



Financial Sustainability

As demand for services is increasing and cost pressures are rising, local authorities are facing higher levels of scrutiny over their decision-making and financial management strategies. Robust scrutiny is a core step towards financial decisions that best serve our organisations and our communities. Central to balancing the budget gap has to be a clear understanding of possible areas of financial risk, and how these can be responded to.

The LGBF includes a common set of financial sustainability measures which are comparable across all Scottish local authorities, to support robust discussions around financial decision making and on the robustness of budgets.

The COVID-19 pandemic has had a significant impact on councils finances within the current year and beyond. The impact and the ability to deal with the pressures varies across councils and the measures that have been developed provide an indication of the financial resilience of each council. Loss of income is a significant challenge and the reliance on this funding source is dependent on the level of budgeted income within each council. The ability to deal with the impact is also dependent on decisions that councils have taken in the past in relation to level of reserves and the changes to service delivery linked to budget savings. This is a complex area and there are different factors to be considered when considering the financial resilience of councils. The inclusion of these measures provides an opportunity to compare the financial sustainability of councils, however caution needs to be exercised in the initial conclusions that are drawn from doing so.

Reserves

This provides an indication of how councils are placed to meet unforeseen events. A low level of unallocated reserves may be a sign that a council could struggle if any unknown financial events were to occur.

During 2020/21, overall levels of General Fund Reserves increased markedly following the receipt of COVID-19 funding immediately before the year-end. Significant caution is required in the interpretation of council's current reserves position as this represents a snapshot in time, with councils having medium to long-term financial plans that impact future reserves held. During 2020/21, councils faced substantial challenges through a combination of loss of income and additional expenditure. In addition, councils had to manage financial projections without any guarantee of additional financial support from either the UK or Scottish Governments.

In managing the above, councils took steps to reprioritise expenditure through operational command and control arrangements. This is one of the reasons why general reserves have increased over the period, and this action, whilst specified to respond to the pandemic, represents prudent financial management. In addition, and over the same period, it was not possible for councils to progress spend in some policy areas adding to a short-term increase in the level of reserves held. The above factors caused a short-term increase in reserves.

Furthermore, financial rules limited the Scottish Government's ability to hold reserves with a significant element of UK treasury funding passported through to all councils very late in the financial year so that it was not "lost". This contributed to a significant increase in reserves held by councils at the end of 2020/21. However, this funding is fully committed and will be spend in 2021/22 with an element carried forward to be spent in 2022/23.

After this period, reserves are not only projected to fall to their pre-pandemic levels, the level of funding and the ability to deliver efficient and effective transformation, may mean that reserves are continued to be applied to underwrite the timing of future delivery, economic recovery, business transformation and balancing budgets as part of a multi-year strategy.

Councils continue to operate in a period of great financial uncertainty, and the impact of the pandemic will

last for many years. Continued loss of income and additional expenditure are major ongoing concerns for councils, and the management of reserves and medium/long-term financial planning will continue to be key to maintaining financial viability.

Table 61: Usable reserves and uncommitted General Fund balance

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Value Change 2019-20 to 2020-21	Value Change 2013-14 to 2020-21
Total useable reserves as a % of council annual budgeted revenue	16.0	16.7	18.0	17.3	17.0	16.6	16.9	23.6	6.7	7.6
Uncommitted General Fund Balance as a % of council annual budgeted net revenue	3.7	4.0	4.1	3.9	3.7	3.5	3.6	3.5	-0.1	-0.2

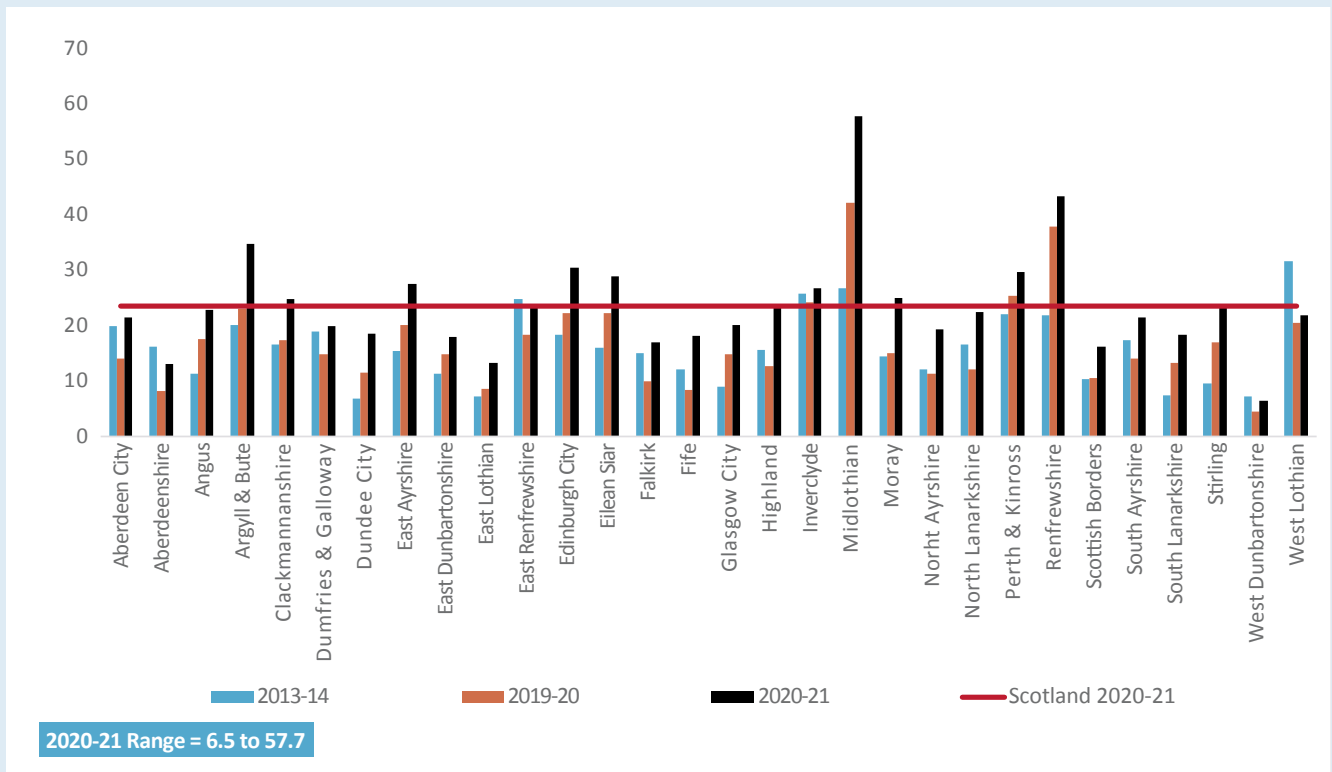
Note: Scotland value for Total usable reserves is adjusted to exclude Orkney and Shetland values due to harbour reserves.

Prior to COVID, the proportion of income councils held in useable reserves had remained between 16%-18% on average. In 2020/21, useable reserves increased to 23.6%. This pattern is true for all 32 authorities, although the scale of the increase varies from 1.2% to 15.6 (excluding outliers).

There is significant variation across authorities in the current proportion of income held in reserves, ranging from 6.5% - 57.7% (excluding Shetland and Orkney as significant outliers). There is no systematic relationship with deprivation, rurality or size of council.

Uncommitted General Fund Balance as a % of council annual budgeted net revenue has remained stable at around 4%. The rate in 2020/21 is 3.5%, within the approved rate for such balances of 2% to 4% as recommended by Audit Scotland. There is variation between councils, with values ranging from 0.5% to 7.7% (excluding Shetland as an outlier). There is no systematic relationship with deprivation, rurality or size of council.

Fig 156: Total usable reserves as a percentage of council annual budgeted revenue



Source: council supplied expenditure figures. Orkney and Shetland values are significant outliers due to harbour reserves and are excluded.



Local Variation – Total usable reserves as a percentage of council annual budgeted revenue

2020/21 Value

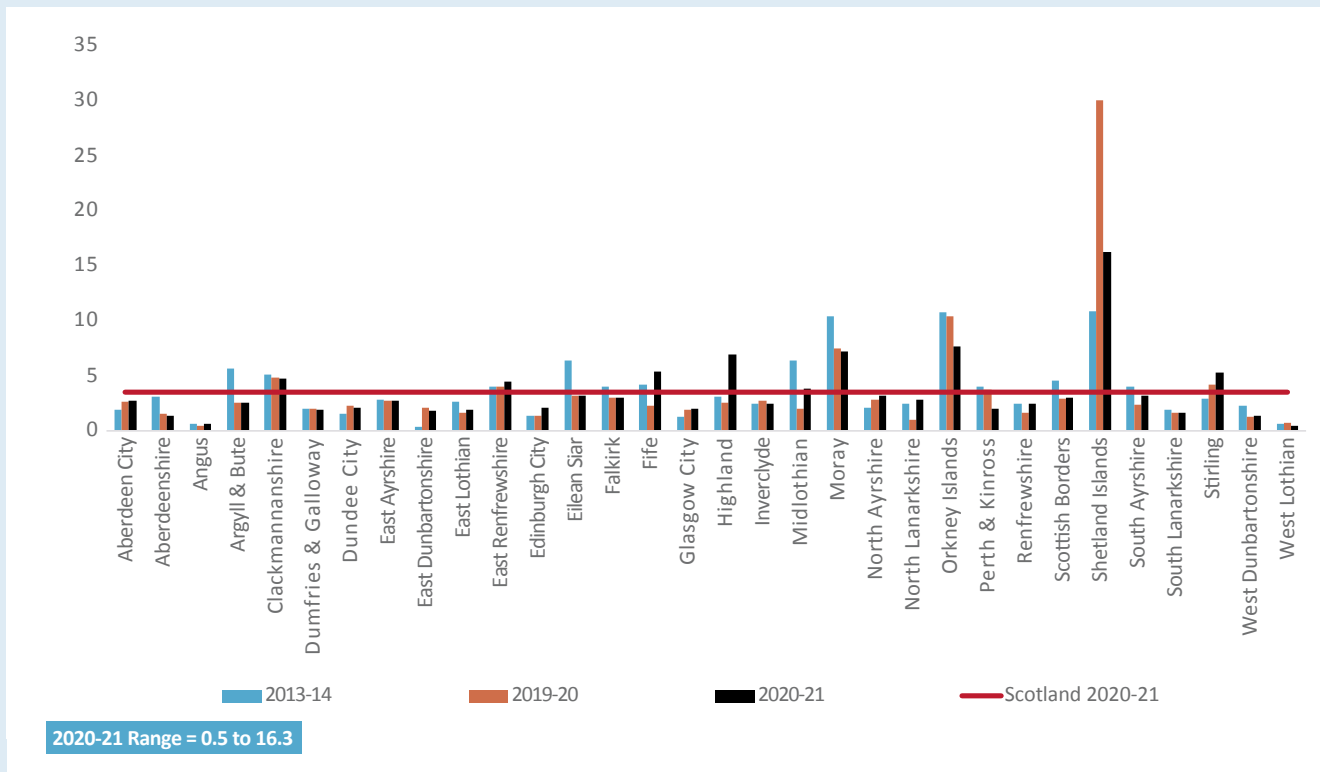
Scotland: 23.6%; council range: 6.5% - 375.2% (57.7% excluding Shetland Islands and Orkney Islands councils as outliers). Widening variation in the most recent year and no systematic relationship with deprivation, rurality or size of council.

Change Over Time

In 2020/21: Scotland: +6.7pp. councils: all 32 councils increased (range: +1.2pp to +15.6pp (excluding Islands)).

Since 2013/14: Scotland: +7.6pp. councils: 28 increased and 4 decreased (range: -9.9pp to +31pp (excluding Islands)).

Fig 157: Uncommitted General Fund balance as a percentage of council annual budgeted net revenue



Source: council supplied expenditure figures.



Local Variation – Uncommitted General Fund balance as a percentage of council annual budgeted net revenue

2020/21 Value

Scotland: 3.5% council range: 0.5% - 16.3% (0.5% - 7.2% excluding Shetland Islands and Orkney Islands councils as outliers). Widening variation in the most recent year and no systematic relationship with deprivation, rurality or size of council (excluding Island councils as outliers).

Change Over Time

In 2020/21: Scotland: -0.1pp. councils: 17 increased and 12 decreased (range: -2.7pp to +3.1pp – excluding Islands).

Since 2013/14: Scotland: -0.2pp. councils: 14 increased and 18 decreased (range: -3.2pp to +2.4pp – excluding Islands).

Cost of Borrowing

The LGBF includes two indicators of affordability which highlight the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income. These indicators are two of the Prudential indicators currently published by councils during their budget setting process and are as follows:

- Ratio of financing costs to net revenue stream - General Fund
- Ratio of financing costs to net revenue stream - Housing Revenue Account

Table 62: Financing costs

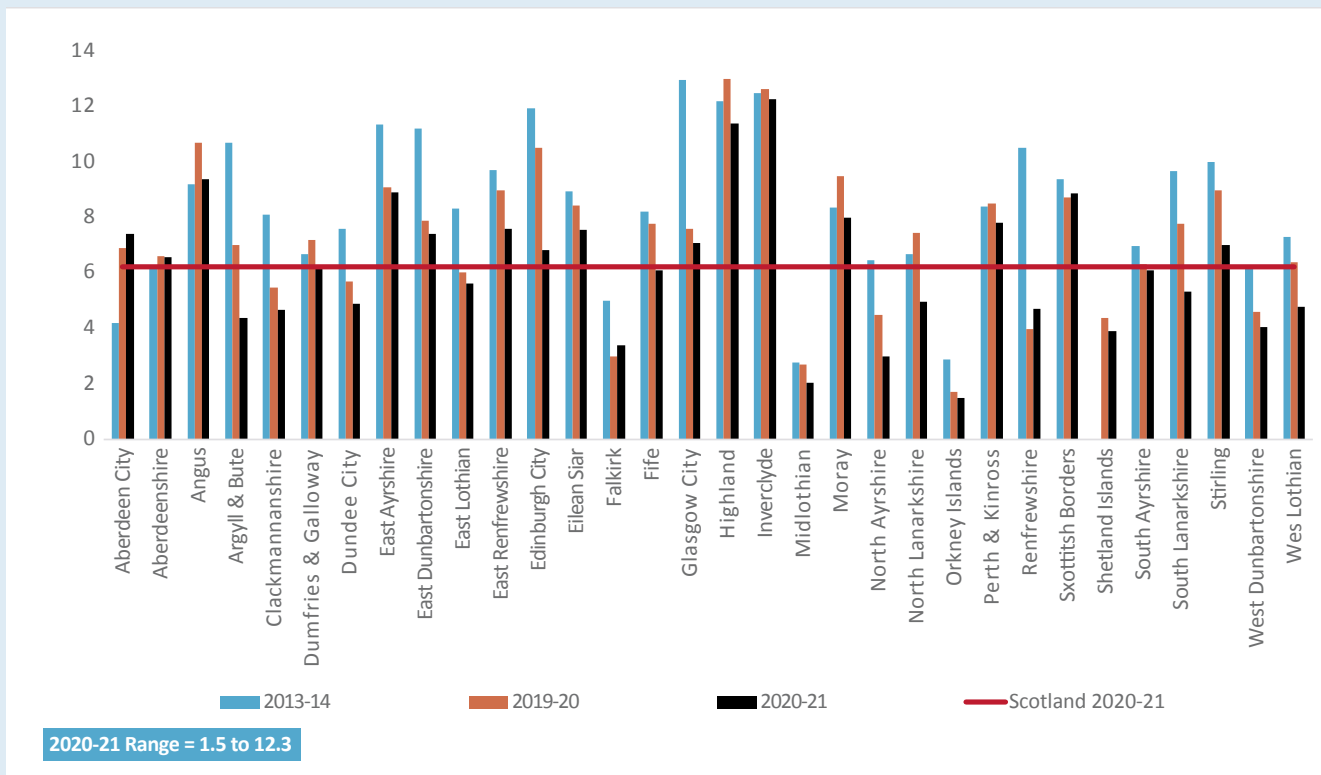
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Value Change 2019-20 to 2020-21	Value Change 2013-14 to 2020-21
Ratio of Financing Costs to Net Revenue Stream - General Fund	8.4	8.4	7.8	8.0	8.0	7.9	7.2	6.2	-0.9	-2.2
Ratio of Financing Costs to Net Revenue Stream - Housing Revenue Account	25.9	24.1	24.7	24.4	23.6	22.8	22.6	22.9	0.3	-3.0

The proportion of council revenue income being used to service debt has fallen from 8.4% to 6.2% since 2013/14 (and from 25.9% to 22.9% for HRA). Factors driving this are likely to be implementation of the 2016 Loans Fund regulations which allowed the re-profiling of principal repayments over a longer period of time thus reducing the annual loan charges. Effective borrowing, reduced interest rates and possible reduced capital investment may also be factors.

While the average cost of borrowing has fallen across the period, this trend is not universal. The range in movement across authorities is -6.3 percentage points to +3.2 percentage points, with 4 authorities reporting increasing costs during this period counter to the national trend. There is greater variation in relation to HRA borrowing costs. The range in movement across authorities is -47pp to +15pp, with half of authorities reporting an increase in HRA borrowing costs during the period counter to the national trend.

In 2020/21 financing costs for councils ranged from 1.2% to 12.3% (and 7% to 51% for HRA). There are no systematic relationships with deprivation, rurality or size of authority.

Fig 158: Ratio of financing costs to net revenue stream – General Fund



Source: council supplied expenditure figures.



Local Variation – Ratio of financing costs to net revenue stream - General Fund

2020/21 Value

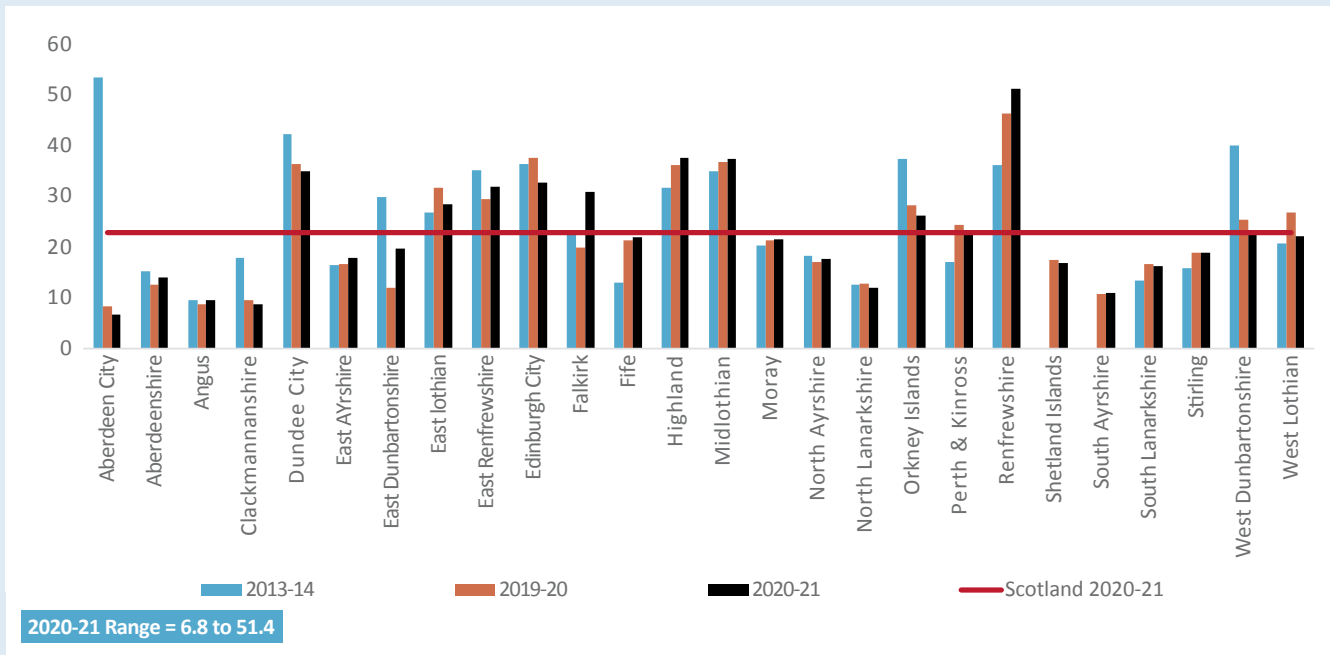
Scotland: 6.2% council range: 1.5% - 12.3%. Narrowing variation in the most recent year and no systematic relationship with deprivation, rurality or size of council.

Change Over Time

In 2020/21: Scotland: -0.9pp. councils: 4 increased and 28 decreased (range: -3.7pp to +0.7pp).

Since 2013/14: Scotland: -2.2pp. councils: 4 increased and 28 decreased (range: -6.3pp to +3.2pp)

Fig 159: Ratio of financing costs to net revenue stream – Housing Revenue Account



Source: council supplied expenditure figures.

Missing values represent the six councils who do not provide housing services following transfer to Registered Social Landlords



Local Variation – Ratio of financing costs to net revenue stream - Housing Revenue Account

2020/21 Value

Scotland: 22.9% council range: 6.8% - 51.4%. Widening variation in the most recent year and no systematic relationship with deprivation, rurality or size of council.

Change Over Time

In 2020/21: Scotland: +0.3pp. councils: 13 increased and 12 decreased (range: -4.7pp to +11pp).

Since 2013/14: Scotland: -3pp. councils: 13 increased and 13 decreased (range: -46.8pp to +15pp).

Budget Performance

The need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing or low levels of usable reserves to draw on. Councils cannot continue to rely on underspends in certain services offsetting overspending elsewhere. Where services have been found to consistently overspend, budgets should be revised to reflect true spending levels and patterns. This requires good financial management to ensure spending is accurately forecast and monitored within the year.

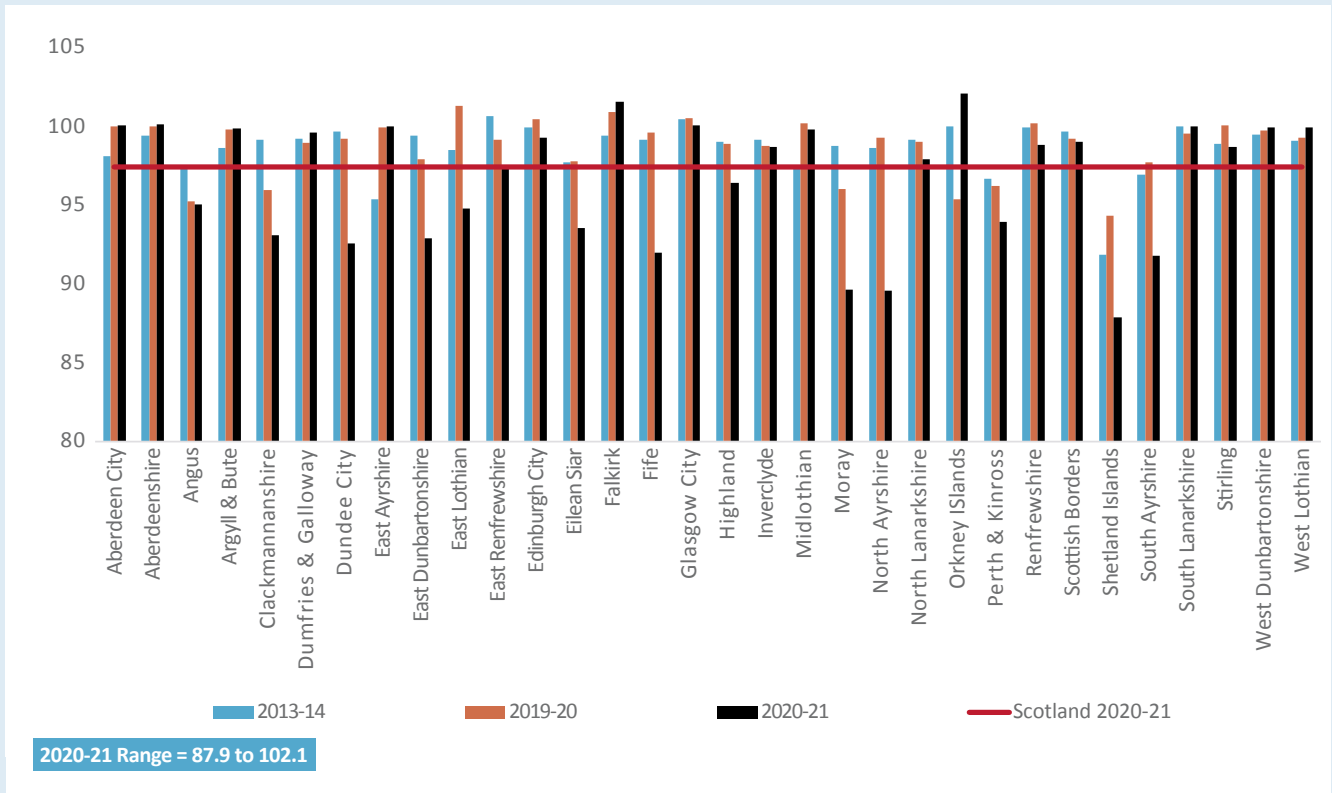
Prior to COVID-19, actual outturn as a percentage of budgeted expenditure remained between 99% and

100%, showing a steady increase from 99.1% to 99.4%. In 2020/21, the average percentage reduced to 97.4%, ranging from 87.9% to 102.1% across authorities.

Table 63: Actual Outturn as a percentage of budgeted expenditure

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Value Change 2019-20 to 2020-21	Value Change 2013-14 to 2020-21
Actual outturn as a percentage of budgeted expenditure	99.1	99.0	99.0	99.3	99.3	99.4	99.4	97.4	-1.9	-1.6

Fig 160: Actual outturn as a percentage of budgeted expenditure



Source: council supplied expenditure figures.



Local Variation – Actual outturn as a percentage of budgeted expenditure

2020/21 Value

Scotland: 97.4% council range: 87.9% - 102.1%. Widening variation in the most recent year and no systematic relationship with deprivation, rurality or size of council.

Change Over Time

In 2020/21: Scotland: -1.9pp. councils: 10 increased and 22 decreased (range: -9.7pp to +6.7pp).

Since 2013/14: Scotland: -1.6pp. councils: 10 increased and 21 decreased (range: -9.2pp to +4.6pp).