



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 31 JANUARY 2018

**SUBJECT: LOCAL GOVERNMENT IN SCOTLAND FINANCIAL OVERVIEW
2016/17**

BY: ACTING CORPORATE DIRECTOR (CORPORATE SERVICES)

1. REASON FOR REPORT

- 1.1 To inform the Committee of Audit Scotland's report on the Financial Overview 2016/17, part of the Local Government in Scotland series of national reports.
- 1.2 This report is submitted to Committee in terms of Sections III (I) (3) of the Council's Scheme of Administration to consider reports from Audit Scotland concerning Council functions.

2. RECOMMENDATION

- 2.1 **The Audit and Scrutiny Committee is asked to consider and note Audit Scotland's Financial Overview 2016/17 report.**

3. BACKGROUND

- 3.1 The report delivers the following key messages (**Appendix 1**) and the supplement (**Appendix 2**) captures a number of potential questions for Councillors, which members will recognise as relevant in terms of their consideration of the Council's financial position and of future council priorities.

4. KEY MESSAGES

- 4.1 Financial challenges continue to grow. Funding reductions are compounded by increasing costs and demands on services and councils have needed to achieve ambitious savings plans in response.
 - 4.1.1 Moray Council needs to make £15m savings by the end of 2018/19. The budget consultation closed on 14 January and consultation results will be prepared and circulated to Elected Members to inform budget discussions and plans at the meeting of Moray Council in February 2018.
- 4.2 Councils are showing signs of increasing financial stress, finding it increasingly difficult to identify savings. More have drawn on reserves than in previous years to fund change programmes and routine service delivery. Some are at risk of running out of General Fund reserves within two or three years if they continue to use them at levels planned for 2017/18.

- 4.2.1 Moray Council reported in budget proposals that by March 2018 an estimated £8.4m of the £21.7m reserves will have been used. If the council continues to rely on remaining reserves to balance the budget, potentially reserves will be exhausted during the course of 2018/19.
- 4.3 The report states that during 2016/17, nineteen councils drew on their usable revenue reserves, an increase from the eight councils that did so in 2015/16. Council revenue reserves fell by £32m in 2016/17.
- 4.3.1 In 2015/16, Moray Council's percentage change of useable revenue reserves (excluding Housing Revenue Account) as a percentage of income from general government grants and taxation was -0.2%. In 2016/17 the percentage change was -1.0%.
- 4.4 Councils took advantage of low interest rates to borrow more to invest in larger capital programmes. Councils' debt levels are not currently problematic, but some are becoming concerned about affordability of costs associated with debt within future budgets.
- 4.4.1 In 2016/17, Moray Council's revenue cost of general fund borrowing was 9% in respect of general fund principal and interest (results range from 7% to 16%).
- 4.5 Late confirmation of funding from the Scottish Government and funding arrangements for integrating health and social care complicated budget setting processes for 2016/17. Councils' expenditure and use of reserves often differed noticeably from that originally planned, indicating the need for budget-setting to become more robust and reliable.
- 4.6 All councils received an unqualified audit opinion on their 2016/17 accounts but auditors found that some councils financial management could be improved. Councils can use their accounts to more clearly explain their financial performance over the whole year to support better scrutiny.
- 4.7 The financial outlook for councils continues to be challenging, with the need to deliver savings being increasingly critical to their financial sustainability. Robust medium-term financial strategies and effective leadership to deliver them are of increasing importance.

5. SUMMARY OF IMPLICATIONS

(a) Moray 2026: A Plan for the Future and Moray Corporate Plan 2015 - 2017

While key messages from inspectorates inform planning processes, there are no issues directly arising from this report.

(b) Policy and Legal

Inspection processes provide assurances on the policy and practice adopted by services and contributes to the assessment of, and improvements to, governance arrangements of the council.

(c) Financial implications

No financial implications.

(d) Risk Implications

No risk implications.

(e) Staffing Implications

No staffing implications beyond supporting inspection processes from within existing resources.

(f) Property

None.

(g) Equalities

None.

(h) Consultations

The Head of Financial Services, Audit Manager and Corporate Policy Unit Manager were consulted on this report and their comments have been incorporated.

5. CONCLUSION

5.1 This report provides Committee with key messages from Audit Scotland's Local Government in Scotland Financial Overview 2016/17 report.

Author of Report: Louise Marshall, Performance Management Officer
Background Papers: Audit Scotland's Local Government in Scotland Financial Overview 2016/17
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