our report *Challenges and performance 2019* all councils increased council tax rates by the maximum allowable three per cent in 2018/19. With increases in the number of properties, total council tax increased by £97 million (4.2 per cent increase) in 2018/19. As only 10 to 19 per cent of funding and income is raised through council tax, this only produces an increase of around 0.5 per cent.

Councils rely on a significant element of grant and NHS income

18. This year, for the first time, we have used financial statements and information collected from auditors, to provide an insight into the extent of grant income received by councils. In a small number of councils this was hampered by a lack of clarity in the accounts about grant income credited to services. Our analysis shows that £3.0 billion (16 per cent) of income was revenue grant income received by Scottish councils (and credited as income to services) in 2018/19.

How dependent is your council on the various sources of income compared to other councils, including: Scottish Government funding, grants, council tax and receipts from customers/clients?

Challenges and performance 2019
March 2019

19. The major components of this grant income include:

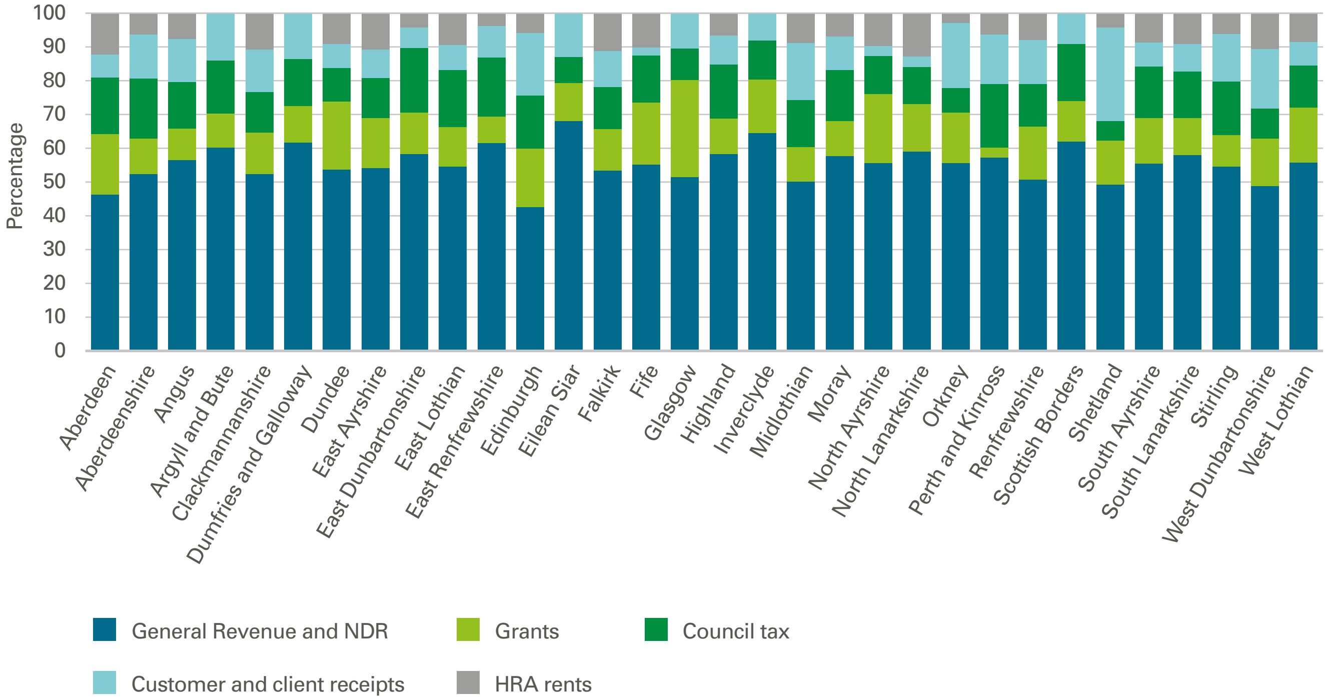
- Housing benefit grants from the Department of Work and Pensions totalling £1.4 billion.
- NHS income, £0.7 billion, including resource transfer and integration fund transfers.
- Scottish Government ring-fenced and other non-government grants of £0.9 billion (including criminal justice, pupil equity and attainment funding and early learning grants).

The proportion of income from each main source varies significantly across councils

20. There are major differences between councils in the nature and scale of income (Exhibit 4, page 14). The most obvious of these is house rents, where six councils are not registered social housing providers, and so do not generate income from housing rents. However, there are other major differences between councils when looking at other sources of income:

- Some councils are less reliant on general revenue funding from the Scottish Government and NDR than others. This ranges from City of Edinburgh Council (43 per cent) to Eilean Siar (68 per cent).
- The other two islands authorities, Orkney and Shetland, have significant harbour activities which generate locally significant income streams of £15 million and £30 million, respectively.
- Some councils have relatively low income from fees and charges for services. There may be local policy reasons for this.
- Some councils generate relatively higher levels of income from council tax. East Dunbartonshire and Perth and Kinross councils rely on council tax to provide 19 per cent of their total income and funding (excluding HRA). In comparison, all three island authorities (Shetland, Orkney and Eilean Siar) realise less than 10 per cent of their total income from council tax.
- Some councils receive a greater proportion of income from grants and NHS funding. The most significant of these is Glasgow City Council which has 29 per cent (£680 million) of its total income from this source. This includes £329 million of housing benefit subsidy, £148 million from the NHS and £58 million of ring-fenced grants from the Scottish Government.

Exhibit 4
The proportion of income from each source for each council
Some sources of income are more important to each council.



Source: Audited financial statement 2018/19

Part 2

Councils' financial position in 2018/19

Key messages

- 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.
- 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.
- 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.
- The value of pension liabilities in councils increased by £0.5 billion to reflect the impact of the McCloud case.
- Councils should continue to improve the transparency of the management commentary.

Council budgets and outturn 2018/19

The 2018/19 three per cent funding gap was less than the previous year
21. Councils' 2018/19 budgets identified total final net expenditure of £12.2 billion. These were not fully met by budgeted income. The funding gap was £0.4 billion (three per cent). In 2017/18, the shortfall was £0.5 billion (four per cent).

22. Councils planned to manage funding gaps through savings. On average, councils delivered 87 per cent of planned savings. However, there was significant variation in how individual councils performed against their savings targets:

How big is the funding gap for your council relative to the total budget?

- Moray Council, which planned to deliver savings of £6.3 million, achieved savings of £7.2 million or 114 per cent of its target. Inverclyde, North Ayrshire and West Lothian councils also performed well against their savings targets.
- Shetland Islands Council, which planned to deliver savings of £1.9 million, achieved savings of £0.4 million or just 21 per cent of its target.

A higher proportion of the funding gap was met from reserves than planned

23. Some councils planned to use reserves to present balanced budgets. An analysis of data from a sample of 18 councils shows that planned use of reserves for 2018/19 was £52 million. The combined total funding gap for these councils was £272 million, of which planned use of reserves represented 19 per cent. The actual use of reserves by the sample of 18 councils was higher than planned at £71 million.

Usable reserves

24. All councils hold reserves but there is variation in the nature and value of these reserves. Reserves play an important role in good financial management of councils. They may be used to invest in a major project, transform services or respond to unexpected events. Reserves are a one-off resource so councils need to plan carefully for their use. Exhibit 5 (page 17) shows the nature and value of usable reserves in 2018/19. Over 77 per cent of the total balance is made up of revenue reserves which include the general fund, housing revenue account, insurance, repairs and renewals funds and other specific funds, eg harbour. The remainder relates to capital reserves which are used to support the costs associated with capital investment projects.

In 2018/19, 16 councils ended the year with a lower level of usable reserves

25. Across all councils there was a net decrease in usable reserves of £6 million to £2.5 billion. Sixteen councils ended the year with a lower level of usable reserves in 2018/19, which is relatively consistent with 2017/18 (18 councils).

26. Examples of councils with notable reductions in usable reserves in 2018/19 include:

- West Dunbartonshire reduced usable reserves by £6 million (or 28 per cent), which mostly related to the housing revenue account balance being used to fund capital expenditure.
- South Ayrshire used £7 million (or 17 per cent) of its reserves. This relates to a draw on its committed general fund in line with its budget plans.
- Moray drew down £4 million (or 16 per cent) from reserves, using its uncommitted general fund to support the 2018/19 financial position. This was part of the approved budget plan.

What are your council's plans for meeting the current and future funding gaps – savings plans, efficiencies, reduction in services, or transformation, increased charges, use of reserves?

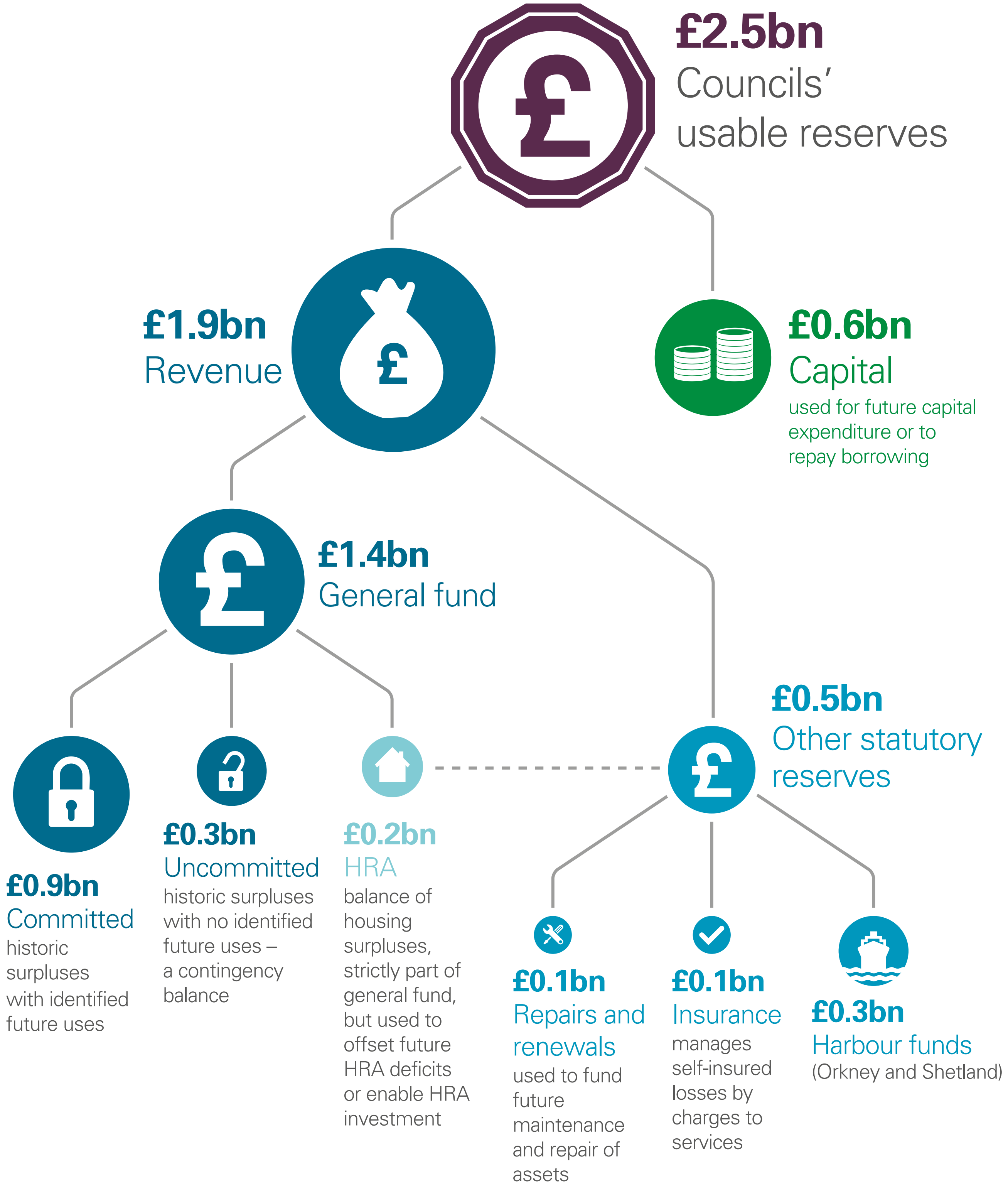
Are there significant elements of unidentified savings in the agreed budget or are all planned savings actions clearly identified?

How well are you kept informed about progress against savings plans?

Does your council have a transformation plan? Does it clearly set out the aims and objectives and how and when these will be achieved?

How effectively are you engaged and informed about the council's transformation programme and kept informed about progress?

Exhibit 5
The relative size and nature of councils' usable reserves
In 2018/19, usable reserves held by councils totalled £2.5 billion.



Source: Audited financial statements 2018/19

Revenue reserves

Across Scotland councils increased their use of revenue reserves

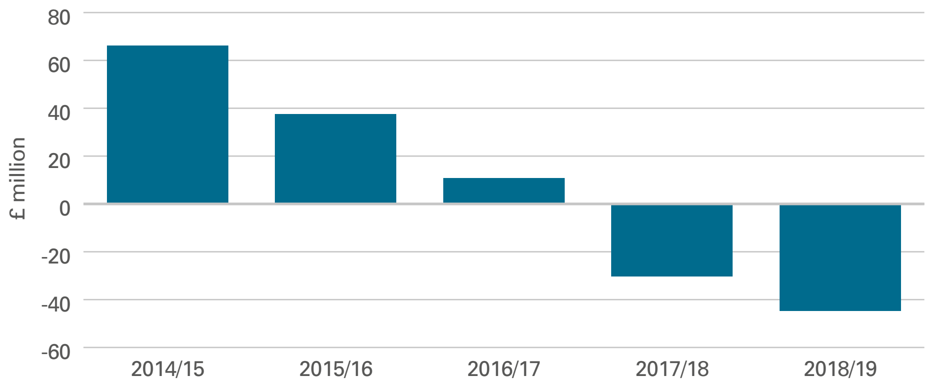
27. In recent years, councils have been increasingly turning to reserves to address funding gaps or apply to identified earmarked expenditure. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed from councils adding to revenue reserves to an increasing draw on their revenue reserves (Exhibit 6).

Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million.

Exhibit 6

The movement in usable revenue reserves

Councils have been increasing their use of (rather than adding to) revenue reserves over the last two years.



Source: Audited financial statements 2014/15–2018/19

General fund reserves

Councils have committed varying proportions of their general fund reserves

28. The total revenue reserve position includes a general fund reserve and councils can commit to using general fund balances for specific purposes in future years or maintain some as uncommitted. In last year's report, we highlighted the importance of councillors understanding the purpose of committed (or earmarked) reserves. We found that nearly all councils set out the purpose of their earmarked reserves, but the intended timing of this expenditure is not always clear. Knowing when the expenditure is likely to be incurred is an important part of understanding the need for these reserves.

29. The uncommitted element is used to provide against unforeseen circumstances and mitigate the financial impact of these. Councils have different strategies for managing the level at which they maintain an uncommitted balance (Exhibit 7, page 19). Most have a reserves policy that sets out a minimum level of uncommitted general fund to be maintained. This typically varies from one per cent to four per cent of expenditure across councils. Some councils, including North Lanarkshire and West Lothian, take a risk-based approach to identify an appropriate level for the uncommitted general fund each year. For both these councils this approach has led to a relatively low level of uncommitted general fund.

What is your council's reserves policy?

Do committed/earmarked/specific reserves have clear purpose and projected cashflows or are they part of the general contingency or uncommitted general fund?

30. The Best Value Assurance Reports for North Lanarkshire and West Lothian both comment on the low level of uncommitted general fund but recognise that it has been set at a desired level and successfully maintained over several years. However, councils with a low level of uncommitted general fund are more exposed to the risk of an unexpected change in circumstances.

Exhibit 7

General fund as a proportion of net annual revenue split between committed, uncommitted and HRA

All councils hold an uncommitted general fund to protect against unforeseen financial pressures.

Note: Orkney and Shetland also have significant harbour funds which are not included above.
Source: Audited financial statements 2018/19

Twenty-three councils have reduced their general fund reserves over the last three years

31. In recent years, there is significant variation in whether councils have added to, or drawn on, their general fund reserve (including the housing revenue balance). Exhibit 8 (page 20) shows the average annual movement on the general fund over the last three years (as a percentage of the total remaining balance at 31 March 2019). Shetland has experienced a relative increase in its general fund of 24 per cent while Moray has experienced a similar relative reduction.

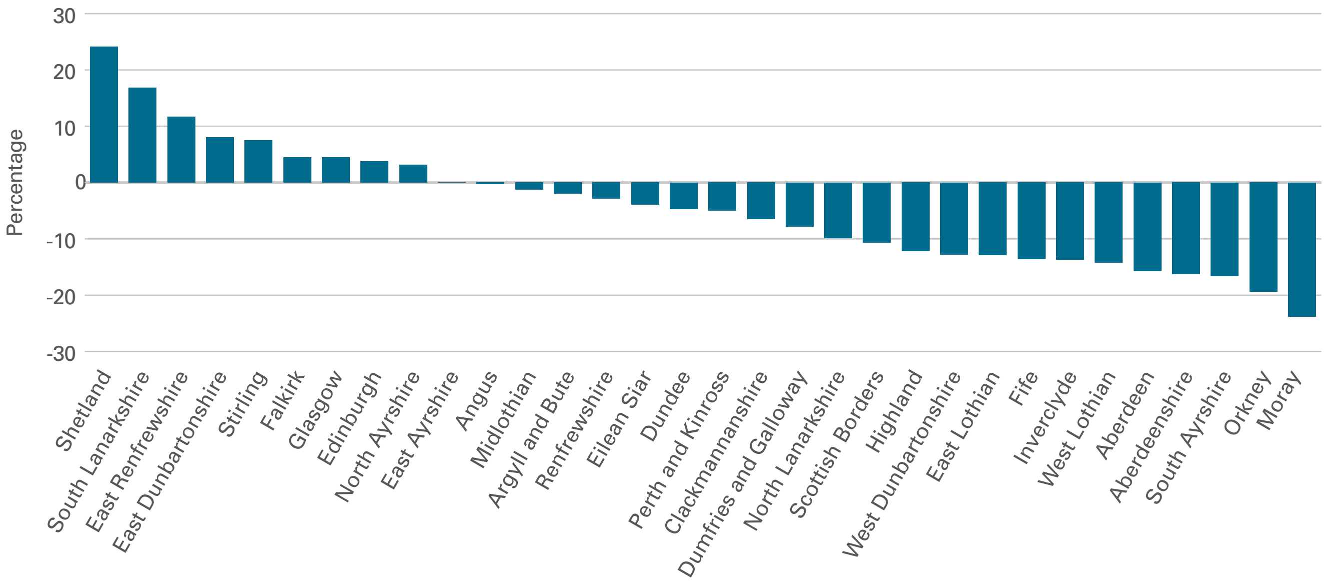
32. Although no council has a position where this rate of depletion would eliminate the total general fund within three years, one council (Moray) would deplete its general fund within five years. The total general fund reserve is £14 million and Moray Council has identified that a further £3.7 million draw on reserves will be required to balance the 2019/20 budget (compared to £4.6 million in 2018/19 and an average of £3.6 million over each of the past three years). The council's budget papers clearly recognise that this approach to financial management is not sustainable and that funding gaps over the medium term will need to be funded from savings, which have not yet been identified.

Is the council using up its reserves and is it likely to deplete these over the medium or long term (within 5 or within 10 years)?

Exhibit 8

Average annual movement in general fund over the last three years

Some councils are reducing general fund reserves by significant amounts.



Source: Audited financial statements 2015/16–2018/19

Capital

Total capital spending was £2.75 billion with more spent on housing and economic development and less on education

33. Capital expenditure increased by £62 million or 2.3 per cent in 2018/19 to £2.75 billion. A larger proportion was spent on housing and economic development than in the previous year (Exhibit 9, page 21). These two areas now account for 44 per cent of total capital expenditure (39 per cent in 2017/18). The proportion of capital expenditure on education has fallen from 27 per cent in 2017/18 to 20 per cent in 2018/19.

34. Some of the major new investments include:

- East Ayrshire Council – Barony Campus. This is the biggest capital investment project ever undertaken by East Ayrshire Council with an estimated total cost of £68 million. On the outskirts of Cumnock, the campus consolidates five schools into one campus.
- City of Edinburgh Council – Additional investment in educational properties, roads and social housing through the housing development fund with over 700 new homes under construction and a further 3,000 homes in design and development stages. The council is also providing funding for homes for mid-market rent from private developers through the National Housing Trust and through the Edinburgh Living LLP.

What are your council's medium-term and long-term plans for capital spending?

How well are you kept informed about progress against capital plans?

How well do you understand the reasons for any underspend against the annual capital budget?

- Midlothian Council – Newbattle Community Campus. A £38 million hub project opened in May 2018 as the council's first 'centre of excellence in digital technology' providing enhanced education and leisure facilities for Newtongrange, Mayfield, Gorebridge and the surrounding communities.

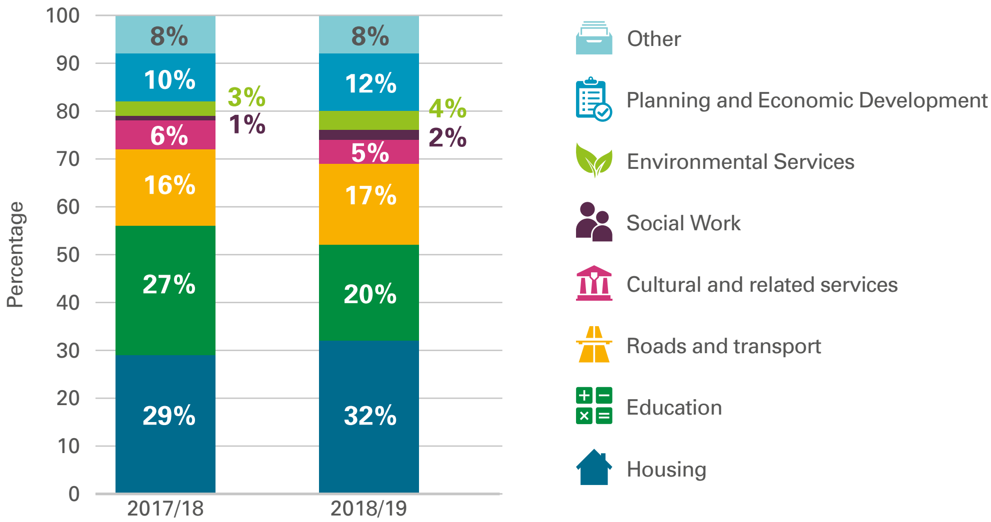
Investment has led to an increase in the number of council houses

35. Across Scotland, social housing is provided by a mix of housing associations and councils. Twenty-six councils in Scotland provide social housing. Fife and North Lanarkshire have the most housing stock (in excess of 30,000 properties each).

Exhibit 9

Capital expenditure by service area 2018/19 and 2017/18

A larger proportion was spent on housing and economic development and less on education in 2018/19.



Source: Scottish government CPOBE – capital provisional outturn (and budget expenditure)

36. We are now seeing the effect of housing investment and the end of the right-to-buy scheme leading to an increase in social housing stock. The total number of houses at 31 March 2019 has increased by 1,950 to 315,649. Edinburgh increased its housing stock by four per cent (719 properties) and West Lothian increased its housing stock by three per cent (434 properties). Falkirk, Highland, North Lanarkshire, Renfrewshire and South Lanarkshire have also increased their housing stock, each by more than 100 homes. East Ayrshire has experienced the biggest decrease, reducing its house numbers by 264.

Government grants and money from councils' revenue budget continue to be the main sources of funding for capital expenditure

37. The sources of capital expenditure funding in 2018/19 are mostly consistent with 2017/18 and include:

- £1.1 billion of government grants (£60 million or six per cent higher than 2017/18).
- £0.9 billion taken from council revenue (capital financed from current revenue and loans fund charges).
- £0.6 billion increase in the underlying need for councils to borrow.

Auditors reported underspends in annual capital budgets at a number of councils

38. A number of the local auditors in their annual audit reports identified that councils had significant underspends against their annual capital budgets:

- Aberdeen City's 37 per cent underspend is in part due to the reprofiling of four proposed new primary schools, delays with the Union Terrace Gardens Project and in settling land claims for the Aberdeen bypass.
- West Dunbartonshire underspent by 41 per cent. We reported in the *Best Value Assurance Report* (June 2018) that there has been a trend of significant levels of capital slippage at the council over a number of years and recommended that the council review its project management processes and consider performing self-assessments to identify areas for improvement.
- Orkney Islands' 50 per cent underspend is due to weaknesses in forward planning arrangements and the auditor reported a history of capital slippage. Capital projects which experienced slippage in 2018/19 include £3 million for the Scapa Flow Visitor Centre and Museum and £4 million for a new tug.

39. There can be local reasons for underspends against annual capital budgets that reflect the phasing of projects over a number of years. The key issue is that councillors understand whether annual underspends of budget are symptomatic of delays in overall capital project delivery and encourage officers to address these or refine the overall capital aspirations.

Debt

There is variation in the relative underlying borrowing position of councils

40. The underlying borrowing position of councils varies across Scotland from 58 per cent of net annual revenue in Renfrewshire and Orkney to 237 per cent in Aberdeen City (Exhibit 10, page 23). Overall gross debt levels have grown by £0.7 billion (or four per cent) in the last year. Councils with higher borrowing levels usually incur higher annual costs of servicing the debt and may have less headroom for further affordable borrowing.

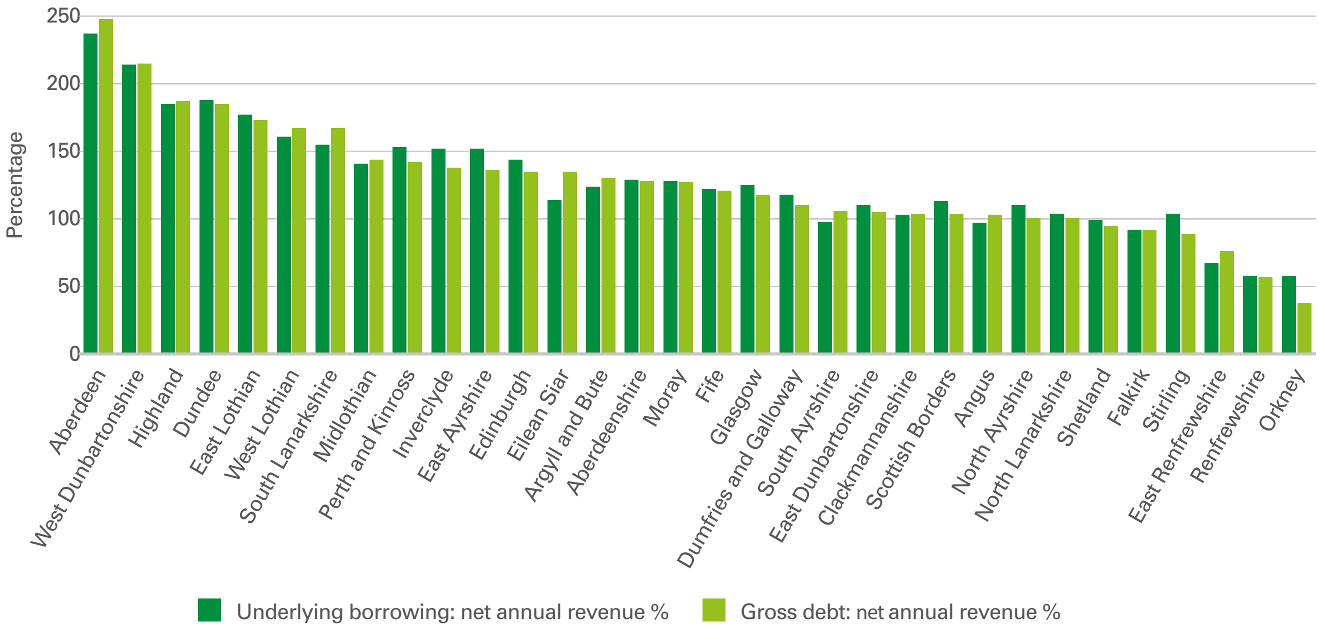
What is your council's current debt position relative to its annual revenue?

41. The underlying borrowing position consists of the net debt of the councils at 31 March 2019 (total debt less investments and cash) adjusted for total usable reserves. This is because a council with significant reserves that are not cash-backed would need to borrow more in the future to realise these reserves.

Exhibit 10

Underlying borrowing and gross debt as a proportion of net annual revenue

The underlying borrowing position of councils varies from 58 per cent to 237 per cent of net annual revenue.



Source: Audited financial statements 2018/19

Total net debt across councils has increased by £0.3 billion, mainly due to three councils

42. The different sources of debt held by councils comprises:

- The Public Works Loans Board (PWLB), a UK Government agency that issues loans to local authorities and other specified bodies (56 per cent).
- Other market loans (27 per cent).
- Other long-term liabilities from assets acquired through public private partnerships including Private Finance Initiative (PFI), Public Private Partnership (PPP) and Non-Profit Distributing (NPD) models (17 per cent).

43. Total net debt has increased by £0.3 billion (2.3 per cent), from £15.1 billion in 2017/18 to £15.4 billion in 2018/19. Three councils account for most of the movement in net debt this year:

- Aberdeen City Council – an increase of £203 million (21 per cent) due to an increase in PPP liabilities and short term borrowing from other local authorities to fund capital investment.
- East Ayrshire Council – increase of £67 million (20 per cent) due to an increase in finance lease liabilities for an NDP schools project that the council occupied in the year.
- Dundee City Council – increase of £66 million (10 per cent) due to an increase in borrowing to fund the council's capital programme, including £12.4 million for council housing.

The overall cost of servicing debt is unchanged but councils incur different levels of spend on their annual revenue

44. Total interest costs remain consistent year-on-year at £0.8 billion. In 2018/19, these payments varied from 10 per cent of net annual revenue in Aberdeen to two per cent in Orkney with 19 councils spending more than six per cent of their net annual revenue on debt interest. Higher interest costs can reflect the extent, type and age of debt held.

How much of the council's budget is used to pay interest and debt repayments?

Most debt is fixed interest, but PFI/PPP/NPD schemes are variable interest

45. Most council borrowing comes from the PWLB and this is usually issued at a fixed interest rate. Our analysis from auditors found that fixed interest payments made up around 65 per cent of total interest payments in 2018/19. In October 2019, the UK Treasury announced that interest rates on new PWLB loans would rise from 1.81 per cent to 2.81 per cent. This will make new PWLB borrowing or refinancing of debt for councils more expensive.

Are you given clear and sufficient information to understand risks and support decisions about future borrowing?

46. The remainder relates to interest payments on PFI/PPP/NPD agreements (30 per cent), where unitary charges are typically linked to RPI and variable interest loans (five per cent). Aberdeen City Council issued index-linked bonds in November 2016, raising £415 million to support its capital investment programme. This is also linked to RPI and the income generated by the new Aberdeen Exhibition and Conference Centre is expected to contribute to the cost of servicing the bond each year.

Provisions and equal pay

Glasgow City Council agreed to settle equal pay claims at a cost of £0.5 billion

47. In last year's report, we highlighted that the impact of equal pay claims on Glasgow City Council's financial planning could be significant. In May 2019, the council agreed to settle outstanding equal pay claims at a total cost of £0.5 billion. The council has developed a funding strategy that will spread the cost of settlement over several years and this has been built into the council's baseline budget from 2019/20 onwards. The funding strategy includes one of the council's arm's-length external organisations (ALEOs) refinancing an existing loan with Barclays Bank and remitting this to the council as a member contribution. The second element involves a sale and leaseback arrangement of property with the same ALEO. The local auditor assessed the overarching governance arrangements of the equal pay project, along with the controls in place around the calculation and payment of settlements and considered them to be appropriate.

48. The settlement does not fully extinguish the council's equal pay liability. The council is currently working towards implementation of a new pay and grading system by April 2021, and a liability may remain until the new system is in place.

Pensions and severance

Employer pension liabilities increased as a result of the McCloud case

49. Councils' share of the Local Government Pension Scheme (LGPS) net liability at 31 March 2019 increased by 41 per cent to £9.3 billion, compared to £6.6 billion at 31 March 2018.

50. In 2015, the government introduced reforms to public sector pensions. In December 2018, the Court of Appeal ruled, in the McCloud case, that the transitional protection offered to some members of the judicial and fire fighters' schemes as part of the reforms amounted to unlawful discrimination – www.judiciary.uk/ . As all care schemes introduced in 2015 contained transitional protection, all schemes are likely to be unlawful. This includes the local government pension funds. On 27 June 2019, the Supreme Court denied the UK Government leave to appeal and the UK Government conceded that the protections in place were discriminatory on grounds of age. In accordance with accounting standards, this was regarded as an adjusting event after the balance sheet and councils were advised to adjust their unaudited financial statements.

51. In June, the Government Actuary's Department (GAD) provided actuarial firms with a methodology for estimating the likely impact of the rulings on pension liabilities. Local government pension fund actuaries were requested to apply the GAD assumptions which generally resulted in an increase in the net pension liabilities.

52. The impact of McCloud on council finances will become clearer at the next triennial revaluation of pension funds at 31 March 2020, when contribution rates are redetermined. There may be a funding pressure, with councils having to make additional future employer contibutions to cover the increased liabilities.

Other issues affected revised pension liabilities

53. While the impact of McCloud was the main element in the revised figures, there were other factors involved including Guaranteed Minimum Pension (GMP) equalisation (due to contracting out of the state earnings related pension scheme (SERPS) in April 1978). This provided for reduced employer and employee National Insurance contributions in return for members receiving a GMP from an occupational pension scheme. GMPs are discriminatory in various ways. For example, they are payable at 60 for female members and 65 for male members and they have built up at different rates, reflecting the earlier payment age for women. An interim method of calculating the cost of persons retiring between April 2016 and April 2021 has been agreed by HM Treasury.

54. In a few other cases, there were specific issues which were updated in the revised actuarial valuations. For example, in Aberdeenshire, the actuary had not reflected the impact of the backdated pay award, and in Aberdeen City, Stirling and Dumfries and Galloway, the initial calculations were based on the estimated investment position for the year end and this was revised to actual data in the audited statements.

55. The total impact of the above issues on councils' pension liabilities was £0.5 billion (or 5.5 per cent).

Local auditors reported some issues with severance cases

56. Some auditors reported that business-case calculations of the cost and benefits of severance were not taking into account all costs that they would expect to see. Auditors also found that some councils were using longer than expected payback periods: this is the length of time it would take the council to recoup the cost of the severance through expected savings in salary costs. The Scottish Government recommends this be no longer than two years, but auditors found examples of this being up to five years.

57. These severance cases often came as the result of restructuring at senior levels, with the intention of making future cost savings. Councils need to ensure that a robust business case is prepared for severance or early retirement that considers the long-term financial commitment of these decisions.

Does the council prepare business cases for severance proposals and are these reported to councillors?

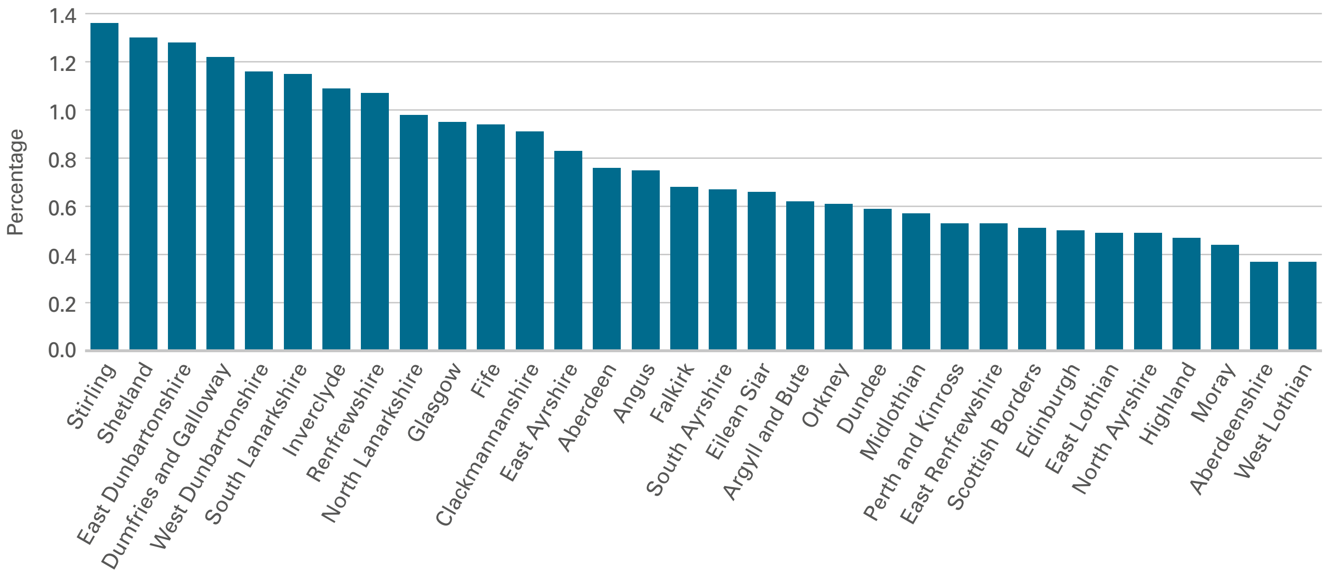
All councils have ongoing commitments in respect of unfunded pension liabilities, but the extent of these costs vary

58. Unfunded liabilities are pension amounts that are not met by the pension schemes, but by the individual employer. These can occur when an employer approves an early retirement, without actuarial reduction and with enhanced pension. All councils have ongoing commitments arising from past decisions on early retirements. Exhibit 11 shows that for some councils this ongoing cost represents more than one per cent of their annual net operating expenditure.

Exhibit 11

Annual cost of unfunded benefits as a percentage of net operating expenditure

Annual payments for historic early retirements vary significantly.



Source: Audited financial statements 2018/19 and IAS19 valuation reports by actuaries

Financial management and transparency

Management commentaries do not always explain the link between budget outturn and the financial performance in the accounts or achievement of planned savings targets

59. In last year's report, we highlighted three key aspects to an assessment of whether financial reporting is transparent in the management commentaries:

- Is the outturn against budget position for the year clearly shown with the reasons for significant variances obvious?
- Is the outturn reported in the narrative reconciled to the movement in the general fund contained in the financial statements and major differences explained?
- Is progress against agreed savings reported?

60. Our review of 2018/19 management commentaries found that:

- Both Comhairle Nan Eilean Siar and The Highland Council included these key aspects of transparency in their management commentaries.
- Nearly all councils reported their year-end outturn, but five councils did not provide explanations for significant variances from budget.
- Nine councils reported the outturn in the management commentary but this was not reconciled to the financial performance in the accounts. This narrative is critical to the understanding of a council's performance against budget and how this translates into the movement on the general fund reported in the accounts.
- Only ten councils reported progress against agreed savings.

Management commentaries

A management commentary is a report by the council, set out with its annual accounts. It should provide information on the council's strategic priorities and key risks, as well as a balanced analysis of the financial and wider performance of the council in the year.

Does the management commentary of the council (and of the IJB accounts) show the outturn against budget reconciled to movement in the general fund and progress against agreed savings plans?

Part 3

Councils' financial outlook

Key messages

- 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).
- 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).
- 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.
- 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.
- All councils have medium-term financial planning covering three years or more. Long-term financial planning has not progressed since last year.
- The Scottish Government has made a commitment to set out multi-year budgets, which will assist councils with financial planning.
- Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

2019/20 funding settlement

Scottish Government revenue funding to local government in 2019/20 increased by 0.9 per cent in real terms

61. The Local Government revenue settlement from the Scottish Government in 2019/20 increased by 2.9 per cent (cash terms) from 2018/19 to £10.1 billion. This was a real-terms increase of 0.9 per cent. Over 80 per cent of the increase is due to growth in specific revenue grant funding.

Medium- and long-term financial planning

The Scottish Government has made a commitment to set out multi-year budgets, which will assist councils with financial planning

62. The funding settlement to councils continues to be provided on an annual basis. This makes it challenging for councils to plan and budget effectively for the medium term. The Scottish Government planned to publish indicative multi-year revenue budgets in December 2019 covering a three-year period,[4] and to then publish a three-year indicative capital budget in the summer of 2020. However, it is unlikely to produce these this year. The Commission views this commitment to multi-year budgets as a positive step and will monitor and report on progress and the impact on council planning in future overview reports.

63. The Scottish budget is becoming increasingly complex. It is subject to greater uncertainty and volatility than when the majority of its funding was relatively fixed through the block grant from the UK Government. The way the Scottish economy performs relative to the rest of the UK now has a greater influence on public finances than ever before. Given Scottish Government funding remains the most significant source of income for councils, this volatility in the Scottish budget holds uncertainty and risks for funding to councils. This adds to the complexity and challenges for councils in planning for the medium and long term.

64. On 30 May 2019, the Scottish Government published its second medium-term financial strategy.[5] Income tax forecasts in the strategy suggest that the Scottish Government may need to budget for a significant revenue shortfall in each of the next three years, because forecasts have fallen since budgets were set. This shortfall could total £1 billion over the three years covered by the strategy.

65. The strategy continues to lack detail of proposed spending priorities or plans or how these might address the budgetary challenge. It does set out principles which will be used in a future spending review, although the timing of this remains uncertain. In September 2019, the Auditor General reported[6] that the strategy 'does not reflect all the basic components of a medium-term financial plan. It does not include indicative spending plans or priorities, or links to outcomes. There is no detail on how the Scottish Government would address a possible £1 billion shortfall due to forecast errors'.

All councils have medium-term financial planning, but the content could be improved

66. In 2019/20, all councils had financial plans that covered at least three years.

67. Medium-term financial plans should be at the core of strategic planning and decision-making. In order to ensure these decisions are made with the most current and accurate information, medium-term financial plans should be reviewed and refreshed annually and maintained as a rolling three- to five-year plan.

68. Local auditors reported that the content of medium-term financial plans varied:

- 28 (or 90 per cent) included estimates for Scottish Government funding
- 25 (or 81 per cent) included a total projection for net expenditure
- 18 (or 58 per cent) included projections of net expenditure at service level

Audit Scotland published a briefing in October 2019, *Scotland's new financial powers: Operation of the Fiscal Framework 2018/19*.

This sets out an overview of how the Scottish budget operated during 2018/19, how the Fiscal Framework operated, provides an update of the main risks that affect the Scottish budget and what these mean for the management of the Scottish public finances.

The 2018/19 audit of the Scottish Government Consolidated Accounts

September 2019

- 17 (or 55 per cent) included projections for service income
- 21 (or 68 per cent) included projections for the costs of borrowing.

69. There is scope for the content of financial planning to improve to include the elements in paragraph 68 (page 29) and assist members and other stakeholders in determining which services are likely to experience the biggest budget pressures, how service income is expected to contribute to the overall position and the extent to which relatively **fixed costs** such as borrowing and unfunded pension liabilities affect the budget position.

Fixed costs

Fixed costs remain unchanged in the short term over a wide range of activity. Their presence magnifies the effect of overall budget reductions or demand increases on the remaining budget.

A third of councils have financial plans that cover more than five years

70. Long-term financial planning has not progressed since last year. Financial planning, covering more than five years, was identified in just ten councils. Last year we reported 16 councils, but further work indicates some of these have not been updated and now refer to less than five years or are limited to capital expenditure plans.

71. Long-term financial planning is particularly important in the context of increasing financial challenges and wider demands on services, in order to manage financial challenges and to make well-informed decisions, which are aligned to council priorities.

Does your council have medium- and long-term financial plans and do they include a range of potential funding and financial scenarios?

Does the medium-term plan provide sufficient information on estimated Scottish Government funding, projected net expenditure (in total and for each service), projections for service income, projections for cost of borrowing?

Financial pressures in 2019/20 budgets

72. Councils' 2019/20 budget papers set out some common themes in the pressures that councils identified:

- Changes to staff-related costs generated significant pressure on budgets. For example, the local government pay offer made by COSLA and accepted by the Scottish Joint Council (SJC), which led to a pay increase of 9.5 per cent over the three-year period from 2018 to 2021.
- Demand pressures, particularly the expected population growth in some council areas, the increasing proportion of the population that is over 65 and over 75 years and other demographic changes.

Councils' identify a total funding gap of three per cent in 2019/20 budgets

73. Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (three per cent). This is consistent with the three per cent gap in 2018/19. This continues the increasing pressure on councils to find cost savings, reduce services, increase income and/or use reserves and these decisions are likely to become increasingly difficult for councillors.

74. The basis and timing of the reported gap can vary from council to council. For example, two councils stated their funding gap after including a council tax increase, but the majority included council tax as one of their measures to close an identified gap. Councils could be more consistent in their presentation of the funding gap.

75. Funding gaps identified in 2019/20 budgets ranged from one to seven per cent across councils. Councils most frequently reported a gap of between two and four per cent. Aberdeen City and Clackmannanshire councils identified the largest funding gaps, relative to the councils' total funding and income (excluding HRA), of between six and seven per cent.

Councils managed their funding gaps mainly through identifying planned savings

76. Exhibit 12 sets out the proposed measures to address the funding gap across councils. Savings plans were the most common action, contributing £352 million (66 per cent) to the identified funding gap. This will include plans for cost reduction and service redesign. Of these **savings** ⓘ, 96 per cent were 'recurrent', with only 4 per cent 'non-recurrent'.

77. Council tax increases provided a further £89 million (17 per cent) of income to bridge the gap. Increase to fees and charges for services made a minor contribution too (three per cent). The planned use of reserves made up the shortfall in the funding gap of £73 million (13 per cent) with 17 councils planning to use reserves to bridge the funding gap.

Savings

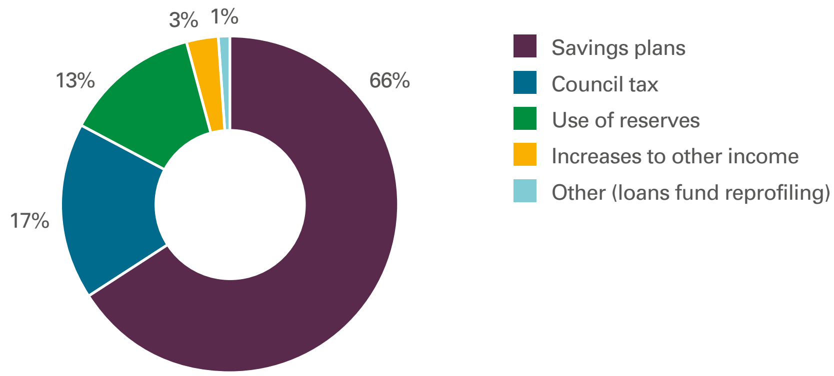
Recurring savings are savings, that once achieved, recur year-on-year from that date.

Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

Exhibit 12

Planned savings were the most common way of addressing funding gaps

66 per cent of the funding gap in 2019/20 is to be met through planned savings measures.



Source: Local auditor returns and council budget papers 2019/20

78. The position is unique to each individual council, for example East Renfrewshire Council identified a funding gap of £15.3 million, or five per cent of its funding and income (excluding HRA). The agreed budget identified that the gap was to be met through:

- Planned savings – £9.33 million (61 per cent)
- Use of reserves – £4.31 million (28 per cent)
- Three per cent council tax increase – £1.63 million (11 per cent).

Fees, charges and local taxation

Many councils have been increasing fees and some have introduced new charges

79. Charges for services vary across councils. For example, some councils do not charge for music instruction but the majority have an annual charge. This varies significantly from £117 in Inverclyde Council to £524 in Clackmannanshire Council.[7]

80. Many councils are increasing charges for services. An analysis of 18 types of charges indicates that two of the largest increases from 2018/19 to 2019/20 were applied to:

- Community alarms, 22 councils provided information on this charge and the average increase was 19 per cent.
- Bulky waste uplift, where 27 councils reported an average increase of eight per cent.

81. Some councils continue to introduce new fees and charges. These include:

- garden waste uplift
- the expansion of parking charges
- new charges associated with funerals (for example, use of multi-media)
- licensing (for example, new licences for public entertainment)
- planning services (for example, pre-application meeting charges).

Greater council tax increases were deployed in 2019/20 than in previous years

82. In 2019/20, the Scottish Government increased the cap on council tax increases to 4.8 per cent in cash terms (3.0 per cent in real terms). Twelve councils decided to increase council tax by the full amount (4.8 per cent). Thirteen councils increased it by three per cent and the other seven by between 3.9 and 4.5 per cent.

Councils continue to pursue new local taxes

83. As we reported in our report *Local government in Scotland: Challenges and Performance 2019*, local authorities are exploring new ways in which to raise tax locally.

84. The City of Edinburgh Council has endorsed a proposal for an Edinburgh transient visitor levy or 'tourist tax'. This would be based on a charge of £2 per room per night applying all year round for all accommodation types within the council boundary, except for campsites, for a maximum of seven consecutive nights. This scheme is expected to raise up to £14.6 million a year. Implementation of this will require legislation to be passed by the Scottish Parliament. The government has included a Transient Visitor Levy Bill in their 2019/20 programme for Scotland *(Protecting Scotland's Future: the Government's Programme for Scotland 2019–2020)*. The Bill aims to provide local authorities with discretionary powers to apply the charge with the income being used to fund local authority expenditure on tourism.

85. In October 2019, the Transport Act was passed. The Scottish Government supported amendments to the Bill at stage two of the legislative process, which provide local authorities with the discretionary power to apply a workplace parking levy.

EU withdrawal

86. EU withdrawal has the potential to exacerbate the existing financial pressures faced by councils. The risk of increased cost of goods and services from the EU is one of the more immediate concerns. Longer term, councils are concerned about the wider economic implications for public finances and the impact on their local areas. For example, increases in interest rates, reduction in business investment or an increase in unemployment and poverty are all risks to councils' communities and therefore to councils' financial planning.

87. The Scottish Government has allocated £1.6 million (£50k per council) to support ongoing work in councils to coordinate preparations for leaving the EU. It has also approved £7 million for a Rapid Poverty Mitigation Fund, to enable councils to respond to anticipated increased demand in the event of a no-deal exit. This includes scaling-up existing measures such as the Scottish Welfare Fund and Discretionary Housing Payments and supporting people in food or fuel poverty.

In December 2019, we plan to publish a briefing on how the public sector in Scotland has responded to EU withdrawal. This will be available on the **Audit Scotland website**.

Part 4

Integration Joint Boards overview 2018/19

Key messages

- 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.
- Over a third of IJB senior staff have changed during 2018/19.

Funding and expenditure

Overall, IJB budgets increased by three per cent in 2018/19
88. Overall total 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.

The pace of progress with integration has been too slow
89. The average proportion of NHS and council funding to IJBs (71 per cent/ 29 per cent) and expenditure incurred (64 per cent/ 36 per cent) remains consistent with the previous two years. This does not indicate any significant shift in health and social care spend between partners and this finding is consistent with the Scottish Government's spending and performance update.

90. As a result of concerns about the pace of health and social care integration, the Cabinet Secretary for Health and Sport commissioned a review of progress. This was conducted in late 2018. The Ministerial Strategic Group for Health and Community Care (MSG) published its findings in February 2019 and set out proposals for ensuring the success of integration. Following publication of its review, the MSG issued a self-evaluation template. This aimed to evaluate the current position on the findings of the review. This exercise will be repeated to demonstrate any progress made.

NHS in Scotland 2019
October 2019

91. The Auditor General commented in *NHS in Scotland 2019*, October 2019, in relation to health and social care reform that the pace of change has been too slow. She recommended that the Scottish Government in partnership with NHS boards and integration authorities should 'develop a new national health and social care strategy to run from 2020 that supports large-scale, system-wide reform, with clear priorities that identify the improvement activities most likely to achieve the reform needed'.

More IJBs now hold reserves, but this varies significantly

92. A further £34 million was added to IJB reserves in 2018/19, which now total £158 million or 1.8 per cent of total expenditure (1.5 per cent in 2017/18). Some of this increase in reserves is as a result of IJBs holding unspent earmarked funding from the NHS, including those associated with Primary Care Improvement Fund and the Mental Health Strategy. More IJBs now hold some level of reserve (26 in 2018/19 compared to 22 in 2017/18) (Exhibit 13, page 36). The IJBs without any reserve include Fife, Scottish Borders and South Ayrshire. One IJB, North Ayrshire, continues to hold a negative reserve of -£4.9 million. In 2018/19, the IJB started to repay this debt to the council and the remainder will be repaid in future years. This expectation of future 'repayment' of historic overspends is also identified as an issue in Argyll and Bute.

What is your IJB's reserve policy?

Are the commitments made reviewed annually to ensure they reflect the best use of the IJB's reserves?

93. Of those IJBs with reserves, the position varies from Argyll and Bute with 0.1 per cent of total annual expenditure held as reserve (£0.3 million) to Eilean Siar with 9.8 per cent (£5.8 million).

2018/19 financial position

The majority of IJBs struggled to achieve break-even

94. In 2018/19, 20 IJBs reported a surplus, two reported break-even and eight reported a deficit. The overall position was an underspend of £34 million. A number of IJBs failed to deliver all of their planned savings in the year and many have struggled to achieve financial balance, requiring additional funding from partners. Without this additional funding, 19 would have recorded a total deficit of £58 million.

Recruitment challenges present a risk to service sustainability

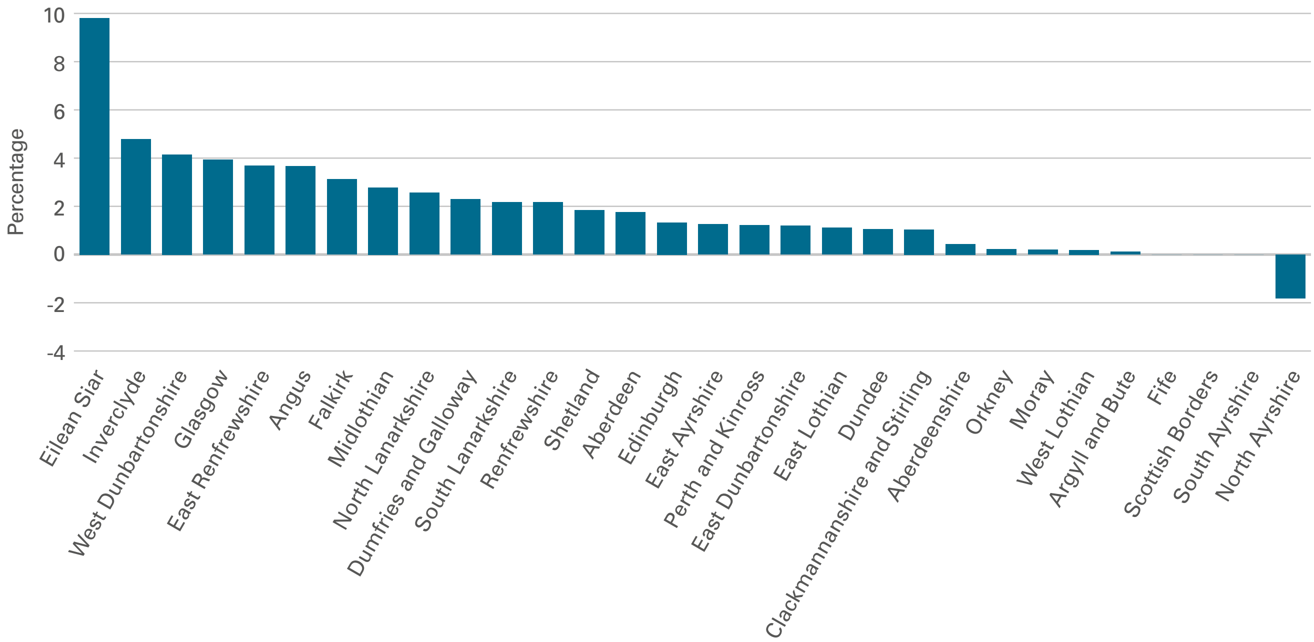
95. Some IJBs have indicated that staffing issues have contributed to either overspends or underspends against budgets.

96. In the case of Eilean Siar, recruitment difficulties contribute to underspends against the IJB budget. The apparent healthy financial position masks issues of service sustainability, which are stated in the IJB's management commentary: 'Recruiting staff is already proving difficult for both nursing and social care staff and is expected to worsen as the available workforce on the islands decreases.'

Exhibit 13

Integration Joint Board reserves as a percentage of total spend, 2018/19

More IJBs (26) now hold a reserve, but this varies significantly.



Source: Audited financial statements 2018/19

97. Other IJBs have highlighted the risks that recruitment difficulties could present for the sustainability of services in the future. In Dumfries and Galloway, consultant vacancy rates have averaged around 20 per cent over the last two years and there has been a seven per cent increase in the use of agency staff. Edinburgh has reported that 45 per cent of their workforce are aged over 50, which could cause capacity and supply issues in the future.

98. Audit Scotland's report, *NHS workforce planning – part 2*, highlights pressures on the primary care workforce linked to recruitment and retention. The Scottish Government acknowledges the pressures on the workforce but has not estimated the impact they will have on primary care services. Integration Joint Boards are responsible for planning, designing and commissioning services and need to think differently about how these services can be delivered with the resources available.

NHS workforce planning – part 2
August 2019

Financial planning

Budgets were not always agreed by 1 April and budgets included unidentified savings plans

99. Having clear, complete and detailed agreed budgets is a fundamental business and governance tool. Fourteen IJBs failed to agree a budget with their partners for the start of the 2018/19 financial year. This position improved for 2019/20, with 11 encountering a delay that meant the budget was not formally agreed by 1 April 2019.

Is a budget agreed by the IJB before the start of the financial year? If not, why not?

100. Just under half of IJBs had budgets that included some unidentified savings. This meant the budgets were not balanced at the start of the year.

101. Our review of annual audit reports found that several IJBs, including Fife and Shetland, failed to deliver planned savings in year. This will have contributed to the financial pressures incurred.

102. The results from the national self-assessment tool developed in response to the Auditor General and Accounts Commission's report, *Health and social care integration: update on progress*, and the *Review of Progress with Integration of Health and Social Care* report by the Ministerial Strategic Group for Health and Community Care indicate that IJBs recognise the timely agreement of budgets is an area for improvement. Eighteen IJBs assessed this area as either 'not established' or only 'partly established'.

Financial outlook

Medium-term financial planning is improving

103. Last year we reported that only a third of IJBs had a medium-term financial plan in place and that there was no evidence of longer-term financial planning. Since then, the position on medium-term financial planning has improved with auditors reporting that over two-thirds of IJBs have a medium-term financial plan. Over half of these covered a three-year period, with the remainder covering a longer period of between four and five years. Two thirds of the IJBs with medium-term financial plans reviewed them on an annual basis.

104. The plans typically included projections of net expenditure, income and projected funding gaps. Where estimates were included on pay growth, non-pay costs, demand and changes in government funding the estimated rates were found to vary significantly.

105. No IJBs had a financial plan that extended for more than five years. A focus on longer-term financial planning is required by IJBs as changes under integration are only likely to be achieved in the longer term.

The projected funding gap is £208 million for 2019/20

106. Auditors identified a total estimated funding gap of £208 million for 2019/20, representing 2.5 per cent of total income. This is an improvement in comparison to 2018/19 (£248 million or 2.9% of total income). The 2019/20 funding gap as a proportion of total income varied between zero and 7.6 per cent.

107. Exhibit 14 (page 38) shows how IJBs propose to bridge the 2019/20 funding gap. Of the £208 million, 59 per cent was anticipated to be met by identified savings and 30 per cent by unidentified savings plans. Seven IJBs planned to cover part of the estimated funding gap from reserves.

?

Does the medium-term plan provide sufficient information on host partner funding, projected net expenditure, projections for income, projections for cost of borrowing?

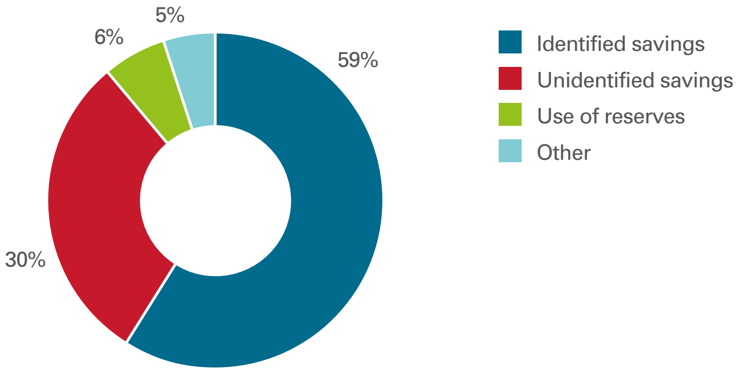
Does the IJB have a transformation plan?

Does it clearly set out the aims and objectives and how and when these will be achieved?

?

How big is the funding gap for your IJB relative to the total budget?

Exhibit 14
Plans to address 2019/20 funding gap
Savings had not been identified for 30 per cent of the 2019/20 funding gap.



Source: Auditor returns and IJB board papers

Wider governance issues

Over a third of IJB senior staff have changed during 2018/19

108. Based on data returns from auditors we found that over a third of IJBs have experienced turnover in their chief officer or chief finance officer in the year. In some cases, both these postholders have changed. Our report *Health and social care integration* highlighted the risk of leadership changes and capacity to the transformation of services and successful integration.

109. The annual audit report for Argyll and Bute notes that the turnover in key staff led to weaknesses in financial reporting and a reduced focus on the delivery of approved savings. The chief officer changed, and two chief finance officers left the IJB in an eight-month period. Interim cover on a part-time basis was provided by the council's section 95 officer from December 2018 to June 2019, when a permanent appointment was made to the new role of head of finance and transformation.

Health and social care integration: update on progress
November 2018

Endnotes

1 Convention of Scottish Local Authorities.
2 Scottish Parliament Information Centre.
3 *Local government in Scotland: Challenges and performance 2019*, Accounts Commission, March 2019.
4 SPICe briefing on the Scottish Government's Medium-term Financial Strategy, May 2019.
5 *Scotland's Fiscal Outlook*, Scottish Government, May 2019.
6 *The 2018/19 audit of the Scottish Government Consolidated Accounts*, Auditor General, September 2019.
7 *Instrumental Music Services: Results from the IMS Survey May–July 2018*, Improvement Service, 2018.

Local government in Scotland

Financial overview 2018/19

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Local government financial overview 2018/19

Scrutiny tool for councillors

ACCOUNTS COMMISSION

This scrutiny tool captures some potential questions for councillors and relates to our report *Local government in Scotland: Financial overview 2018/19*. It is designed to provide councillors with examples of questions they may wish to consider, to help identify how informed they are of their council's financial position in order to support them to scrutinise financial performance.

Questions for councillors to consider	What do I know?	Do I need to ask further questions?
Income		
1. How dependent is your council on the various sources of income compared to other councils – Scottish Government funding, grants, council tax and receipts from customers/clients?		
Council and IJB budgets		
2. Is a budget agreed before the start of the financial year? If not, why not?		
3. How big is the funding gap for your council/ IJB relative to the total budget?		

Cont.

Questions for councillors to consider	What do I know?	Do I need to ask further questions?
4. What are your council's plans for meeting the current and future funding gaps – savings plans, efficiencies, reduction in services or transformation, increased charges, use of reserves?		
5. Are there significant elements of unidentified savings in the agreed budget or are all planned savings actions clearly identified?		
6. How well are you kept informed about progress against savings plans?		
7. Does your council/IJB have a transformation plan? Does it clearly set out the aims and objectives and how and when these will be achieved?		
8. How effectively are you engaged and informed about the transformation programme and kept informed about progress?		
Reserves		
9. What is the council's/IJB's reserve policy?		
10. Do committed/earmarked/specific reserves have clear purposes and projected cashflows or are they part of the general contingency or uncommitted general fund?		
11. Are these commitments reviewed annually to ensure they reflect the best use of the council's/IJB's reserves?		
12. Is the council/IJB using up its reserves and is it likely to deplete these over the medium or long term (within 5 or within 10 years)?		

Cont.

Questions for councillors to consider	What do I know?	Do I need to ask further questions?
Capital		
13. What are your council's medium- and long-term plans for capital spending?		
14. How well are you kept informed about progress against capital plans and how well do you understand the reasons for any underspend against the annual capital budget?		
Debt		
15. What is your council's current debt position relative to its annual revenue?		
16. How much of the council's budget is used to pay interest and debt repayments?		
17. Are you given clear and sufficient information to understand risks and support decisions about future borrowing?		
Business cases for severance		
18. Does the council prepare business cases for severance proposals and are these reported to councillors?		
Transparency in accounts		
19. Does the management commentary of the council and IJB accounts show the outturn against budget reconciled to movement in the general fund and progress against agreed savings plans?		

Cont.

Questions for councillors to consider	What do I know?	Do I need to ask further questions?
Financial planning		
20. Does your council have medium- and long-term financial plans, and do they include a range of potential funding and financial scenarios?		
21. Does the medium-term plan provide sufficient information on estimated Scottish Government funding (or host partner funding), projected net expenditure (in total and for each service), projections for service income, projections for cost of borrowing?		

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Scottish Local Government Pension Scheme 2018/19

ACCOUNTS COMMISSION

1. This supplement accompanies our report *Local government in Scotland: Financial overview 2018/19*. It provides an overview of the Scottish Local Government Pension Scheme (SLGPS).

2. There are 11 main funds in Scotland, which cover all 32 councils and around 500 other employers. There are also a number of other funds – often 'Transport Funds' but unless otherwise identified, our comments refer to the 11 main funds. They range from one of the biggest pension funds in the UK (Strathclyde) to one of the smallest (Orkney).

Key messages

- SLGPS funding levels have reduced compared to last year and across Scotland the average funding level for 2018/19 is at 82 per cent. The value of scheme liabilities increased by 13 per cent, more than the growth in assets of seven per cent.
- Across the SLGPS, total contribution income from current members is increasingly less than the benefits paid. The difference is now -£75 million.
- Investment returns for each fund were between 5.3 and 8.8 per cent in 2018/19. These returns are more consistent across funds than in 2017/18.
- Six pension funds didn't meet their benchmark returns last year, but most of them exceeded their five-year benchmark.
- A decision by the Supreme Court in June 2019 (the 'McCloud Ruling') came after the unaudited accounts were prepared. Funds requested revised reports from their actuaries in order to quantify the increase in estimated liabilities as a result of the ruling. The estimated combined increase in the value of promised retirement benefits totalled around £500m.
- Management expenses are under-disclosed and there is a complex relationship between risk, return and costs.

Valuations

Funding levels, on an accounting basis, have reduced compared with last year to 82 per cent

3. Triennial valuations by actuaries provide the basis for assessing the overall position of LGPS funds (funding basis) that affect future contribution rates and investment strategies. The last triennial funding valuation was at 31 March 2017. Actuaries also prepare an annual valuation on an accounting basis. This uses a lower discount rate for long-term liabilities and produces a more cautious result than the triennial valuation. Comparing the last two accounting basis valuations (at 31 March 2018 and 31 March 2019) shows that funding positions have generally reduced. The weighted average funding level across Scotland is now 82 per cent compared with 87 per cent last year.

The value of scheme liabilities increased by 13 per cent, more than the growth in assets of seven per cent

4. The funding level compares the scheme's net assets (investments) with its liabilities (future estimates of pensions liabilities valued at current prices using a discount factor). Total assets have increased, compared with last year by seven per cent to £47.7 billion. However, the value of liabilities has also increased, to a greater extent, by 13 per cent to £57.9 billion. Key factors in the valuation of the liabilities include:

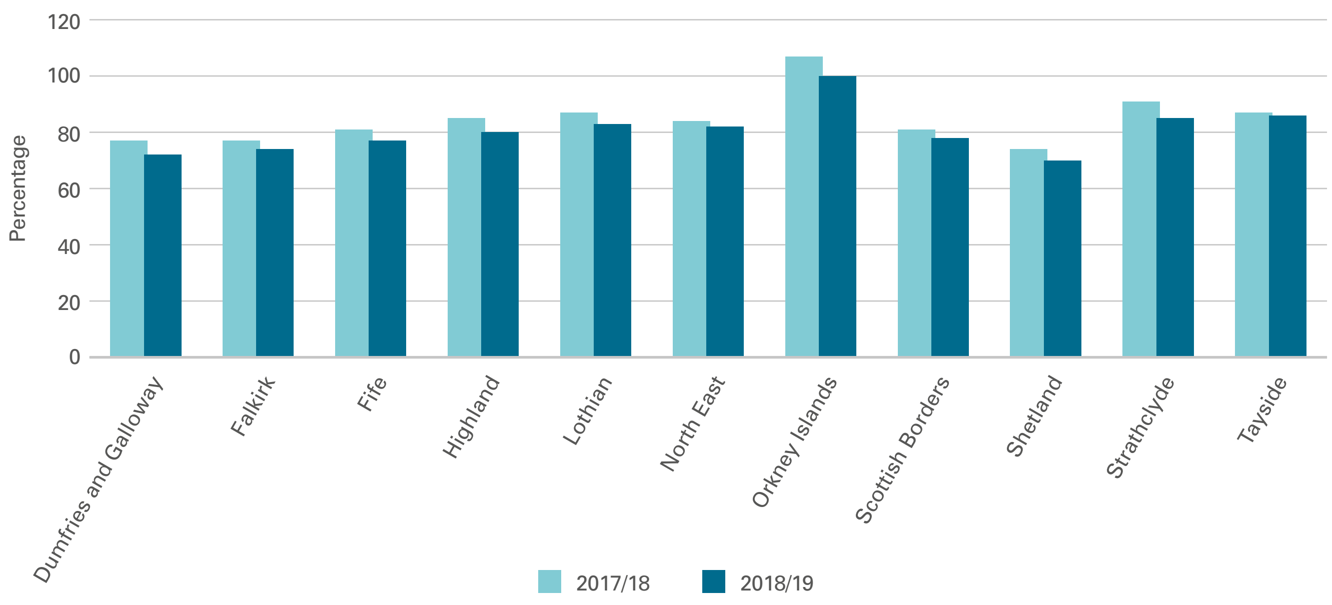
- the discount rate to convert future liabilities to current values – this is based on current 'high quality corporate bond' returns, in accordance with accounting standards
- life expectancy of members of the scheme
- inflation rate – pensions are increased annually based on the consumer prices index.

5. Typically, in 2018/19, the discount rate used in the actuaries' valuation of liabilities (2.4 per cent) was lower than in 2017/18 (2.6 per cent) (Exhibit 1), this increases the current valuation of future liabilities.

Exhibit 1

Valuation comparison between 2017/18 and 2018/19 on an accounting basis

Almost all funds identified lower funding levels this year.



Source: Audited financial statements of the pension funds 2018/19

Cash flows

Cash flows from dealing with members has become increasingly negative

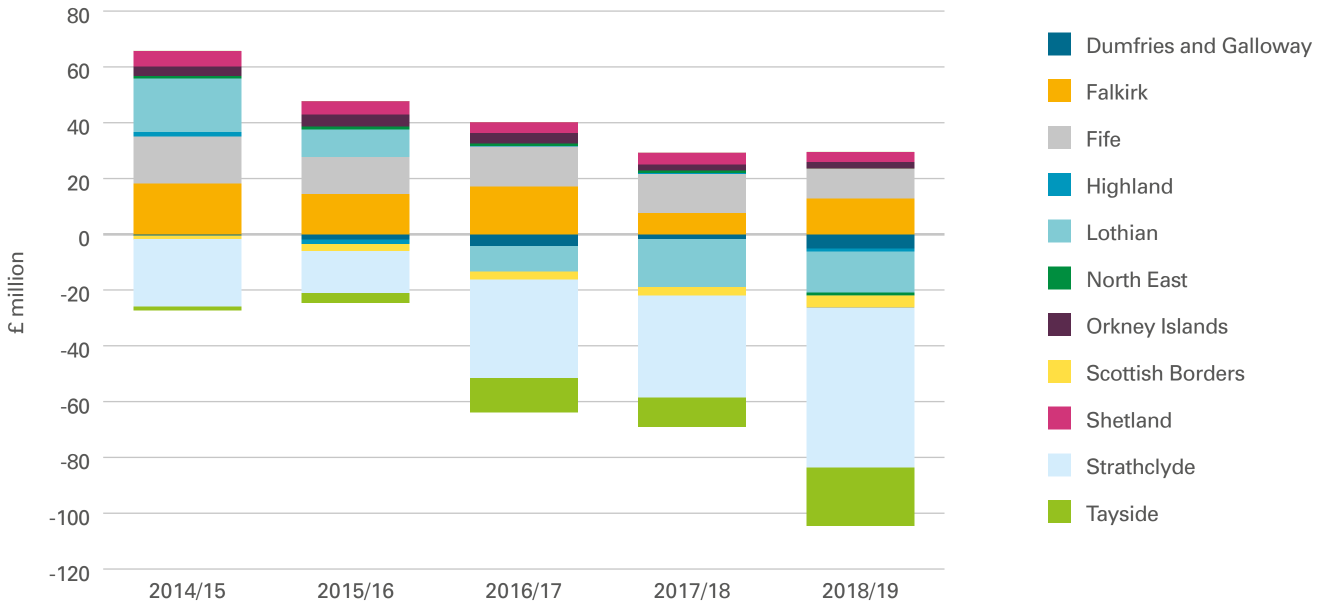
6. Membership of the SLGPS continues to grow. The numbers of both active employee members and pensioner members of the SLGPS have been increasing in recent years. This is largely a result of auto enrolment and employer severance schemes. Despite there being greater numbers of active members, this has not reversed the trend of negative cash flow from dealing with members as many of these new active members, added through auto-enrolment, are lower paid employees with lower contributions relative to pensions in payment.

7. Across the SLGPS, total benefits and administration costs exceed current contribution income. The difference is now -£75 million. This negative cash flow emerged in 2016/17 and has steadily grown (Exhibit 2). Seven funds now have negative cash flows compared to five in 2017/18. As funds mature, an element of pension payments is being made from investment returns, rather than being met from ongoing contributions from active members. It's important that funds manage the cash flow implications of this.

Exhibit 2

Cash flows from dealing with members in each of the 11 main SLGPS funds over the past five years

Cash flows from members are becoming increasingly negative.



Source: Audited financial statements of the pension funds 2018/19

Investment returns

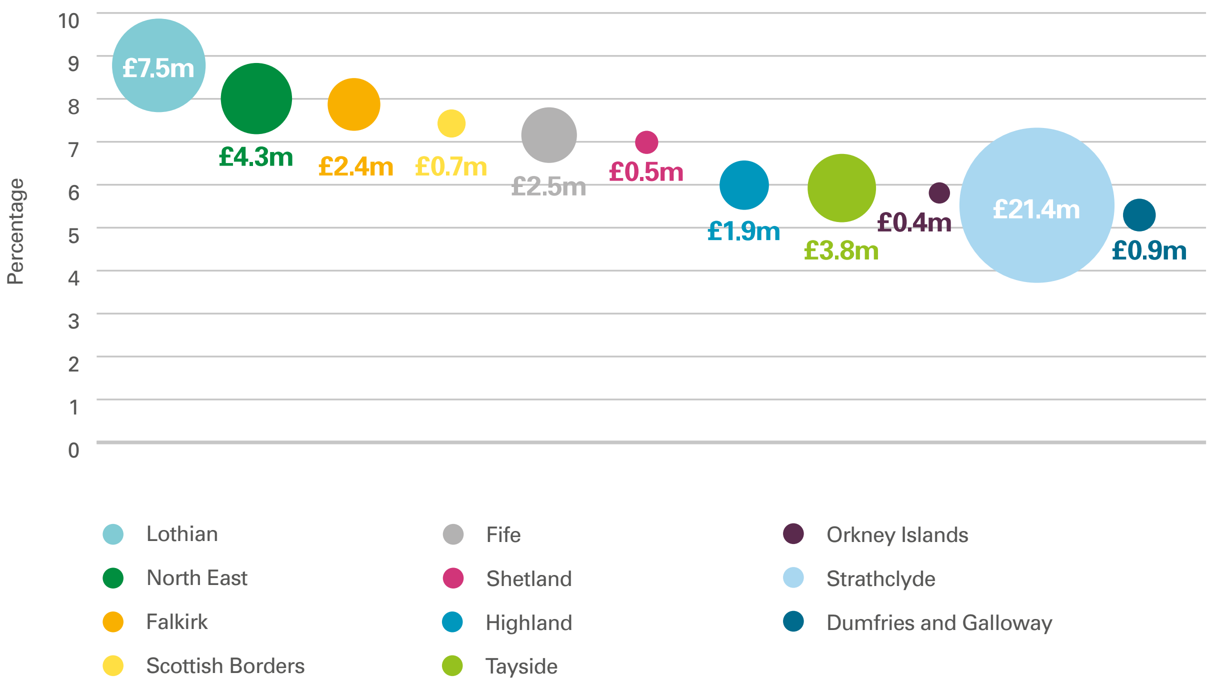
Annual investment returns were more consistent in 2018/19

8. Exhibit 3 illustrates that investment returns for each fund were between 5.3 and 8.8 per cent in 2018/19. These returns are more consistent across funds than in 2017/18.

Exhibit 3

Annual investment returns and fund size 2018/19

Investment returns across the SLGPS were between 5.3 and 8.8 per cent.



Source: Audited financial statements of the pension funds 2018/19 (investment returns net of investment expenses/average net investments)

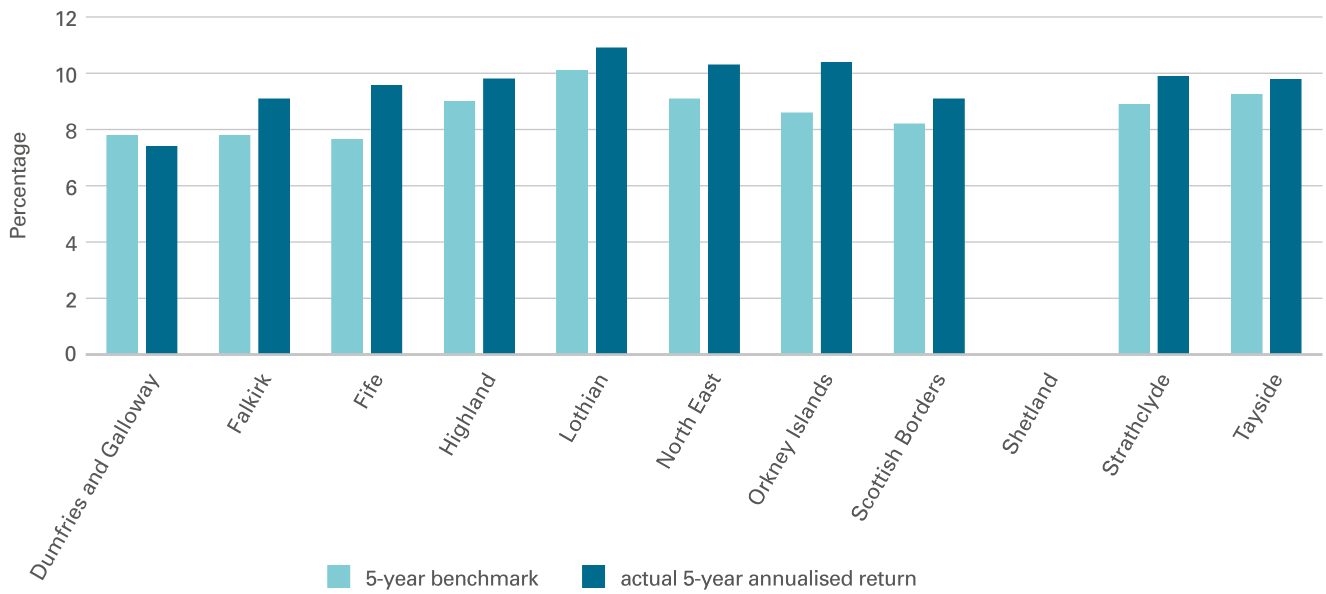
Six pension funds didn't meet their benchmark returns last year, but most of them exceeded their five-year benchmark

9. Variability of investment performance between funds can reflect differences in the type of assets that each fund holds, the way in which these are managed (passive or active) and the related risks. One way of assessing the returns in each fund is to consider how each fund has compared against its benchmarks (typically over 1 year, 3 years and 5 years). The benchmarks are set locally to reflect the different long-term investment requirements to support the future pension payments of each fund. Six pension funds reported that they had not achieved their benchmark returns over the last financial year. However, only one pension fund, Dumfries and Galloway, reported it had not achieved its five-year annualised benchmark. The five-year annualised benchmarks range from 7.8 to 10.1 per cent across the 11 main funds (Exhibit 4).

Exhibit 4

Comparison of five-year annualised investment returns of each fund

Most funds are exceeding their five-year annualised benchmark.



Note: Data not available for Shetland Pension Fund

Source: Audited financial statements 2018/19 and local auditor data

Investment strategies

Pension funds plan to reduce the value of their equity investments

10. In response to increasingly negative cash flow position noted above (Exhibit 2, page 3), most pension funds have been revising their investment strategies to place greater emphasis on cash-generating investments instead of value-generating investments. The actual investment portfolios are not currently consistent with these strategies. It can take some time for changes to take place. For example:

- Dumfries and Galloway Council Pension Fund reported that 'a strategy review was presented to Pensions Sub Committee on 24 May 2018 and members agreed the change in investment strategy from the current allocation to a modest switch from equity investments into alternative return-seeking assets, to improve the risk/return profile of the Fund.'

- Falkirk Council Pension Fund reported that 'the actual allocation at 31/03/2019 is at variance with the strategic allocation… Both Panel and Committee are content with this position noting … that the allocation to Other Real Assets (eg Infrastructure) and Non Gilt Debt (eg Private Debt) depends on the availability of suitable investments'.

11. Notably most Funds are 'overweight' in equities by between 3 and 18 percentage points. However, two funds did not identify their current investment allocation against their target in their accounts. Most funds appear to be targeting reduced equity investments with a target investment of between 55 per cent and 65 per cent in future.

Significant events

Amendments to the accounts arising from legal and other judgements

12. In December 2018, the Court of Appeal upheld a claim from firefighters and judges that changes to their pension schemes were discriminatory based on age. The UK Government sought leave to appeal the decision (commonly known as the McCloud Ruling) to the Supreme Court. However, this was denied at the end of June 2019, after the unaudited accounts were prepared. This ruling impacts on other public sector pension schemes, including LGPS, which have seen similar changes in their pension schemes.

13. Following the decision, Funds requested a revised IAS19 report from their actuary in order to quantify the increase in estimated liabilities as a result of the ruling. The estimated combined increase in the actuarial present value of promised retirement benefits for all 11 Funds was around £500m. These revised assessments do not impact on the primary financial statements of the Funds. However, the relevant disclosure notes in the audited accounts were updated to include the revised values of promised retirement benefits.

Lothian Pension Fund merged the Lothian Buses Fund with main fund

14. Apart from the main 11 funds, there a few other funds managed by councils, but the number of these separate funds is reducing. Following last year's repatriation of the Tayside Transport Fund, this trend continued with Lothian Pensions' Committee deciding in March 2018 to merge the Buses Pension Fund with the main Lothian Pension Fund. The merger took place on 1 February 2019 and resulted in the transfer of £0.5 billion of Buses Fund net asset values into the main fund, which at 31 March 2018, had a net asset valuation of £6.6 billion. The annual report notes that 'the merger creates a bespoke investment strategy for Lothian Buses within the Lothian Pension Fund and will not affect member benefits and is expected to result in more efficiencies leading to lower costs'.

15. A planned transfer of the assets and liabilities, along with members, of the Strathclyde Pension Fund No. 3 Fund to the Aberdeen City Council Transport Fund is expected to take place during 2019/20.

Outlook

SLGPS structural review is ongoing

16. As we noted in last year's pensions supplement, the Scottish Scheme Advisory Board (SSAB) is currently consulting on the future structure of the SLGPS. The report included four options for consideration:

- retain the current structure with 11 funds
- promote cooperation in investing and administration between the 11 funds
- pool investments between 11 funds
- merge the 11 funds into one or more funds.

17. The review is still ongoing, with the SSAB publishing consultation responses on its website including Audit Scotland's, which does not express a preference for any of the four options contained within this consultation exercise due to the important principle of the independence of the auditor of pension funds across the SLGPS.

Management expenses are under-disclosed and there is a complex relationship between risk, return and costs

18. The principle of value for money applies to all aspects of SLGPS operation, including the considerable cost of investment management and administration. The cost of investment management needs to be balanced with the potential for investment fund returns and risk which, when taken together, provide evidence of value for money.

19. Exhibit 5 (page 8) shows investment management and administration expenses. Across the 11 main funds, investment management expenses ranged from 0.24 to 0.83 with a median of 0.4 per cent, based on disclosures in the accounts. CIPFA guidance on investment management costs does not necessarily expect funds to include fees and expenses incurred within a pooled investment vehicle as a result of that vehicle's investment in other pooled funds in the Fund's financial statements. Therefore, the analysis is likely to understate the cost of management expenses.

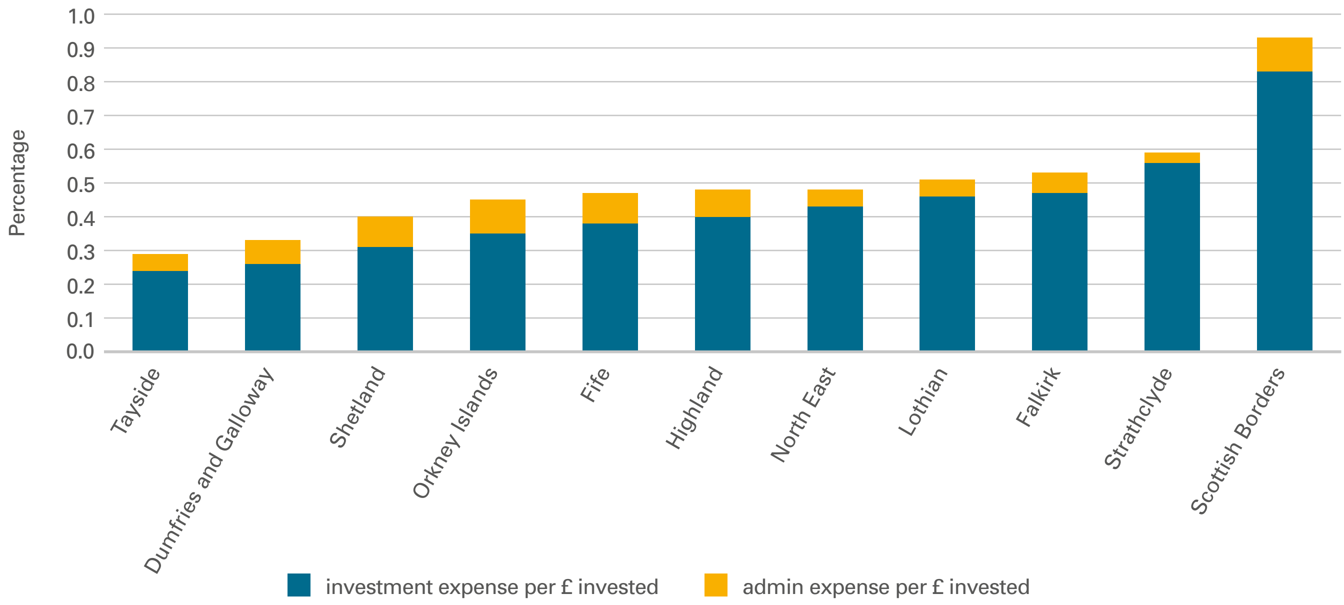
20. The margins are small, but the value of investments is significant and if the median position was achieved by all funds, this would save £36 million (16 per cent of current investment fees). However, this comparison does not take into account the complex relationship between risk and return and costs.

21. Strathclyde Pension Fund identifies that 'the level of fees and expenses paid by the Fund to individual investment managers is relative to the complexity involved in managing a particular investment asset and strategy, the associated risk and expected investment return'. Some funds will invest in passive mandates with lower investment expenses – but also lower returns and lower volatility. Some asset investment types have more significant management costs (for example infrastructure), but the extent of investment in these types of asset varies between funds according to their investment strategy.

Exhibit 5

Investment and administrative costs compared to average investment values 2018/19

Expenses are marginal but can vary according to the type of investments and mandates.



Source: Audited financial statements of the pension funds 2018/19 (investment management expenses and average assets invested)

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