DATA LABEL: PUBLIC

West Lothian Council

AUDIT COMMITTEE

LOCAL GOVERNMENT IN SCOTLAND FINANCIAL OVERVIEW 2017/18

REPORT BY HEAD OF FINANCE AND PROPERTY SERVICES

A. PURPOSE OF REPORT

To provide the Audit Committee with a summary of the report *Local Government in Scotland Financial Overview 2017/18* published by the Accounts Commission on 29 November 2018 and to outline officer responses to the points included in the scrutiny tool for councillors.

B. RECOMMENDATION

It is recommended that the Audit Committee:

1. Notes the key messages included in the report;
2. Notes officer responses to the points raised within the councillors scrutiny tool which can be used by elected members to help them better understand the council's financial position and to scrutinise financial performance.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable, making the best use of our resources, working in partnership.
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	The council has a statutory duty to consider Accounts Commission reports.
III	**Implications for Scheme of Delegations to Officers**	None.
IV	**Impact on performance and performance Indicators**	The recommendations within this report could facilitate the maintenance of performance in activities that support delivery of the council's agreed priorities.
V	**Relevance to Single Outcome Agreement**	The Accounts Commission overview reports are intended to assist councils in delivering services that achieve local single outcome agreements.
VI	**Resources - (Financial, Staffing and Property)**	Based on budget assumptions, the council faces a significant revenue budget gap of £65.3 million over the five year period 2018/19 – 2022/23. West Lothian Council agreed budget savings of £60.1 million, leaving a balance to be found of £5.2 million.
VII	**Consideration at PDSP**	None.

VIII Other consultations Corporate Services

D. TERMS OF REPORT

D.1 Introduction

The Accounts Commission financial overview of local government provides a high level, independent view of councils' financial performance and position in 2017/18. The reports draw upon recent audit work completed by Audit Scotland including audits of 2017/18 financial statements, it provides a summary of their views on how councils are managed and perform, including the progress councils are making in managing their finances and achieving Best Value.

The report provides a high level view of the challenges facing councils, how well councils are addressing these challenges and what more councils can do to maintain or improve services for the public within reduced resources. The Accounts Commission expects councillors and senior council officers to use this report as a source of information to support their complex and demanding role, along with the scrutiny tool, to better understand their council's financial position and to scrutinise financial performance.

D.2 Key Messages

The overview report includes a number of key messages for councillors. It is acknowledged that councils are facing an increasingly complex range of challenges and continuing pressure on finances which require a flexible approach that balances immediate needs, sound long term financial planning and limited financial resources. It is important that stakeholders understand the individual context faced by each council in terms of demand for services and available resources, but consideration also has to be given to a rapidly changing public sector landscape with various external complex changes such as EU withdrawal.

The most significant issues for councils continue to be funding and savings becoming increasingly difficult to identify and deliver. In 2017/18 funding from the Scottish Government again reduced in real terms, this reduction has been partially offset by increases in council tax and councils fee income, with most councils applying the maximum three percent increase to council tax. The forecast trend is for further reductions from Scottish Government in the medium term, therefore effective leadership and financial management is becoming increasingly critical and councils can only achieve financial resilience and sustainability if they have medium term financial strategies and well developed savings programmes.

In summary, the key messages are:

- Councils depend on Scottish Government funding for a significant part of their income. Scottish Government revenue funding to councils reduced in 2017/18, in cash terms by 0.6 per cent and in real terms, by 2.3 per cent. Council tax increases and increased fees and charges were used by councils to increase overall budgets.

- Councils are under pressure to find different ways to fund and deliver services. In 2017/18, 24 councils increased council tax, whereas in 2018/19, all councils increased council tax.

- Overall increases in spending in Education and Social Work were offset by reductions in other services.

- Eighteen councils ended 2017/18 with lower levels of usable reserves than they had at the start of the year.

- Funding to the Integration Joint Boards (IJBs) increased in 2017/18 by three per cent in cash terms, including additional funding from the NHS. The majority of IJBs have underlying financial sustainability issues, with 20 incurring deficits or dependent on additional funding from the NHS or councils.

- The financial outlook is for reductions in Scottish Government revenue funding to councils. This will mean continued and increasing financial pressures on council services, especially those areas that are not protected.

- The impact of EU withdrawal is not yet clear, but councils need to identify the risks and develop contingency plans to manage these risks.

D.3 Part 1 – Councils Budgets and Spending for 2017/18

This section of the Accounts Commission report focuses on local authority budgets and spending in 2017/18. Key messages in this section of the report include:

- Real terms reduction in revenue funding from the Scottish Government
  Councils received a significant reduction in revenue funding for 2017/18 with Scottish Government revenue funding falling by 2.3% in real terms and 0.6 per cent in cash terms. This reduction has been countered by increases in charges and grants to services, dwelling rents and council tax. Council tax is an important source of income for councils, in 2017/18 13 per cent of council funding came from council tax. Similarly 32 per cent of councils income was generated from fees, charges, rents and grants.

- Funding decreasing from the Scottish Government to Local Government
  Between 2013/14 and 2017/18, funding from the Scottish Government to local government decreased at a faster rate, than the Scottish Government revenue budget. This demonstrates a significantly higher impact on total local government funding compared to the total Scottish Government revenue budget.

- Distribution of Funding from the Scottish Government
  The Scottish Government and COSLA's mechanism for distributing funding to councils is the main determinant of a council's share of overall funding. Distribution is based mainly on population but could be more transparent to ensure clarity about how funding distribution reflects factors that drive demand and costs in councils. Other factors are far less significant influences on total funding, for example the relationship between how much funding a council receives and its population size and deprivation levels. The former is a very strong determinant of overall funding and the latter is only a moderate to weak factor. Given Scotland's demographic changes and the Scottish Government's commitment to tackling social and economic inequality, there is a risk that the weightings no longer sufficiently represent need.

- Savings and planned use of reserves managed funding gaps
  In 2017/18, councils managed funding gaps of four per cent in their net expenditure budgets of £12 billion, mainly through savings and planned use of reserves. Councils managed to present balanced budgets through planned budget savings including management and staff reduction and restructuring, service redesign, procurement and planned use of unearmarked reserves. Due to uncertainty presented by the local government elections in May 2017, reserves were used as a short-term contingency to manage funding gaps in 2017/18 by some councils until wider transformational plans could be agreed with new administrations.

- Increased spend in Education and Social Work
  Social Work expenditure increased by 2.4 per cent, this included funding the living

wage and demand pressures. Education expenditure increased by 3.2 per cent, this reflects several national priorities including raising attainment. Overall increases in spending in Education and Social Work were offset by reductions in other services.

D.4 Part 2 – Councils Financial Position

This section of the Accounts Commission report focuses on local authority financial position.

Key messages in this section of the report include:

- Eighteen councils ended 2017/18 with lower levels of usable reserves than they had at the start of the year, in 2016/17 20 councils were in this position.

- Some councils have relatively higher levels of debt for their size. Higher levels of debt lead to higher annual costs of servicing this debt and councils need to ensure this is affordable.

- Local policies vary on whether cash and investments are held to support reserves. Thirteen councils have significant cash or investments that can be used to support the reserves position. However other councils have used their cash or investments to fund capital spending rather than take on further borrowing.

- In real terms capital expenditure decreased in 2017/18 by five per cent. The majority of investment is in social housing and schools estate. Despite this the number of social houses provided by councils continues to fall.

- Twenty councils increased their net debt in 2017/18, with another eleven councils reducing their net debt.

- There were delays with the valuation of pensions liabilities in councils across Scotland in 2017/18, but the net pension liability has reduced substantially in 2017/18.

- Management commentaries in councils' accounts should do more to explain financial outturn against budget. There were improvements in this area in 2017/18, however there are still circumstances where basic expectations of transparency are not met.

D.5 Part 3 – Integration Joint Boards' overview 2017/18

This section of the Accounts Commission report focuses on the Integration Joint Boards. Key messages in this section of the report include:

- In cash terms funding to the IJB increased by 3% in 2017/18. Most of this additional funding came from the NHS and includes additional Scottish Government funding to the NHS for IJB's of £107 million. These partnerships between the NHS Boards and councils are responsible for the delivery of adult health and social care.

- Eleven out of thirty IJBs have underlying financial sustainability issues. A further eight would have incurred deficits without additional funding from the NHS and councils. Auditors report that prescribing costs and adult social care costs appear to be the main reason for overspends.

- Reserve positions vary enormously between IJBs. IJBs hold reserves for two main purposes; to earmark funds which are to be used for specific purposes in the future and to provide a contingency fund to cushion the impact of unexpected events.

- Further improvements to financial management should be introduced as only a third of IJBs have a medium-term financial plan, and there is no evidence of long term-financial planning.

D.6 Part 4 – Councils' Financial Outlook

This section of the Accounts Commission report focuses on the financial outlook facing councils. Key messages in this section of the report include:

Scottish Government revenue funding
In 2018/19 overall Scottish Government revenue funding to local government increased by 0.2 per cent after two years of real-terms reductions. In cash term terms it increased by 1.7 per cent. It should be noted that significant elements of this funding are ring-fenced for specific purpose, and that core revenue funding for council has reduced.

Scottish Government five-year financial strategy
In May 2018 the Scottish Government published a five-year financial strategy. The report identifies an expectation that the next UK Spending Review (in 2019) will provide the Scottish Government with the opportunity to develop a multi-year approach to the development of its budgets. As the Scottish Government moves towards being funded by a combination of devolved taxes and the block grant, the number of variables which will affect its longer-term funding outlook will increase. Three key determinants are identified as changes in UK Government spending, UK Government fiscal policy and Scottish tax revenue relative to the rest of the UK.

Transformational Change
Over half of councils are in the early stages of delivering transformational change. The majority of work within transformational or change programmes is focused on service review and improvement work. With funding expected to reduce further in the medium term, councils will need to consider more significant redesigns of how they operate and deliver services. The Accounts Commission recognises that with the financial pressures, councillors need to make difficult decisions.

Medium-term financial planning
Almost all councils have adopted medium-term financial planning with 30 councils now having a medium-term financial plan. However councils' long-term financial planning is not as well developed, sixteen councils do not yet demonstrate any long-term financial planning, and only five councils have long-term financial plans that cover ten years or more.

Funding gaps
Councils expect to manage smaller funding gaps in 2018/19 of £0.3 billion (two per cent), with all 32 councils raising council tax rates by three per cent in 2018/19, providing budgeted income of £2.5 billion. Funding gaps are to be managed by planned savings, temporary use of reserves and additional fees and charges. Funding gaps vary by council; there are no councils where the budgeted use of reserves is a critical issue over the next three years.

European Union
The UK will leave the European Union (EU) on 29 March 2019. The impact of EU withdrawal is not yet clear, but councils need to identify the risks and develop contingency plans to manage these risks, as far as possible. If the UK Government and EU agree the terms of the UK's withdrawal before this date, there will be a transition period to the end of 2020. However If the UK Government and EU fail to agree arrangements for the UK's exit from the EU, there will be no transition period and organisations will need to respond immediately.

D.7 Implications for West Lothian Council

On 13 February 2018, West Lothian Council agreed a long term financial plan for five years and detailed revenue budgets for the three years 2018/19 to 2020/21. This allows the council to comply with best practice which states that public bodies should focus on their medium to long term sustainability, through having a financial strategy covering a minimum of five years, supported by detailed plans covering a minimum of three years. The 2017/18 annual audit report from EY, the council's external auditors, commented favourably on the process followed and the decisions made by the council.

In addition to detailed revenue budgets being agreed to 2020/21, Council agreed budget savings of £60.1 million over the five year period to 2022/23. Based on budget assumptions included within the financial plan, the five year budget gap was £65.3 million leaving a balance of £5.227 million. This gap has subsequently increased to £5.347 million following the decision of the Council Executive on 13 November 2018 to remove the festive lighting saving of £120,000.

The Partnership and Resources PDSP noted a report on 1 June 2018 which outlined the proposed approach to identifying additional saving measures to address the remaining budget gap. A follow up report was presented to PDSP on 5 October 2018 where, based on the feedback received at the meeting, officers agreed that no further work would be undertaken on the following potential options – means testing of Special Schools meals, breakfast club provision, school crossing patrols and funding for gala days.

A review of elected member involvement in financial planning was undertaken in Spring 2018 with the following recommendations agreed by Council Executive on 12 June 2018:

- Principles for future financial planning including continuing to have a five year strategy, aligned with political administrations, and three year detailed budgets.
- Additional savings measures should be considered by the relevant PDSP before being reported for approval, apart from in exceptional circumstances.
- Officers should review the content of the annual revenue budget report.
- A detailed three year budget for 2020/21 to 2022/23 should be reported to Council for approval in early 2020.

This is consistent with the recommendations of the Accounts Commission, Audit Scotland and the Chartered Institute of Public Finance and Accountancy (CIPFA) who emphasise the need for public bodies to focus on their medium to long term financial sustainability. They have advised that public bodies should develop strategies that are based on defined priorities, providing a clear road map for service delivery. Constrained financial resources are not a short term problem, therefore a strategic approach is essential to meet the medium to long term challenges arising from the fundamental structural changes to public sector funding.

The council's approach to financial and corporate planning agreed by Council in February 2018 is beneficial as it:

- Provides a medium term view which is essential when implementing effective service and workforce planning, allowing workforce changes to be made in a proactive manner;

- Provides officers with sufficient time to implement what, in many cases, will be fundamental changes to service delivery which require a significant lead in time;

- Helps officers and elected members to consider the long term implications of policy decisions and changes to service delivery;

- Creates greater certainty surrounding detailed financial plans for the first three years of the five year financial strategy;

- Provides services and customers with advance notice of changes;

- Helps to integrate services and planning with Community Planning Partners, especially where outcomes are longer term (e.g. preventative spend).

The report includes a range of important issues and action points for elected members to consider. Officers have reviewed the points raised in the self-assessment tool for councillors and provided comments and responses to assist elected members in reviewing the council's progress in implementing the recommendations within the report. The action points for councillors and the self-assessment tool along with assessment of West Lothian Council's current position is included in Appendix 1.

E. CONCLUSION

The Accounts Commission's *Local Government in Scotland Financial Overview 2017/18* report outlines the major financial challenges facing local government. The report highlights that councils are increasingly showing signs of financial stress as while funding has reduced, costs and demands have increased. Councils need to have effective long term financial plans to ensure a good understanding of finances and future pressures.

F. BACKGROUND REFERENCES

Local Government in Scotland Financial Overview 2017/18
http://www.audit-scotland.gov.uk/uploads/docs/report/2018/nr_181129_local_government_finance.pdf

Appendices/Attachments:

Appendix 1 – Local Government Financial Overview 2017/18 Scrutiny Tool for Councillors

Contact Person: Karen Park, Accountant
Email: karen.park@westlothian.gov.uk, Tel: 01506 283236

Donald Forrest
Head of Finance and Property Services
14 January 2019

Appendix 1 – Local Government Financial Overview 2017/18 Scrutiny Tool for Councillors

This scrutiny tool captures a number of potential questions for councillors. It is designed to provide councillors with examples of questions they may wish to consider to help them better understand their council's financial position and to scrutinise financial performance.

Financial planning and budget

Questions for Councillors to Consider	Officer Comments and Additional Information
Does your council have a long-term financial strategy (ten years or more) that reflects the anticipated changes in demographics and demands on services?	On 13 February 2018, West Lothian Council agreed a long term financial plan for five years and detailed revenue budgets for the three years 2018/19 to 2020/21. This allows the council to comply with Audit Scotland, CIPFA and the Accounts Commission best practice which states that public bodies should focus on their medium to long term financial sustainability through having a financial strategy covering a minimum of five years, supported by detailed plans covering a minimum of three years. The approval of the five year financial plan and three year detailed revenue budgets means West Lothian Council has a solid base to address the challenges faced in delivering key priorities. This is reinforced by the external auditor's report on the 2017/18 financial accounts where Ernst and Young LLP concluded that the council recognises the future challenges and has a comprehensive performance improvement framework. The external auditor also acknowledged that the council recognises the significant demographic pressures that will be faced in respect of an ageing population and, although the council will have significant cost pressures associated with demographic change, it has a good basis to address this through having an established process for aligning the financial strategy to priorities.

Questions for Councillors to Consider	Officer Comments and Additional Information
Do medium and long-term financial plans include a range of potential funding and financial scenarios?	In January 2013, the council implemented a new approach to corporate and financial strategy incorporating eight priorities and an integrated approach to corporate and financial planning. Priorities were used to underpin the strategies, helping to ensure that constrained resources were allocated to achieve desired outcomes and value for money. This assisted in the prioritisation and allocation of resources to activities that have the greatest impact on outcomes for the five years 2018/19 to 2022/23. It has also allowed the council to generate savings whilst aiming to minimise the impact on direct services. Audit Scotland and the Chartered Institute of Public Finance and Accountancy (CIPFA) have both identified the need for public bodies to focus on their medium to long term financial sustainability. They have advised that public bodies should develop strategies that are based on defined priorities, providing a clear road map for service delivery within constrained budgets. On 13 February 2018, West Lothian Council agreed a long term financial plan for five years and detailed revenue budgets for the three years 2018/19 to 2020/21, allowing the council to comply with best practice through having a financial strategy covering a minimum of five years, supported by detailed plans covering a minimum of three years.

Questions for Councillors to Consider	Officer Comments and Additional Information
What is your council's financial position? What particular challenges does the council face?	Scottish Government grant funding is not sufficient to meet increasing costs and demand for services. Based on agreed budget assumptions, the council faces a revenue budget gap of £65.3 million over the five year period 2018/19 – 2022/23. West Lothian Council agreed budget savings of £60.1 million, leaving a balance to be found of £5.2 million. There is an ongoing process in place to identify options for savings to meet the estimated budget gap to ensure the council continues to have a balanced budget over the five years. With the publication of the local government finance settlement on 17 December, the council will receive confirmation of grant funding for 2019/20. At this stage the council's assumption of a core grant reduction of £7 million is retained, phased as a £4 million reduction in 2019/20 and a £1 million reduction in each of the three years 2020/21 to 2022/23. It may be that this core reduction is less than anticipated, however this will be subject to the overall resources quantum available to the Scottish Government and whether they choose to allocate any increased resources to earmarked initiatives. In addition to uncertainties associated with the council's revenue budget strategy for the five years, including general risks such as the level of Scottish Government funding and national policy changes, more specific risks to West Lothian particularly around the increase in costs associated with demand led services such as adult and elderly social care and school demographics. Any combination of these risks could increase the estimated budget gap facing the council over the next five years, and require additional savings measures to be identified. The council's approved Transforming Your Council savings programme means that the Modernisation Fund will be required over the period to 2022/23 to help support transformational change and employee exit packages. The council's approved five year revenue financial plan means that there is currently no intention to use one off reserves to support ongoing service delivery. A number of recurring service budget pressures has been identified by officers. Heads of Service are taking steps to address these pressures, as agreed by Council Executive in September 2018, although there remains a risk that some of the pressures will not be sufficiently addressed resulting in further budget pressures in 2019/20 and beyond. It has been noted that even with officer interventions, budgetary pressures are likely to remain for waste disposal gate fees, transport and homelessness and that some additional budget provision is likely to be required.

Questions for Councillors to Consider	Officer Comments and Additional Information
What new financial pressures are there for 2018/19 and 2019/20 and how much will these cost?	Work is currently underway to review and update the budget model in advance of the 2019/20 annual revenue budget setting process. This exercise is focused on re-evaluating the assumptions underlying the approved model, especially where additional information or updated forecasts could impact on the original financial values. In summary the main high risk areas currently being reviewed are: **<u>Pay Award</u>** The approved 2018/19 budget included pay assumptions based on the original offer to employees. Following discussions with the Scottish Government regarding teachers' pay award, COSLA increased this offer to 3.5% for all non-teaching staff. Although discussions are ongoing, with no agreement on the pay award for 2018/19, this increase in the offer will result in a budgetary pressure for the council. The ongoing trends in relation to pay negotiations, means that future year assumptions will have to be reviewed, which will potentially increase the council's forecast budget gap. **<u>Teachers Pensions</u>** The Autumn Budget confirmed a reduction in the discount rate for calculating employer contributions in unfunded public sector pension schemes resulting in additional pension costs to employers. This change will impact on the cost of the teachers' pension scheme resulting in a substantial additional cost to the council. At this stage the Scottish Government has not confirmed that they will provide additional funding to offset this cost, although COSLA are pressing hard for this to be the case. **<u>School Demographics</u>** Following the implementation of a new pupil forecasting system, and recognition that recent house building has not met forecast completions, school demographic assumptions need to be reviewed. The figures within the budget model were based on pupil forecasts from 2015, with 900 forecast completions. Although initial work has been undertaken further work is required to finalise the forecasts. The Head of Planning, Economic Development and Regeneration is working on updated school projections, based on the most recent census and a meeting to discuss these projections will take place in December. **<u>Revenue Consequences of Capital Programme</u>** The five year financial plan included provision for property revenue consequences arising from the draft ten year capital investment strategy which was approved at the same Council meeting in February 2018. Following approval of these strategies, there have been ongoing discussions and developments, especially in relation to new schools in the Winchburgh area and additional support needs investment. Work is ongoing to quantify the potential resources required to address additional staffing and property costs.

Questions for Councillors to Consider	Officer Comments and Additional Information
	<u>Recurring Service Budget Pressures</u> As previously reported, officers have identified a number of recurring service budget pressures. Heads of Service are taking steps to address these pressures, as agreed by Council Executive in September 2018, although there remains a risk that some of the pressures will not be sufficiently addressed resulting in further budget pressures in 2019/20 and beyond. It has been noted that even with officer interventions, budgetary pressures are likely to remain for waste disposal gate fees and homelessness and that some additional budget provision is likely to be required. **<u>Inflation and Indexation</u>** Although the potential for inflation to be greater than forecast remains a risk, the forecast level of inflation is broadly in line with the assumptions included in the approved model. The only potential deviation is energy costs for 2019/20, where information provided by Scotland Excel and the Scottish Government shows that the unit cost of energy which has already been procured is higher than anticipated. Changes from the carbon commitment to the climate change levy may offset some of this additional energy cost. **<u>Council Tax Income</u>** As required by law the council tax income budget for 2019/20 will be updated to reflect the August Band D council tax return to the Scottish Government. In addition, the budget assumptions for future years will be updated to incorporate the reduced house building assumptions of 700 houses per annum. **<u>Local Government Finance Settlement</u>** With the publication of the local government finance settlement on 17 December 2018, the council will receive confirmation of grant funding for 2019/20. At this stage the council's assumption of a core grant reduction of £7 million is retained, phased as a £4 million reduction in 2019/20 and a £1 million reduction in each of the three years 2020/21 to 2022/23. It may be that this core reduction is less than anticipated, however this will be subject to the overall resources quantum available to the Scottish Government and whether they choose to allocate any increased resources to earmarked initiatives. In addition, the council's base Scottish Government grant position includes funding for probationer teachers which has been reducing over the last few years. Previously the council received an additional allocation once the funding was provided for known probationers, however due to the increasing number of probationers the value of this additional allocation has been reducing. Consideration may need to be given to removing the additional element form the council's base grant assumptions, however this would result in an additional pressure.

Questions for Councillors to Consider	Officer Comments and Additional Information
How do you engage with the budget setting process and ensure you have the opportunity to influence the development and content of a strategic budget?	The Transforming Your Council (TYC) consultation included a number of officer budget proposals which included reductions and changes in services that would allow the council to balance the budget over the five years, whilst also delivering outcomes that support the council's priorities. The feedback received on these proposals was considered by PDSPs in December 2017. Reports on the proposed approach to developing a five year financial strategy were also presented to Partnership and Resources PDSP and Council Executive in January and February 2018. The Council Executive agreed that, following feedback received through the TYC consultation on officers' original budget saving proposals, some measures should be removed from the proposals in this report and, in some cases, alternative measures should be identified. As part of the Annual External Audit Report for 2016/17, the audit report recommended that, with significant challenges facing the council over the coming years, it would be important that members took an early lead in shaping the direction of future priorities and service delivery. Council, in February 2017, agreed objectives, a process and a timetable for corporate and financial planning. In accordance with the agreed process and timetable a consultation was held to provide all stakeholders in West Lothian with the opportunity to comment on proposed priorities, officer savings proposals and future council tax levels. Reports on all responses to the consultation were presented to PDSPs in December 2017 to provide the opportunity for elected members to shape the direction of future priorities and service delivery. As well as reports to PDSPs throughout December 2017 on the results of the consultation process, further information on the content of the revenue and capital budget reports was presented to the Partnership and Resources PDSP on 19 January 2018 and the Council Executive on 6 February 2018. This allowed further consideration and feedback from elected members on the council's priorities and the proposed officer budget savings proposals prior to the final budget reports being prepared. A review of elected member involvement in financial planning was undertaken in Spring 2018 with the following recommendations agreed by Council Executive on 12 June 2018: • Principles for future financial planning including continuing to have a five year strategy, aligned with political administrations, and three year detailed budgets. • Additional savings measures should be considered by the relevant PDSP before being reported for approval, apart from in exceptional circumstances. • Officers should review the content of the annual revenue budget report. • A detailed three year budget for 2020/21 to 2022/23 should be reported to Council for approval in early 2020.

Questions for Councillors to Consider	Officer Comments and Additional Information
How does annual budget setting link to medium and long-term financial planning in your council?	West Lothian Council agreed a long term financial plan for five years and detailed revenue budgets for the three years 2018/19 to 2020/21. Based on agreed budget assumptions, the council faces a revenue budget gap of £65.3 million over the five year period 2018/19 – 2022/23. West Lothian Council agreed budget savings of £60.1 million, leaving a balance to be found of £5.2 million. The Transforming Your Council (TYC) consultation will assist in the prioritisation and allocation of resources to activities that have the greatest impact, whilst ensuring balanced budgets for the five year period to 2022/23. The consultation also provided suggestions that will be reviewed to seek ideas for further options to bridge the outstanding budget gap.

Savings and transformation plans

Questions for Councillors to Consider	Officer Comments and Additional Information
Does your council have a savings plan? What are the options to close future funding gaps? How well are you kept informed about progress in delivering those savings?	On 13 February 2018, West Lothian Council agreed a long term financial plan for five years and detailed revenue budgets for the three years 2018/19 to 2020/21. Based on agreed budget assumptions, the council faces a revenue budget gap of £65.3 million over the five year period 2018/19 – 2022/23. West Lothian Council agreed budget savings of £60.1 million, leaving a balance to be found of £5.2 million. There is an ongoing process in place to identify options for savings to meet the estimated budget gap to ensure the council continues to have a balanced budget over the five years. The five year revenue budget plan 2018/19 to 2022/23 will enable the council to plan effectively and direct constrained resources to deliver the council's Corporate Plan outcomes. It will also help to manage demand for council services, especially within areas such as social care, in line with available resources. The Corporate Plan is directly influenced by the priorities included within the TYC consultation. The council believes that delivery of these priorities will help the community to grow and succeed, whilst also helping to focus council resources towards key areas over the next five years. The TYC consultation confirmed that the existing priorities should be retained but there was some change to the order of importance with the greatest movement seen in the minimising

Questions for Councillors to Consider	Officer Comments and Additional Information
	poverty and employment priorities. As part of the councils risk based approach to budget monitoring elected members are given quarterly updates through reports to council executive on the status of the delivery of approved budget saving measures. In addition where it was agreed that further reports and information would be brought back to elected members in the five year financial plan approved on the 13 February 3018, officers have been presenting reports and updated to policy development scrutiny panels and council executive during the course of 2018.
Which service areas are under the most pressure to make savings? What impact will savings have on the delivery of services and outcomes for service users, the wider community and the local economy? What are the potential risks?	All service areas will be required to deliver significant savings over 2018/19 to 2022/23. Given the extent of the financial challenge, the next five years will be a period of major change with fewer staff operating from fewer buildings and providing fewer direct services, however remaining services will be delivered in a more joined up and cost effective way. The council will continue to prioritise and deliver those services that meet the needs of the most vulnerable in the community, such as children, older people, vulnerable adults and families living in poverty. The Revenue Budget Report set out a number of risks and uncertainties associated with the council's revenue budget strategy for the five years, including general risks such as the level of Scottish Government funding and national policy changes, and more specific risks to West Lothian particularly around the increase in costs associated with demand led services such as adult and elderly social care and school demographics. Any combination of these risks could increase the estimated budget gap facing the council over the next five years, and require additional savings measures to be identified.
Does your council have a transformation plan? Does it clearly set out the aims and objectives and how and when these will be achieved?	The council's revenue budget plans for 2018/19 to 2022/23 have been developed following the Transforming Your Council consultation. The council's Corporate Plan is also directly influenced by the priorities included within the TYC consultation. Together, the Revenue Budget Strategy and Corporate Plan ensure an integrated approach is taken to delivering transformation over the next five years. This approach is beneficial for the following reasons. It:

Questions for Councillors to Consider	Officer Comments and Additional Information
	• Provides a medium term view which is essential when implementing effective service and workforce planning, allowing workforce changes to be made in a proactive manner; • Provides officers with sufficient time to implement what, in many cases, will be fundamental changes to service delivery which require a significant lead in time; • Helps officers and elected members to consider the long term implications of policy decisions and changes to service delivery; • Creates greater certainty surrounding detailed financial plans for the first three years of the five year financial strategy; • Provides services and customers with advance notice of changes; • Helps to integrate services and planning with Community Planning Partners, especially where outcomes are longer term (e.g. preventative spend). • In addition, the long lead in time required to deliver a number of the proposed budget savings measures, many of which require fundamental and significant changes to service delivery, means that if the five year strategy was not approved, the council could not deliver the proposed saving measures in sufficient time or in a cohesive and coordinated manner.
Does the transformation programme of work aim to make positive change to improve outcomes for communities? Is it about seeking opportunities to do things differently to maintain or improve performance or is the focus only on making savings?	The council's five year revenue budget plan 2018/19 to 2022/23 will enable the council to plan effectively and direct constrained resources to deliver the council's Corporate Plan outcomes. It will also help to manage demand for council services, especially within areas such as social care, in line with available resources. The Corporate Plan is directly influenced by the priorities included within the TYC consultation. The council believes that delivery of these priorities will help the community to grow and succeed, whilst also helping to focus council resources towards key areas over the next five years.
Are projects within the transformation programme achieving their aims in terms of service quality, performance and cost?	The council has an established framework for reporting on financial performance and service delivery performance. The delivery of agreed financial savings is reported through the Head of Finance and Property Services budget monitoring reporting. In line with the council's agreed budgetary control framework and procedures, a review of

Questions for Councillors to Consider	Officer Comments and Additional Information
	the delivery of budget reductions for the period 2018/19 to 2020/21 was completed by Heads of Service and has demonstrated that satisfactory progress is being made. It was reported to Council Executive on 11 September 2018, that based on an exercise carried out for the three year period to 2020/21, £18.895 million (46%) of agreed budget reductions are categorised as green which indicates that Heads of Service consider that the saving is achieved or achievable. The remaining £22.386 million (54%) of reductions are categorised as amber. Service performance is monitored through Pentana, the council's corporate system used to record and manage performance information. The West Lothian Assessment Model (WLAM) is the council's self-assessment framework that helps services to ensure that they provide good quality and improving services to all customers and service users. WLAM underpins the council's approach to improvement; ensuring services have a structured framework for assessing their performance and identifying areas for improvement.
How effectively are you engaged and informed about the council's transformation programme and kept informed about progress?	As part of the councils risk based approach to budget monitoring elected members are given quarterly updates through reports to council executive on the status of the delivery of approved budget saving measures. In addition where it was agreed that further reports and information would be brought back to elected members in the five year financial plan approved on the 13 February 2018, officers have been presenting reports and updated to policy development scrutiny panels and council executive during the course of 2018.
Are detailed options appraisals or business cases set out for changes to services planned within transformation activity?	Yes, all budget savings measures are subject to detailed business cases being established which highlight a rationale for delivering savings, timescales, risks and mitigating factors. Planning and delivery of budget savings are managed using project management methodology and are co-ordinated through the council's Corporate Transformation Team.

Reserves

Questions for Councillors to Consider	Officer Comments and Additional Information
What is the council's reserves policy?	The principle focus, in considering future financial strategy and a reserves policy, is to ensure that sufficient funds are held in reserve to deal with the financial consequences of uncertain future events, and to provide a reasonable sum to address the potential impact of

Questions for Councillors to Consider	Officer Comments and Additional Information
	the range of risks and uncertainties. The council's current minimum uncommitted General Fund Balance is £2 million in 2018/19, which is equivalent to approximately 0.5% of annual baseline revenue expenditure. The council's reserves at 31 March 2018 were (replace with the table I provided in the previous email): £'m General Fund Balance 23.9 Housing Revenue Account 0.9 Insurance Fund 10.1 Capital Fund 59.0 The audit of the annual accounts noted that the council's uncommitted general fund balance is one of the lowest uncommitted general fund balances held by all Scottish local authorities. This was identified as a risk that the uncommitted balance may not meet unforeseen circumstances. Officers considered if the level of uncommitted reserves remained appropriate and, taking account of clear financial planning arrangements, sound financial management and the level of other reserves, the Head of Finance and Property Services believes the level of uncommitted reserves remains appropriate. The level of uncommitted reserves is reviewed on a regular basis and as part of the revenue budget setting process. It is subject to a specific recommendation in the annual revenue budget report.
What have reserves been used for in recent years? Supporting services and bridging the funding gap or transforming services?	Earmarked general fund reserves have broadly been maintained at the same level over the past few years and provide the council with the ability to deliver key initiatives such as employability, holiday clubs etc. The main movement in total reserves in 2017/18 was utilisation of the Capital Fund to support the capital programme and investment in the council's assets.
What are the different types of reserves your council holds? Do you know what these can be spent on?	**General Fund Balance** - to ensure that sufficient funds are held in reserve to deal with the financial consequences of uncertain future events the council has agreed that the uncommitted General Fund Balance will be a minimum of £2 million.

Questions for Councillors to Consider	Officer Comments and Additional Information
	HRA Fund Balance - to ensure that sufficient funds are held in reserve to deal with the financial consequences of uncertain future events the council has agreed that the uncommitted HRA Fund Balance will be a minimum of £0.926 million. **Insurance Fund** - this is the funding mechanism for the control of insurable risk and includes premiums and self-funded insurance costs. The fund balance is to cover all known insurance liabilities and is independently valued on a triennial basis to ensure its value is sufficient to meet potential liabilities. **Capital Fund** - established to ensure that borrowing decisions and capital programme management are based on best value considerations. The Fund forms the basis of the funding package for the council's capital programme in future years.
What is the likely use of unearmarked reserves for 2018/19? How does the remaining unearmarked reserve compare to forecast funding gaps?	The approved revenue budget for 2018/19 does not include any use of unearmarked reserves. Currently a net overspend of £300,000 is forecast for 2018/19, however it is anticipated that the position can be brought back within budget by the end of the financial year after management actions are implemented to contain the potential overspend within approved budgets. If the overspend cannot be reduced, some of the council's general fund balance would be required in 2018/19. Should this occur, the council would have to take action to identify funding to bring the general fund balance back to the approved level of £2 million. It is projected that the devolved school management reserve will reduce in 2018/19, with the level of reduction to be finalised as part of the year end process in March 2019.
What are the plans for using the different reserve funds in 2019/20 and beyond? Are these plans appropriate and reasonable? Is it clear that the reserves are needed for the purposes they are assigned? Are the reserves sufficient for those purposes? Could the reserves be better used for something else?	Use of earmarked reserves is clearly planned for future years. In particular, the capital fund will be utilised to support capital investment in council assets over the ten year period to 2027/28. Details on use of the capital fund was included in the ten year capital investment and asset management report considered and agreed by Council on 13 February 2018. Officers regularly review the use of reserves to support council priorities and provide updates in the annual revenue and capital budget reports. The insurance fund is subject to regular actuarial review and where changes can be made, this is reported to elected members for decision as part of the annual budget process. The council's approved

Questions for Councillors to Consider	Officer Comments and Additional Information
	Transforming Your Council savings programme means that the Modernisation Fund will be required over the period to 2022/23 to help support transformational change and employee exit packages. The council's approved five year revenue financial plan means that there is currently no intention to use one off reserves to support ongoing service delivery. The council holds the following reserves: **General Fund Balance** - to ensure that sufficient funds are held in reserve to deal with the financial consequences of uncertain future events the council has agreed that the uncommitted General Fund Balance will be a minimum of £2 million. **HRA Fund Balance** - to ensure that sufficient funds are held in reserve to deal with the financial consequences of uncertain future events the council has agreed that the uncommitted HRA Fund Balance will be a minimum of £0.926 million. **Insurance Fund** - this is the funding mechanism for the control of insurable risk and includes premiums and self-funded insurance costs. The fund balance is to cover all known insurance liabilities and is independently valued on a triennial basis to ensure its value is sufficient to meet potential liabilities. **Capital Fund** - established to ensure that borrowing decisions and capital programme management are based on best value considerations. The Fund forms the basis of the funding package for the council's capital programme in future years. The principle focus, in considering future financial strategy and a reserves policy, is to ensure that sufficient funds are held in reserve to deal with the financial consequences of uncertain future events, and to provide a reasonable sum to address the potential impact of the range of risks and uncertainties. The council's current minimum uncommitted General Fund Balance is £2 million in 2018/19, which is equivalent to approximately 0.5% of annual baseline revenue expenditure. All of the council's reserves, apart from the HRA reserve, reduced during 2017/18 as earmarked reserves were used for approved initiatives and programmes and the insurance fund was revised to reflect current actuarial valuations. The council's reserves at 31 March 2018 were:

Questions for Councillors to Consider	Officer Comments and Additional Information
	<table><tr><td></td><td>**£'m**</td></tr><tr><td>General Fund Balance</td><td>23.9</td></tr><tr><td>Housing Revenue Account</td><td>0.9</td></tr><tr><td>Insurance Fund</td><td>10.1</td></tr><tr><td>Capital Fund</td><td>59.0</td></tr></table> The audit of the 2017/18 annual accounts noted that the council's uncommitted general fund balance is one of the lowest uncommitted general fund balances held by all Scottish local authorities. This was identified as a risk that the uncommitted balance may not meet unforeseen circumstances. Officers considered if the level of uncommitted reserves remained appropriate and, taking account of clear financial planning arrangements, sound financial management and the level of other reserves, the Head of Finance and Property Services believes the level of uncommitted reserves remains appropriate. The level of uncommitted reserves is reviewed on a regular basis and as part of the revenue budget setting process. It is subject to a specific recommendation in the annual revenue budget report.

Levels of Debt and Affordability

Questions for Councillors to Consider	Officer Comments and Additional Information
What is the council's current debt position? Do you have clear information about the potential need for future borrowing when agreeing authorised borrowing limits?	The CIPFA Prudential Code helps councils demonstrate good capital investment decisions. The treasury management strategy reflects how these decisions impact on treasury management activity. West Lothian Council is required to approve prudential indicators as part of the annual revenue budget process, which are based on the approved capital programmes for the same period. The level of borrowing included in the resource package required to fund the capital programme is assessed to ensure it is prudent, affordable and sustainable within the parameters of the council's treasury management plans and the Prudential Code for Capital Finance. The prudential indicators set out the current level of external debt and the authorised limit for external debt – the current indicators are as follows:

Questions for Councillors to Consider	Officer Comments and Additional Information
	ACTUAL EXTERNAL DEBT

	31 March 2016 £'000	31 March 2017 £'000	31 March 2018 £'000
Actual External Borrowing	531,118	601,341	585,889
Actual Other Long Term Liabilities	69,031	66,743	64,241
Actual External Debt	600,149	668,084	650,130

AUTHORISED LIMIT FOR EXTERNAL DEBT

	2017/18 £'000 Actual	2018/19 £'000 Estimate
Gross External Borrowing	585,889	671,640
Other Long Term Liabilities	64,241	62,687
External Debt	650,130	734,327

Questions for Councillors to Consider	Officer Comments and Additional Information
What share of the council's budget is taken up with interest payments and debt repayment?	West Lothian Council is required to approve prudential indicators as part of the annual revenue budget process. This includes the key affordability indicator of financing costs to the net revenue stream for General Services and HRA. This indicator clearly demonstrates the proportion of the annual revenue budget committed to repaying borrowing. When considering alternative options, detailed long term forecasting is undertaken, including consideration of the impact on key prudential indicators, reserves and revenue, capital and treasury strategies. To assist councillors in their scrutiny of prudential indicators, officers provide current year performance and information on key implications, along with detailed treasury management reports provided three times a year. The indicators for 2017/18 and 2018/19 are as follows:

Questions for Councillors to Consider	Officer Comments and Additional Information
	<table><tr><td></td><td>2017/18 Actual</td><td>2018/19 Estimate</td></tr><tr><td>General Fund</td><td>7.0%</td><td>7.0%</td></tr><tr><td>Housing</td><td>27.6%</td><td>28.8%</td></tr></table> As these indicators demonstrate, the council's capital plans are assessed to be prudent, affordable and sustainable.
What proportion of the council's debt is linked to inflation or at fixed rates? What does this mean for longer-term affordability?	All of the council's current debt has been secured at fixed rates, therefore it is not linked to inflation. As set out in the Annual Treasury Management Plan, council officers, in conjunction with our treasury advisors, continually monitor prevailing interest rates and market forecasts to identify the most opportune time for borrowing during the year. This allows for a higher degree of certainty and more accurate forecasting of longer term affordability.

Budget Outturn Reports and Management Commentaries

Questions for Councillors to Consider	Officer Comments and Additional Information
Do budget monitoring reports clearly explain financial performance against plans and any changes to plans, including the reasons for change?	In-year budget monitoring reports are provided to Council Executive on a regular basis, which includes a forecast outturn and a final out-turn position at the year end. During 2017/18, where there were movements in the outturn projections, full explanations were given with any management action required. Actions to address service pressures are included in monitoring reports, enabling members to have appropriate oversight of the financial position. This demonstrates good financial control and an understanding of the budget and in-year management of financial pressures. Monitoring reports also include in-year analysis against approved budget reduction measures on a red, amber and green assessment of their achievement and any action required to ensure deliverability.

	Additional reports have been provided to elected members on the financial performance of portfolio areas. The reports summarise key performance measures with the financial forecast and out-turn for service areas and thus allowing appropriate scrutiny of service and financial performance by elected members.
Does the management commentary clearly explain the council's financial performance and the changes to plans and reasons for those changes?	The management commentary is a narrative report that relates to the financial statements and provides explanations of the amounts presented, specifically the council's financial position, financial performance and cash flows. It also provides commentary on future risks and other information not presented in the financial statements. The management commentary serves as a basis for understanding management's objectives and its strategies for achieving those objectives. The management commentary covers all aspects of the council's performance and is presented in a clear, concise and straightforward manner. It focuses on the most important information in a manner intended to inform the reader.

Financial Scrutiny

Questions for Councillors to Consider	Officer Comments and Additional Information
What additional training would you like to receive to develop your knowledge and skills in financial scrutiny?	Elected members' training needs are addressed through completion of personal development plans and implementation of training plans based on a combination of individual and political group requests. There is also a section on the council's intranet which contains source documentation for councillors in addition to an elected member section within My Toolkit. In 2017/18 members had the benefit of an extensive post-election induction programme which, in relation to financial scrutiny, focused on the role of councillors and officers, councillors rights to information and scrutiny mechanisms. Further related training sessions are planned for 2019 including an Improvement Service workshop on the purpose of scrutiny, what effective scrutiny looks like and what power scrutiny has. Members' involvement in setting priorities and the budgetary process was improved in 2017/18 through implementation of actions arising from the BVAR in January 2018 and the external audit report for 2016/17. Financial performance reporting was improved, including the link between service and budgetary performance. Members may now without formal approval opt to attend training provided by statutory partners such as the Improvement Service where there is no cost to the council. Four member training days were set aside in the calendar of council meetings with members able to request training in areas chosen by them. The two main scrutiny committees (Audit Committee and Governance & Risk Committee) each carried out a self-assessment exercise in 2017/18 which included the identification of any training needs for their members. The Performance Committee reviewed its scrutiny practices too. FMU officers are assigned to each of the political groups and the independent councillor to assist in their preparations for budget-setting in February.

Charging for Services

Questions for Councillors to Consider	Officer Comments and Additional Information
Does your council have a charging policy? Is this in line with corporate plans and objectives? When was this last reviewed?	Yes. The council's approach to setting fees, charges and concessions was set out in a report agreed by Council Executive in December 2013 which agreed that for future fees, charges and concessions for discretionary charging services that the council would adopt the following principles as best practice: • A corporate approach to setting charges should continue to be taken into account as

Questions for Councillors to Consider	Officer Comments and Additional Information
	part of the • council's revenue budget planning; • The council should continue to consider comparative information from other councils, arm's length bodies and other service providers when setting charges; • Charging options should continue to be subject to an Equality Impact Assessment; • The council should develop its use of cost, uptake, usage and capacity information, as a way of assisting to design charges, provided the information required to be gathered is proportionate to the level of resources required; • In line with the Corporate Plan, the council will continue to develop a clear and fair pricing strategy and concessions scheme to ensure that charges generate income to support council services, in a way that is consistent with the council's Anti-Poverty Strategy; • Alternatives to charging should be considered as part of future charging options. Adopting this approach, the council's Transforming Your Council (TYC) consultation set out a proposal that the council would review all opportunities for discretionary charging and would investigate opportunities for additional sources of income. In addition, it was proposed that a contributions policy for non-residential care services would be introduced, subject to the financial assessment of affordability. Subsequently, on 13 February 2018, West Lothian Council agreed a long term financial plan for five years and detailed revenue budgets for the three years 2018/19 to 2020/21. In this report it was stated that income and contributions measures totalling £5.2 million over the next five years had been identified, which would raise additional income to offset the council's forecast budget gap. The Transforming Your Council (TYC) consultation set out a proposal that the council would review all opportunities for discretionary charging and would investigate opportunities for additional sources of income. In addition, it was proposed that a contributions policy for non-residential care services would be introduced, subject to the financial assessment of affordability.

Questions for Councillors to Consider	Officer Comments and Additional Information
Do you receive sufficient information about the potential impact on the service and the wider community when making decisions about changing fees and charges?	Decisions about charging take account of a range of factors, as set out in the principles for discretionary charging services set out above. The council's approach to charging is designed to ensure a clear and fair pricing strategy and concessions scheme is in place, which is consistent with the council's Anti-Poverty Strategy. Charging options are subject to an Equality Impact Assessment.
What information do you need to be able to explain increases in fees and charges to your constituents?	The rationale for setting charges for 2018/19 to 2020/21 is set out in detail in the council's Revenue Budget Report 201/819 to 2022/23 which was approved by Council on 13 February 2018. This information explains for example whether a charge has been set based on benchmarking information, on a full cost recovery basis or has been subject to an inflationary increase.

Integration joint board

Questions for Councillors to Consider	Officer Comments and Additional Information
What is the IJB's financial position? Is it financially sustainable?	West Lothian IJB is currently forecasting an overspend of £859,000. This fully relates to the impact of pressures within health functions delegated to the IJB. In terms of financial sustainability, work is currently being progressed on the WL IJB budget for 2019/20 and on the IJB's medium term financial plan.
What are the levels of reserves held by the IJB? Are these in line with the IJB's reserve policy?	WL IJB holds no reserves. The IJB's reserves policy proposes that the target level of general reserves should represent approximately 2% of net IJB expenditure. To date, given pressures in the IJB, there has been no opportunity to build up reserves.
What does the IJB's financial position mean for the council and for the delivery of services?	The IJB's financial position on delegated social care services reflects the position within the council for the same services. Consistency of reporting the position on council delegated services ensures there is a common understanding and partnership approach on service delivery across the IJB and council.

EU withdrawal

Questions for Councillors to Consider	Officer Comments and Additional Information
What planning and measures has your council undertaken in preparation for EU withdrawal?	The council has established a cross service Brexit working group which is focused on identifying service delivery risks in each service area of the council. The fluid nature of Brexit negotiations make understanding of the risks to service delivery difficult to establish with any degree of certainty. The council continues to work with other organisations including COSLA to understand the risks and how these can be managed or mitigated. A Horizon Scan report is presented quarterly to Partnership and Resources PDSP, which contains an update on the EU withdrawal position.
What are the risks and potential impacts of EU withdrawal for the function of your council and for the communities of your council area, In terms of workforce, regulation and funding?	The council has started to build an understanding of these issues but the dynamic nature of the terms of withdrawal make a full understanding difficult to establish. A number of work streams are reliant on European funding and these will be at risk if no alternative equivalent funding streams are in place. A number of regulatory changes will result and food regulation has been identified as a particular risk. The council does not anticipate any significant direct workforce issues but recognises that displacement may create challenges in the post Brexit period. expect direct.