

Briefing 17/03 January 2017

Local government in Scotland – Financial overview 2015/16 (Accounts Commission)

To: All Chief Executives, Main Contacts and APSE Contacts in Scotland

For information only to England, Northern Ireland and Wales

Key Issues:

This briefing provides an overview of The Accounts Commission's latest report on local government finance. It includes an update on 2014/15's figures, as well as an overview of the report's main recommendations.

The full report can be found [here](#).

1.0 Introduction

The Accounts Commission is the public spending watchdog for local government in Scotland. They operate impartially and independently of councils and of the Scottish Government. They **recently released a report entitled 'Local government in Scotland: Financial overview 2015/16'**. The full report can be found by [clicking here](#).

The report was released alongside an updated version of an interactive tool for comparing council spending across different service areas compared to the rest of Scotland. The tool can be accessed [here](#) on the Audit Scotland website.

They also released an [Excel workbook](#) which shows some of the collected financial information from the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, and the Balance Sheet.

2.0 Overview of the report

While the report is a critical document, the auditors noted that local government's financial health was considered to be "generally good" in 2015/16, and no short-term concerns were raised about the financial position of Scottish Councils. Positive elements included:

- Slight increase in overall reserves

- Reduction in overall debt
- Two-thirds of Councils operated within their budgets (although some Councils only achieved this with some services overspending and others underspending)

Concerns were raised about certain Councils facing considerable gaps in funding over the next several years, and the report noted that there is a substantial variance in how well placed different councils are to address these gaps.

Recommendations from the report included:

- “Councils will need to make further savings and/or generate additional income as relying on reserves is not sustainable”
- “Councils need to manage financial pressures such as increasing pension costs and wage inflation”
- “Councils need to change the way they work to deal with the financial challenges they face; [a disciplined approach to delivering savings] must continue when we move into the 2017 election year, as significant challenges lie ahead and councils need to be well placed to meet them”
- “Long-term financial strategies must be in place to ensure council spending is aligned with priorities, and supported by medium-term financial plans and budget forecasts”

3.0 Update against last year’s figures

Statement	2015/16 figure	Change since 2014/15
The value of councils’ physical assets, including buildings, schools and equipment	£38.3 billion	Decrease of £0.7 billion
Councils’ total revenue and capital income	£18.9 billion	Real terms increase of 2.9%
Councils’ spending on day-to-day services	£18.3 billion	Real terms increase of 4.3%
Councils’ net debt decreased in 2015/16 to _____	£13.72 billion	Reduction of 0.5%
Councils’ share of the Local Government Pension Scheme deficit	£7.6 billion	Reduction of £2.4 billion
Councils’ usable reserves at 31 March	£2.5 billion	Increase of £0.7 billion
Councils’ 2015/16 accounts show income from fees and charges and	£4.8 billion	Real terms increase of 7.2%

other specific grants income totalled _____		
The number of staff exit packages given were _____ at a cost of _____	2,246 packages £79.7 million	Increase of 313 packages Increase of £4.7 million (but with a reduction in the average cost per package by £3,294)
The amount of Council tax collected	95.7%	Up by 0.4%
Funding available to councils equated to _____ per person in Scotland	£2,232	Up by 0.6%, but 8.8% lower than 2011/12

Table Source: Accounts Commission, 2014/15 and 2015/16

4.0 Budgets and Spending

According to the report, Councils have experienced an 8.4% real-terms reduction in funding since 2010/11.

While spending on services by Councils increased in 2015/16, it remains lower than it was five years ago; 94.2% of this was spent on providing services for their communities, with **other spending including pensions and interest on borrowing**. Total councils' net debt is currently £13.72 billion, with £1.5 billion spent every year on interest and repayments ([according to the UK Treasury](#), a typical council will spend the equivalent of 42% of its council tax money servicing debts); this has implications for how much money Councils have to spend on their services.

Two-thirds of Councils have managed to operate within their budgets, although the report notes that many have only accomplished this because certain services who overspent were offset by an underspend by other services within that particular Council. Increased spending was most noticeably found in social care services. The report argues that this reliance on underspends to counter-balance overspends should not be relied upon, and that budgets should always reflect the true spending of their services.

Councils' reserves reached £18.9 billion on 31 March 2016; 13% of this was usable reserves, with the remaining 87% being unusable; by the end of 2015/16, usable reserves had risen by 5% and net debt reduced. The building of Councils' reserves is likely in anticipation of future local government funding cuts expected in this year's Scottish Government spending plans. The report discourages reliance on reserves and argues for local authorities to implement long-term financial strategies that support the Council's strategic priorities.

The report highlighted the growth in Council income from fees and charges and other specific grants; income grew by 7.2% compared to 2014/15 and "represents the largest growth area in council income." APSE Scotland recently set up a [Commercialisation](#)

[Advisory Group](#) for our membership to share best practice on commercialisation strategies and income generation initiatives.

5.0 APSE Comment

APSE notes the release of the Accounts Commission's 'Local government in Scotland: Financial overview 2015/16' report. These yearly updates provide a useful benchmark for local authorities to analyse their financial preparedness.

While Deputy First Minister John Swinney has claimed that "the Scottish Government has always treated local government very fairly", this report clearly illustrates the long-term financial pressure that local authorities face, especially in light of the upcoming 2017/18 Local Government Finance Settlement, where budgets are expected to be slashed once again. Despite this, local authorities are adapting; the 7.2% growth in income from fees and charges in the last year (and examples from APSE members in England, with [Sevenoaks District Council](#) becoming financially self-sufficient) shows that even under the pressures of reduced funding allocations that Councils can continue to provide public services and to innovate.

As part of the upcoming Scottish Building, Housing and Renewables seminar taking place at Dunblane Hydro on the 16/17 February, APSE Scotland will be opening the conference with an expert panel of Chief Executives, Elected Members & Directors to look at the day to day challenges facing local authorities. This will provide an idea opportunity for colleagues to discuss and debate important issues such as budget pressures and income generation. Panel members include Fiona Lees, Chief Executive, East Ayrshire Council and Chair of SOLACE; Gavin Stevenson, Chief Executive, Dumfries & Galloway Council; Cllr Rhondda Geekie, East Dunbartonshire Council; Cllr John Alexander, Dundee City Council and John Blair, Director of Resources, Midlothian Council. Also as part of the conference, Gavin Stevenson will be presenting to delegates on the need to be more commercial. For more information on the programme or to book your place please [click here](#).

APSE's report '[Sustainable local government finance and liveable local areas: Can we survive to 2020?](#)' provides recommended reading. Our report identifies the drop in local government funding for frontline services in Scotland as being as much as 24% (excluding public health, education and social security) between 2010 and 2015. With a further drop in revenue budgets in 2016/17 of £350m and the likely continuing squeeze on local government budgets, between now and 2020, financial planning becomes more difficult as the impact on public services continues to grow. As well as these findings it also provides workable solutions and key recommendations for sustaining frontline services like waste, recycling, parks, street scene, highways and leisure.

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