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| Report To: | Policy & Resources Committee | Date: 21st May 2013 |
| Report By: | Chief Financial Officer | Report No: FIN/34/13/AP/LA |
| Contact Officer: | Alan Puckrin | Contact No: 01475 712223 |
| Subject: | An Overview of Local Government in Scotland 2013 – Accounts Commission Report | |

1.0 PURPOSE

- 1.1 The purpose of this report is to highlight to Committee the main messages coming from the Accounts Commission document – An Overview of Local Government in Scotland 2013 which was published in late March 2013 and to seek Committee views on any actions arising from the document.

2.0 SUMMARY

- 2.1 Every year Audit Scotland on behalf of the Accounts Commission publish an overview of Local Government report which is issued in March. The report is largely derived from the audit of Annual Accounts and Members Reports for the prior financial year.
- 2.2 This year's document is split into 2 main sections; Service Challenges in 2013 and Use of Resources in 2012. Both sections give an overview of issues identified by Audit Scotland and contain a short summary section.
- 2.3 The main messages contained in the document are as follows:
- Pressures continue to build on Council Budgets due to reductions in funding and increases in demand.
 - Public sector reform is inevitable and ongoing and Councils need to ensure they have mechanisms in place to deal with this.
 - Councillors need to ensure that they are adequately equipped to be involved in managing the performance and governance of their Council.
 - There have been significant changes in the political and management makeup of most Councils and this can increase risk.
 - Overall Council reserves have increased but this is not necessarily a bad thing given the increase in cost pressures.
- 2.4 Appendix 1 to the report poses a number of questions for Councillors to consider.
- 2.5 Having considered the report the Corporate Management Team believe that the Council has in place robust arrangements for dealing with most of the issues highlighted in the report particularly around the Finance Strategy, Performance Management Framework, SOA and the recently approved Corporate Directorate Improvement Plans. There are however 2 specific actions which the Corporate Management Team believe should be progressed during 2013 as follows:
- The Council's Reserves Policy requires to be reviewed and refreshed.

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- b) The recently approved Solace indicators require to be embedded in the Performance Management Framework for the relevant directorate with a specific report on these being presented to the relevant committees.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee consider the contents of the report and identify any specific actions contained in Appendix 1 they would wish officers to progress.
- 3.2 It is recommended that the Committee agree to the actions identified in paragraph 2.5.
- 3.3 It is recommended that Committee remit this report to the Audit Committee for further consideration.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 Each year Audit Scotland on behalf of the Accounts Commission produce an annual report on the overview of Local Government in Scotland.
- 4.2 The report is largely derived from the Audit of the annual accounts and the resultant member's letter for the 32 Councils in Scotland and is contained in Appendix 1.

5.0 MAIN ISSUES HIGHLIGHTED IN THE REPORT

- 5.1 The report is broken down into 2 main parts with each part having a summary and thereafter appendix 1 of the Accounts Commission report poses a number of questions for Councillors to consider.
- 5.2 Part 1 of the report concentrates on Service Challenges in 2013. The report identifies a number of issues including:
 - a) Demand and resource pressures which continue to build on Local Government.
 - b) Public Sector Reform is gathering pace and the need for Councils to have mechanisms in place to monitor progress and minimise risk.
 - c) The role of Community Planning Partnerships and delivering outcomes.
 - d) The role of Councillors in monitoring Council Performance, Improvement and Governance.
- 5.3 The report also highlights the crucial role of self evaluation in ensuring the Council can demonstrate Best Value. Whilst the recently approved Corporate Directorate Improvement Plans are a significant contribution to self evaluation within the Council the report also highlights the need to make use of the recently approved Solace/Improvement Service Indicators in the area of benchmarking with other Local Authorities.
- 5.4 Having considered this matter the Corporate Management Team would recommend that each service committee receives a report on the relevant Solace Indicators and specifically the action which it proposes to take to improve performance or an explanation as why it is not proposed to make improvements at this point in time. A report on this matter therefore will be presented to each service committee after the summer recess.
- 5.5 Page 16 of the report gives the key messages for this section of the report
- 5.6 Part 2 concentrates on the Use of Resources in 2012 and highlights the following:
 - a) There have been significant changes in the makeup of those leading, managing and working in Councils in recent times. This can pose a risk at a time of considerable change and pressure.
 - b) Financial reserves have increased in 2012 but funding is decreasing and cost pressure continues to grow.
 - c) More can be done to improve the financial information presented in Public Performance Reports.
- 5.7 Within this section there are 2 exhibits within which the Council is mentioned namely exhibit 19 – Movement in Net Indebtedness 2003/4 to 2011/12 and exhibit 21 – General Fund Balances as a percentage of the net cost of services as at 31st March 2012. Taking each in turn the Chief Financial Officer would comment as follows:

Exhibit 19 – Inverclyde Council appears to have the second largest reduction in net indebtedness from 2003/4 to 2011/12. This however is not surprising given that during this period the Council transferred its Housing Stock and part of this transaction was that the Housing Revenue Account debt for the Council was written off. There is therefore limited value in this table.

Exhibit 21 – It can be seen from this table that Inverclyde has the highest overall reserves as a percentage of the net cost of services as at the 31st March 2012. It should be noted however that the vast majority of the Council's reserves are earmarked for specific purposes such as the School Estate Management Plan, Asset Management Plan, Equal Pay, Riverside Inverclyde, specific economic regeneration initiatives such as Employment and Business Support and a wide range of Community Projects which are reported on a regular basis through the Environment and Regeneration Committee. Once the Earmarked Reserves are discounted then the Council's level of reserves is very much in line with the Scottish average.

- 5.8 One issue however the report does highlight is the need for Councils to have a regular review of the Reserves Policy. This has not taken place within Inverclyde Council since 2008 and as such it would be appropriate for a review of the Council's Reserves Policy to take place and be reported to the Policy & Resources Committee during 2013.

6.0 CONCLUSION

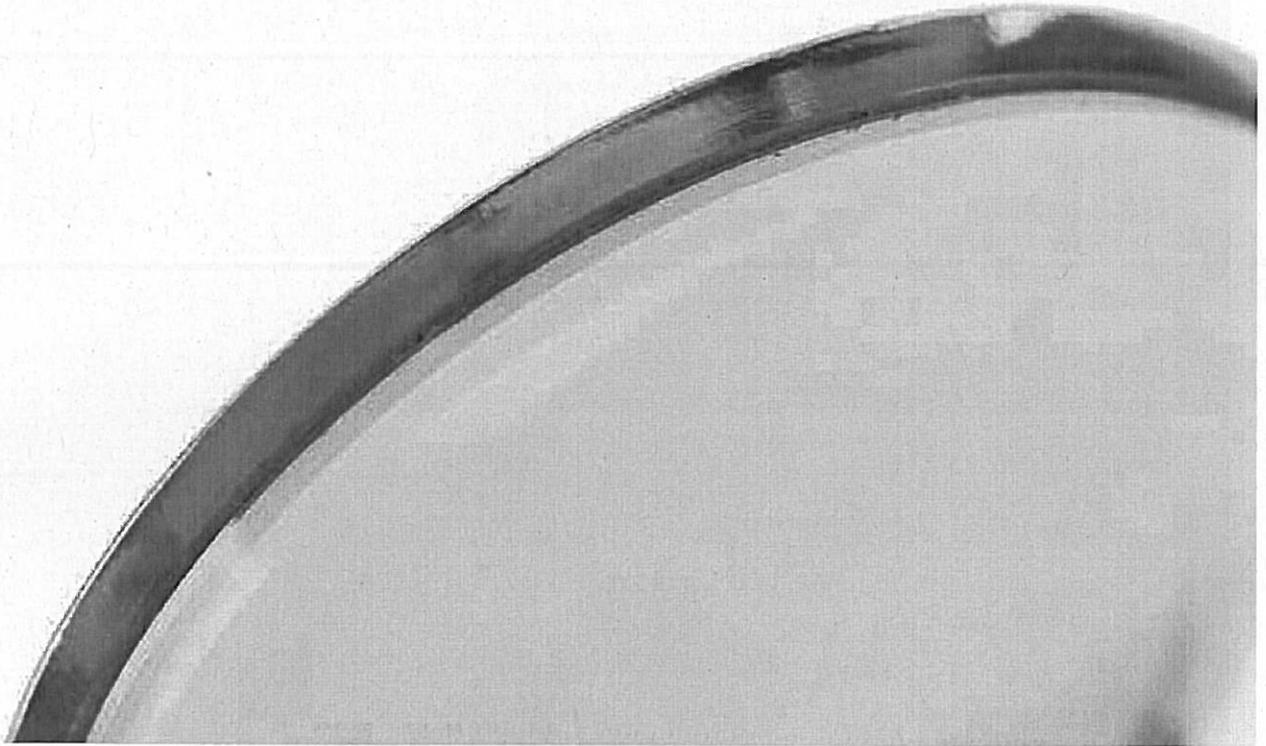
- 6.1 The annual overview of Local Government in Scotland report once again highlights a number of important issues for Members to consider.
- 6.2 The Corporate Management Team have recommended 2 specific actions and Committee are asked to consider whether there are any further actions which they would wish officers to progress.
- 6.3 In line with previous years it is proposed that the report also be remitted to the Audit Committee for the consideration of any relevant matters.

7.0 IMPLICATIONS

- 7.1 There are no financial, HR or legal implications arising from this report.

Responding to challenges and change

An overview of local government in Scotland 2013



 ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 2013

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, requests local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 45 joint boards and committees (including police and fire and rescue services).

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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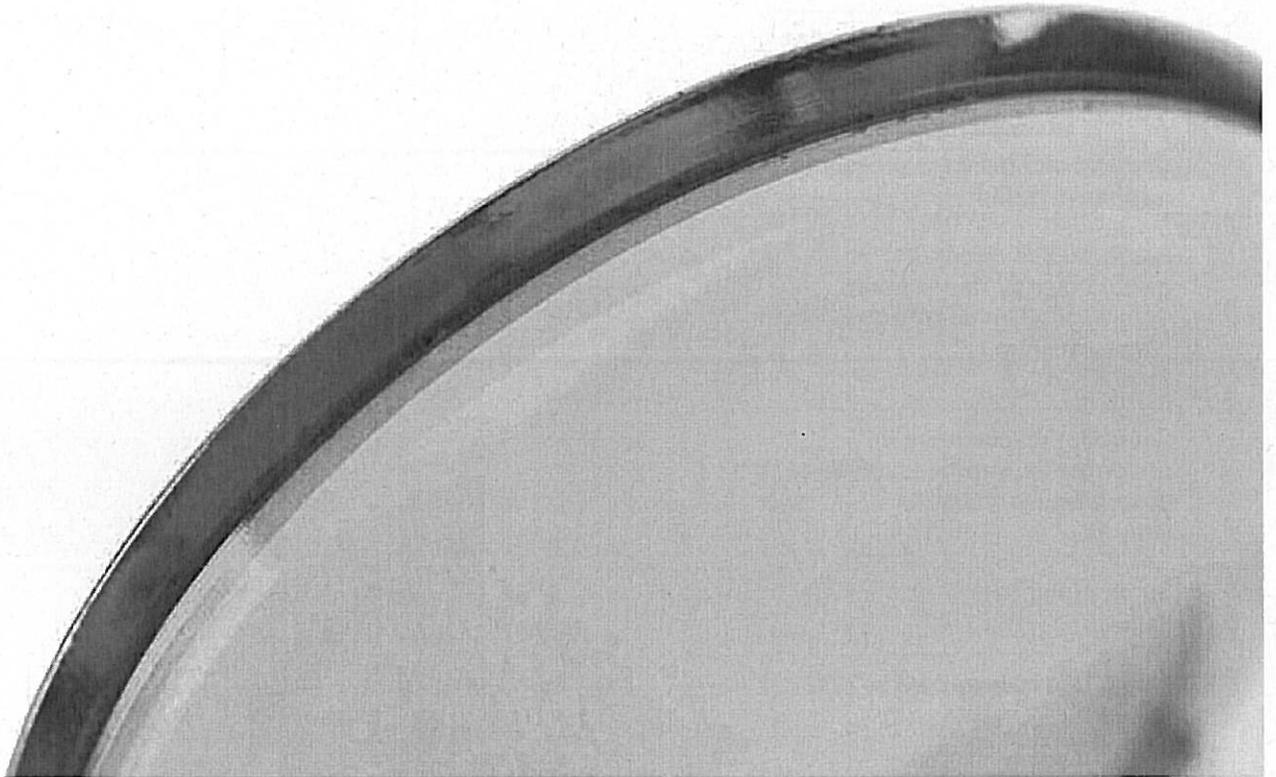
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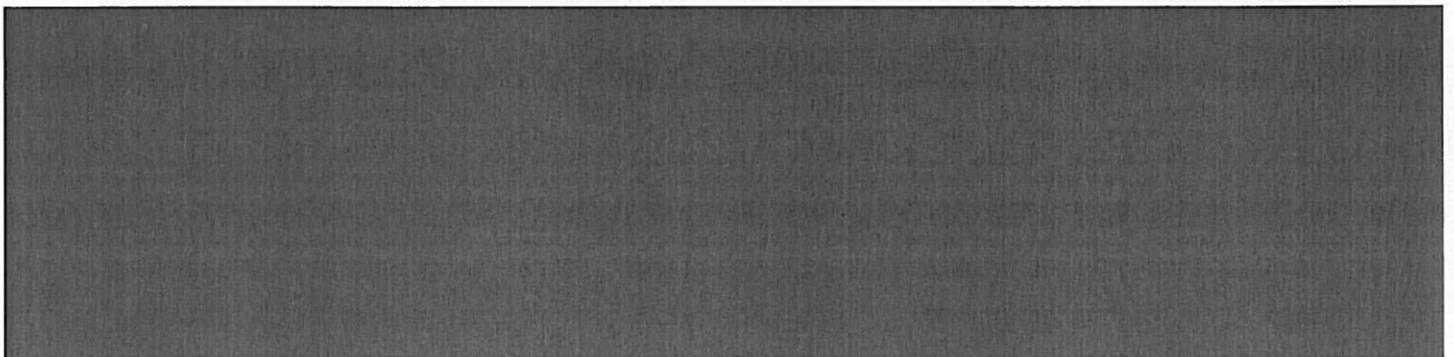
Exhibit data

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

Summary



Councils that place Best Value at the centre of all they do are well placed to deal with challenges and change



Introduction

1. The Accounts Commission's overview report last year identified the pressures facing local government. This year, we look at how councils are responding and identify what more needs to be done. There are many challenges facing local government. The most immediate are managing financial pressures, dealing with welfare reform and continuing to provide Best Value.

2. Our report draws on recent audit work including the annual audits, Best Value audits and national performance audits to provide an independent view on the progress councils are making. The report is in two parts:

- Part 1 highlights service challenges in 2013
- Part 2 reviews use of resources in 2012.

3. There are short summaries at the end of each part of the report, leading to a checklist of actions for councillors in Appendix 1. There is a glossary of terms used in the report in Appendix 2.

Context

4. Budgets are tightening and councils anticipate even tougher times over the next few years. Reserves have increased but they can be used only once and are not a sustainable source of support for expenditure. Demands on services continue to rise and the longer-term impact of changes in the population and, in particular, the growing number of older people, is likely to be substantial. So far, tighter budgets have been met by reducing staff numbers and increasing charges.

5. There have been significant changes in the make-up of the people leading and managing councils. Over a third of the councillors elected were new to local government at the May 2012 elections. About a third of councils have changed their

chief executives over the last two years. Councils are also changing how they deliver services with, for example, more arm's-length external organisations (ALEOs) now in place.

6. Politics is, of course, an integral part of local government and heightened political tensions are apparent. Further pressures are likely as the new administrations strive to deliver manifesto commitments at a time when reduced budgets mean that choices and decisions are harder.

7. The public service reform agenda is gathering pace and significant changes lie ahead for local government. Reform of the welfare system is likely to have significant and far reaching consequences for councils and their communities. There are plans for major change in adult health and social care. The new single police and fire services mean new relationships will need to be established with councils. It is also very clear that the Scottish Government expects Community Planning Partnerships (CPPs) to oversee and lead public service reform.

Priorities

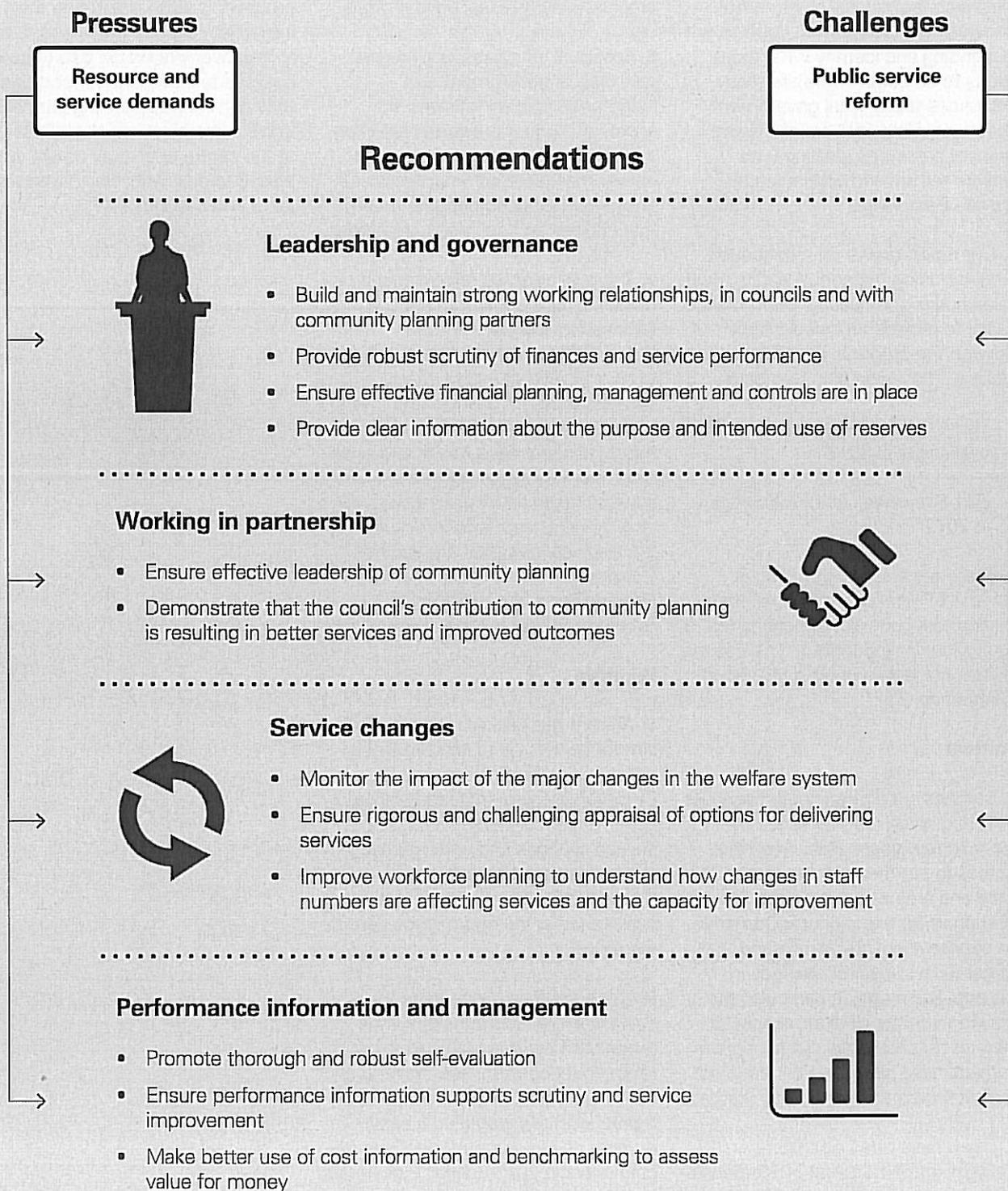
8. Against this backdrop, the overall aim for councils is to achieve Best Value and improve outcomes. Common themes are leadership and governance, partnership working, service changes and performance information and management. We return to these themes in the summaries at the end of each part of the report.

9. There are many aspects to the councillor role, and there is a wide range of material available to support them. In recognition, and drawing on the range of issues covered in the report, we have identified a small number of key recommendations for councillors in 2013 (Exhibit 1, overleaf).

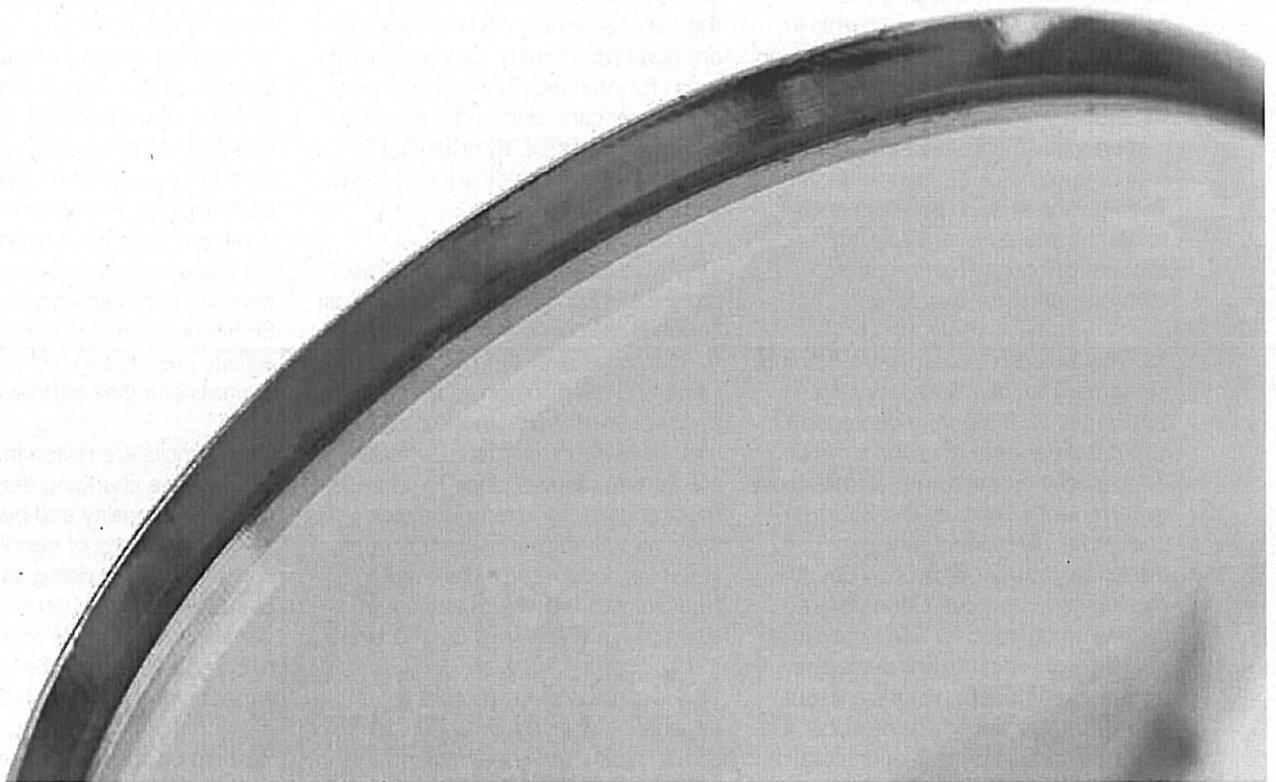
10. Councillors and senior managers should consider this report, identify what they are doing in response and, where there are gaps or where progress is slow, determine the immediate actions they need to take to improve. We would also encourage councils to discuss the report with their community planning partners. Local authorities that place Best Value at the centre of all they do are well placed to deal with the challenges in 2013 and beyond.

Exhibit 1

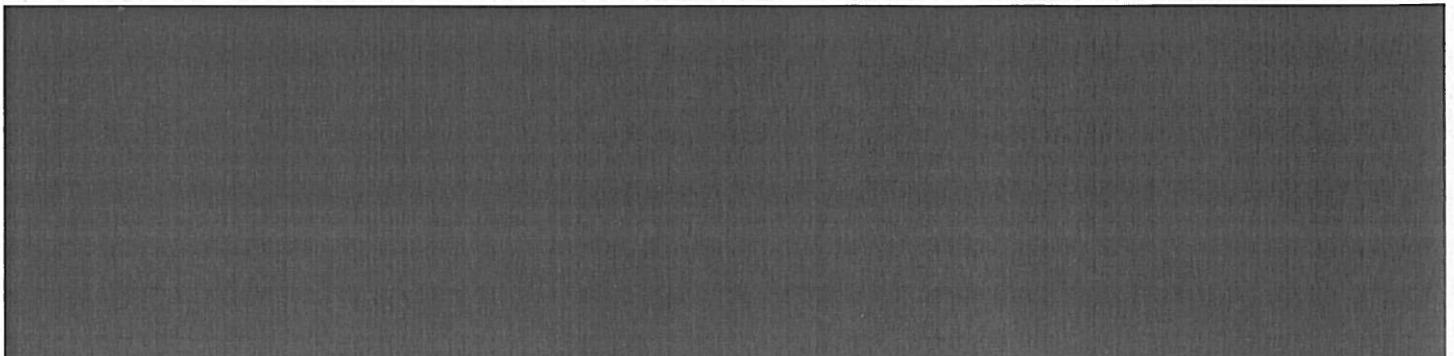
The Accounts Commission's key recommendations for councillors in 2013



Part 1. Service challenges in 2013



The councillor role in performance, improvement and governance is crucial in 2013 and beyond



11. In this part of the report, we consider the resource and demand pressures facing local government in 2013, the impact of public service reform and underline why the councillor role in performance, improvement and governance is crucial.

Demand and resource pressures continue to build

12. Councils are managing their finances in challenging economic circumstances and against a backdrop of increasing demand for services. As shown in Part 2 of the report, reserves have increased but this is only one indicator of financial health. The position at each council needs to be considered overall, taking account of borrowing and other commitments, for example.

13. The Scottish Government funding settlement to local authorities for 2013/14 is £9.9 billion, a decrease of about 0.2 per cent in cash terms or 2.2 per cent in real terms.¹ While local government's share of the Scottish budget has remained fairly constant, the actual amount of money councils receive has been cut. Councils are increasing charges for some services but need to weigh these decisions against the impact on service users. There are also uncertainties about the scale of any further reductions which may flow from the UK Government's Comprehensive Spending Review later in 2013.

14. At the same time, councils are facing continuing cost pressures. Following a series of pay freezes, salaries are set to increase. There are also pressures in a range of other areas, including food and energy costs, waste disposal and building and road maintenance.

15. Staff early-release schemes continue to feature strongly as an option to reduce costs. Councillors should take a close interest to ensure

the principles of transparency and accountability are observed in an area which is, rightly, of particular interest to the public.

16. Cost pressures have to be managed alongside substantial service demand pressures relating to, for example, looked-after children, supporting people most affected by economic recession and welfare reform, and the effect on services of the ageing population. Many of the services which councils provide are non-discretionary, leaving limited room for manoeuvre in budgets. Typical cost and demand pressures facing councils are summarised in Exhibit 2; their impact will vary from council to council.

17. Achieving savings will become progressively more challenging. Most councils are predicting substantial funding gaps over the next three years and need to consider seriously policy options which in the past may have been rejected. Councils are putting plans in place to address funding gaps, for example through savings and efficiency programmes. However, longer-term plans with clear links to workforce and asset strategies are less well developed.

18. Councils are doing more to engage local people in discussions about the financial position and the choices available to balance the budget, eg by online questionnaires and through meetings in local communities. This is a healthy development which provides councils with more information about residents' views and promotes a wider understanding of the tough decisions councillors face. It is important that councils follow through on these initiatives by publishing information on what people said and how this influenced budget decisions.

19. Set against a background of substantial demand and resource pressures, there is a range of

changes on the horizon to which local government will need to respond (Exhibit 3, page 8).

Public service reform is gathering pace; councils and Community Planning Partnerships are at its centre

20. Public service reform is gathering pace and local government is at its heart. The Scottish Government's reform approach across public services is founded on 'four pillars' for change: shifting resources towards prevention; integrated local services through better partnership working; workforce development; and transparent and improving performance. Responding to public service reform can help public services, including councils, deal with demand and resource pressures. Shifting resources to preventative activity presents a major challenge for councils and their partners.

21. Councils are reviewing services to meet the changing demands, to address inequality and better meet the expectations of people and communities. In doing so, councils need to work with partners so we also look at what more needs to be done to meet the growing expectations of community planning.

Reforms and changes, now and in future

22. Councils and local services face significant changes. Welfare reform, the new national police and fire and rescue services and adult health and social care reform will all have a significant impact on local government. An increasing emphasis on partnership working and community empowerment also provide opportunities for new approaches to service delivery.

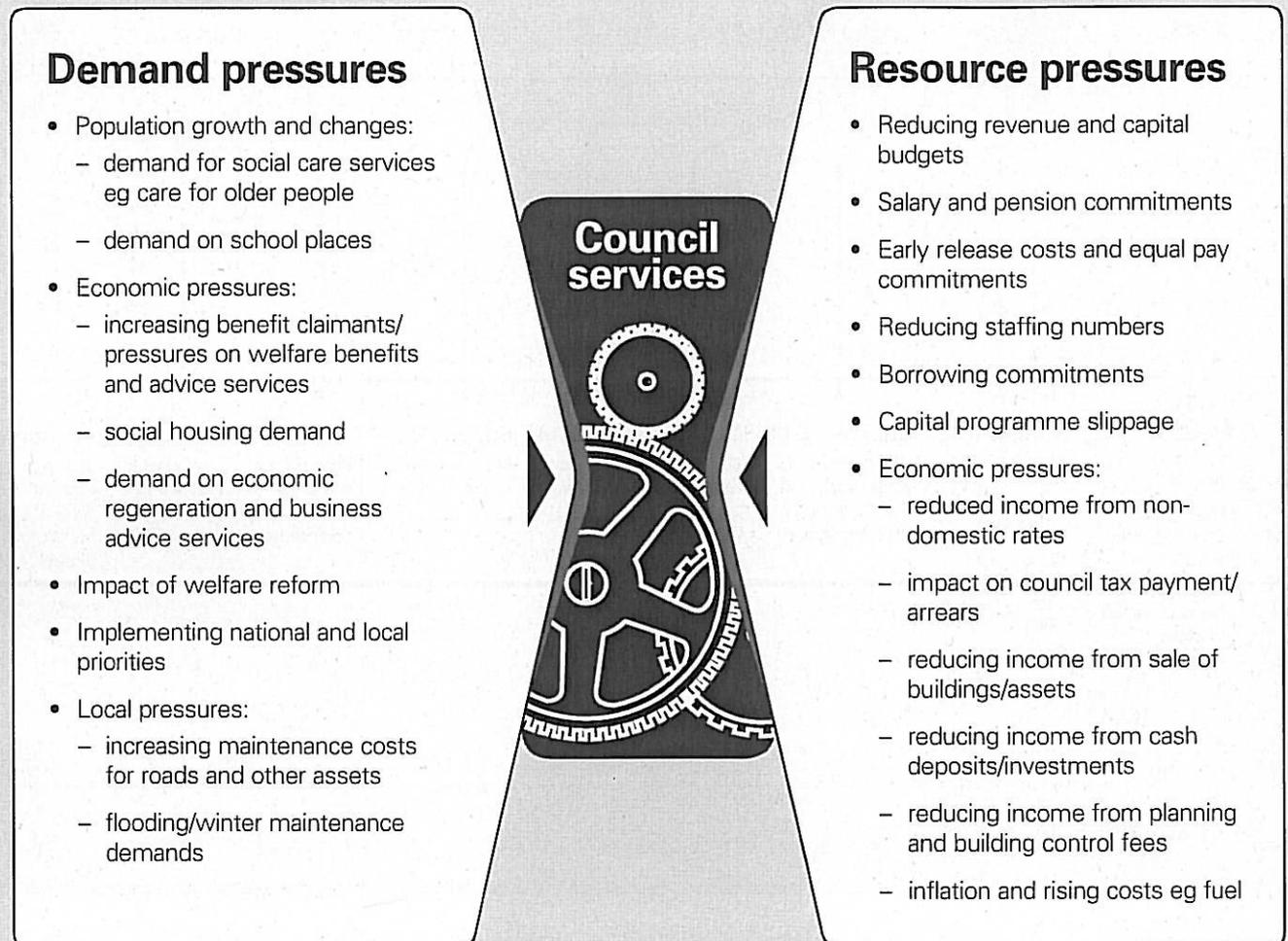
Welfare reform

23. The Welfare Reform Act 2012 of the UK Parliament aims to improve work incentives, simplify benefits

¹ *Local Government Funding: Provisional Allocations for 2013-2014*, Scottish Parliament Information Centre (SPICe), December 2012.

Exhibit 2

Demand and resource pressures in 2013 and beyond



Source: Audit Scotland

and their administration, and deliver substantial savings. It is the biggest reform of the UK welfare system in 60 years, which could change the lives of millions of people and have significant implications for councils and the services they provide. The most significant changes include: a new universal credit to replace existing benefits, including housing benefits currently administered by councils; the introduction of a benefit cap which will limit the amount paid to households; and a new scheme to replace existing council tax benefits.

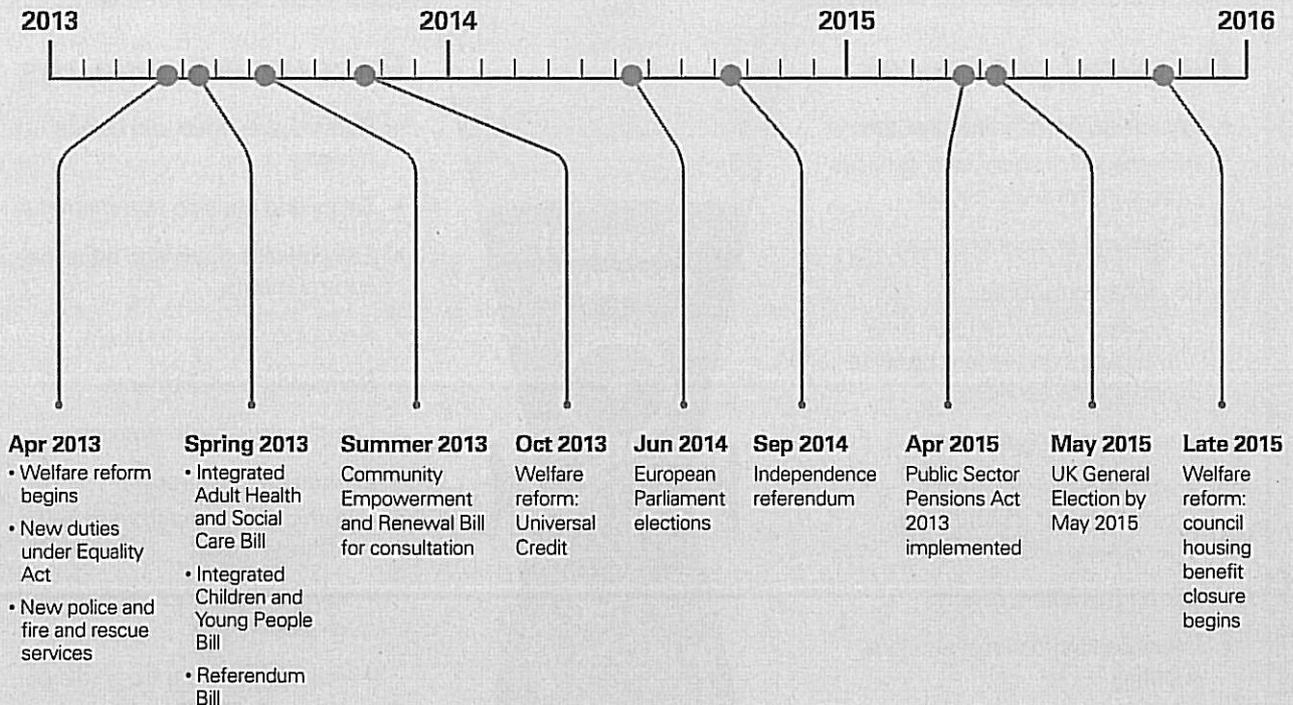
24. Councils are taking this very seriously and are responding to this major change by identifying the implications for existing services and anticipating the effect on local communities. Some councils have estimated the effect on disposable income in their area, further emphasising the far-reaching effect of the reforms. There is also evidence of councils working together and working with their partners, such as housing associations, to plan for the changes. Some councils are involved in testing aspects of the reforms, including direct payments to benefit claimants (as

opposed to offsetting benefits against rents due under current arrangements).

25. Immediate challenges include monitoring the impact of changes from April 2013. Work is continuing to ensure council staff are prepared to deal with issues that arise and to assist those most affected. In the longer-term, councils may review new house building to address the likely increased demand for properties with fewer bedrooms because, under the reforms, benefit will be restricted if a dwelling is larger than required. Many councils have yet to address

Exhibit 3

Summary of changes facing local government



Source: Audit Scotland

fully the longer-term implications. This is mainly because they are unable to predict with certainty the services they will be expected to provide and therefore the number, skill mix and staff grades required.

26. It is difficult to overstate the potential implications of welfare reform on people and communities, on council services and their policy objectives, and on council staff. Welfare reform represents a major challenge for councils in the short to medium term.

Other changes

27. The Police and Fire Reform (Scotland) Act 2012 of the Scottish

Parliament established a single police service and a single fire and rescue service from 1 April 2013. This is a substantial undertaking involving major change in vital public services. During 2012, we produced overview reports^{2, 3} highlighting the main issues from Best Value audit and inspections of police authorities and forces and the Best Value audits of fire and rescue authorities.

28. In December 2011, the Scottish Government set out plans to integrate adult health and social care. This aims to improve the quality and consistency of care for older people, and to shift resources to

community services and away from institutional care. The Government plans to introduce Health and Social Care Partnerships (HSCPs) to replace the existing Community Health Partnerships. These changes affect major public services and, potentially, represent the biggest change in local government since its reorganisation in 1996.

29. Demographic changes, particularly the ageing population, have significant implications for council services and will increase demands in key areas such as homecare and housing. Registrar General for Scotland⁴ figures show

² *Best Value in police authorities and police forces in Scotland*, Accounts Commission and the Auditor General for Scotland, November 2012.

³ *Best Value in fire and rescue services in Scotland*, Accounts Commission, July 2012.

⁴ *Scotland's Population 2011 – The Registrar General's Annual Review of Demographic Trends*, General Register Office for Scotland, August 2012.

that Scotland's population reached a record high, growing by 0.6 per cent in the year to June 2011, largely due to inward migration with 27,000 more people entering Scotland than leaving, and 4,809 more births than deaths. Projections suggest further growth, and a significantly ageing population. From 2010 to 2035 the number of people aged 75 and over will increase, by over 80 per cent, representing about a third of a million people (Exhibit 4).

30. The anticipated effect across council areas is not uniform, with rural areas likely to see proportionately larger increases in the number of older people, with the potential to compound the challenges in meeting service demands. The demographic changes mean significant and pressing challenges for councils and the wider public sector. There is a wide recognition that services need to change but services have been slow to adapt and there is limited evidence of changes in the way resources are being used over time.

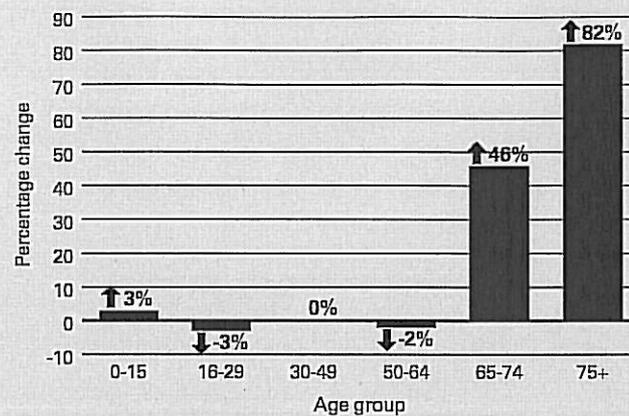
Reform and the growing expectations of community planning

31. By working together to plan services and make best use of the overall resources, partners can achieve better outcomes and value for money than by working alone. Community Planning Partnerships (CPPs) offer part of the solution to the pressures on resources and will play a crucial role in public service reform. The Scottish Government expects CPPs to take the lead in improving outcomes with reduced budgets.

32. Community planning involves councils and other public bodies working together, with local communities, the business and voluntary sectors, to plan and deliver better services and improve

Exhibit 4

Projected change in age structure of Scotland's population, 2010–35



Source: General Register Office for Scotland

outcomes for people. CPPs set out their priorities in Single Outcome Agreements (SOAs).

33. Local authorities have a duty⁵ to initiate, facilitate and maintain effective community planning, and statutory partners such as health boards are required to participate. All councils have established a CPP to lead and manage community planning in their area. CPPs are not statutory committees of the council or public bodies in their own right.

34. As part of its response to the Christie Commission's report on the future delivery of public services,⁶ the Scottish Government worked with the Convention of Scottish Local Authorities (COSLA) to produce a Statement of Ambition for community planning.⁷ It requires community planning partners to achieve better outcomes for communities and to work together to help prevent problems arising. It also emphasises that all partners are collectively accountable for delivering services (Exhibit 5, overleaf).

35. The Scottish Government asked the Accounts Commission to consider how external audit and inspection might help CPPs to improve and deliver better outcomes. In doing this we worked with the Auditor General, Audit Scotland and our scrutiny partners⁸ and developed a framework to audit CPPs and how they perform.

36. Aberdeen City, North Ayrshire, and Scottish Borders CPPs participated in initial audits which, for the first time, focussed on the effectiveness of individual CPPs. Audit reports on each CPP and a summary report covering common issues and related information were published in March 2013.⁹

37. The initial audit work suggests that while there are examples of good partnership working and initiatives to meet local needs, there is a long way to go before the full potential of community planning will be realised. Exhibit 6 (overleaf) summarises the findings from our early audit work on community planning.

⁵ Local Government in Scotland Act 2003, Part 2, section 15.

⁶ *Commission on the Future of Public Services*, Christie Commission, June 2011.

⁷ *Review of Community Planning and Single Outcome Agreements: Statement of Ambition*, Scottish Government and COSLA, March 2012.

⁸ Partners included: Education Scotland, Care Inspectorate, Her Majesty's Inspectorate of Constabulary for Scotland, the Scottish Housing Regulator and Healthcare Improvement Scotland.

⁹ *Community planning in Aberdeen, Community planning in North Ayrshire, Community planning in Scottish Borders, Improving community planning in Scotland*, Accounts Commission and the Auditor General for Scotland, March 2013.

Exhibit 5

The Statement of Ambition – key features and what CPPs must do

- **Understand place:** develop a clear and evidence-based understanding of local needs and opportunities. This requires local and national agencies, supported with good data that can be monitored over time, to demonstrate continuous improvement. CPPs and SOAs must be responsive to local circumstances, within the context of the National Performance Framework – this sets out national priority areas such as ‘we live longer healthier lives’, ‘we realise our full economic potential’, and ‘our children have the best start in life’.
- **Plan outcomes:** translate their understanding of place into plans that recognise the particular needs and circumstances of different communities. These should clearly identify outcome priorities and improvement actions, agreed jointly by partners.
- **Deliver outcomes:** translate into delivery, with partners working together to implement local priority outcomes. CPPs must have a clear understanding of the respective contributions from partners, and how overall resources will be targeted to deliver the priorities. This will require service integration, a focus on prevention, and investment in the people who deliver services through enhanced workforce development, including effective leadership.

Source: Audit Scotland

Exhibit 6

Community planning – audit findings

- Community planning provides a clear opportunity to deliver a step change in the performance of public services.
- Partnership working is well established and there are many examples of joint working that are making a difference for specific communities.
- Community Planning Partnerships (CPPs) are not yet able to demonstrate that they have had a significant impact in delivering improved outcomes across Scotland.
- Performance issues go beyond individual CPPs: delivering change to help meet the demanding requirements of the Statement of Ambition for community planning will require strong and sustained leadership at national and local level.
- The outcomes that CPPs are trying to improve are complex and deep rooted.
- CPPs need to be clearer about their priorities for improving their area.
- CPPs need to focus their efforts through using their combined resources, skills and expertise.

Source: Audit Scotland

38. The messages from the CPP audits are consistent with matters identified in our report on health inequalities.¹⁰ This highlighted the lead role that CPPs have in bringing together all relevant local organisations to address health inequalities. The report found a number of areas where health and social care providers need to improve the joint delivery of services (Exhibit 7).

Councils and CPPs must involve and consult local communities

39. Councils and CPPs need to understand local community needs to deliver better services and address inequalities. The Statement of Ambition for CPPs stresses the importance of using strong and reliable data to understand and act on local need.

40. Most councils survey service users in some way and some have established customer standards setting out what people can expect from services. Reports from surveys provide useful information and help to support public performance reporting, eg where councils take an approach based on ‘you said..., we did...’.

41. Councils are doing more to understand the views of residents more generally. Information from complaints and user feedback, for example, helps to identify problems and gauge customer satisfaction. Councils with good complaint-handling processes are more responsive and transparent in the way they deliver services.

42. The effectiveness of community engagement is variable. Many councils and CPPs do not link consultation and engagement activity with decision-making to adapt and improve services. More developed approaches, involving CPPs and others, can help manage expectations about what can be achieved by local public services in a context of reducing budgets.

Reviewing services and implementing options

43. Councils decide the best way to deliver services taking account of the needs of service users and communities. In so doing, they must observe their duty to provide Best Value, which requires continuous improvement, while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. Pressures on finances and changes in the workforce give even greater impetus for councils to be active and ambitious in considering alternative options for services.

44. Options include: council-provided services; services delivered through contracts with external private or voluntary sector suppliers; and services delivered through partnerships or by an arm's-length external organisation (ALEO). Option appraisal needs to be rigorous and challenging, and based on clear business cases. Alternatives to externalising services include simplifying and standardising existing processes, many of which are common to all councils, for example, issuing bills and paying creditors.

45. Reviews need to include discussions with local partners to identify areas for improvement. Fully evaluating the service options that flow from that can be complex and councillors need good-quality evidence. In summary, the key questions are:

- Is there a need for this service?
- If so, how should it be delivered and by whom?
- Have we explored all the realistic options?
- Do we have sufficient evidence to make an informed decision?

Exhibit 7

Health inequalities

- CPPs' reports on delivering their SOAs are weak in the quality and range of evidence used to track progress in reducing health inequalities. Current performance measures do not provide a clear picture of progress.
- It is difficult to track direct spending by the NHS and councils on addressing health inequalities.
- CPPs must ensure that partners have a shared understanding of health inequalities, their respective roles and the shared resources available, and that they involve local communities in initiatives to tackle health inequalities.
- NHS boards, councils, the voluntary sector and other partners should identify their combined spend on reducing health inequalities locally, and work together to ensure that resources are targeted at those with the greatest need.

Source: Audit Scotland

46. Improvement depends on strong and effective councillor and officer leadership which builds and maintains momentum through the change process. Councillors and officers must ensure they have the skills and capacity to deliver change and councillors need to challenge and scrutinise progress effectively.

Sharing services

47. Sharing services may provide an option for savings or for providing better services. However, barriers include organisational structures, leadership changes, compatibility of systems and staff terms and conditions (Exhibit 8, overleaf). It is particularly difficult when sharing services means loss of control and jobs. We remain of the view that significant savings in the short term are unlikely from sharing services.

48. Where business cases and option appraisal indicate the potential for savings, we encourage councils to press on in accordance with Best Value principles, with strong councillor and officer leadership, to realise the benefits as quickly as possible.

49. There is also potential from approaches that shift the emphasis from 'economies of scale' to 'economy of skills', particularly around professional services. For example, our report on protecting consumers¹¹ noted that councils are working collaboratively on specific projects such as sharing laboratories, equipment and expertise.

ALEOs

50. Our *How councils work* report on ALEOs¹² sets out good practice in setting up and running ALEOs. We encourage councillors to use it to check progress on governance, performance and risks. We have previously highlighted the problems that can emerge when governance is not effective, and the risks to finance and services. A key issue for the Accounts Commission is for auditors to be able to 'follow the public pound', from the council to the ALEO, where it is then used to provide public services.

¹¹ *Protecting consumers*, Accounts Commission, January 2013.

¹² *How councils work: an improvement series for councillors and officers – Arm's-length external organisations (ALEOs): are you getting it right?* Accounts Commission, June 2011.

Exhibit 8

Shared services

- East Lothian and Midlothian councils ended their plans for joint working in education and children's services following changes in political administrations.
- The three Ayrshire councils decided not to proceed with a project for shared regulatory services (building standards, environmental health and trading standards) owing to the lack of savings likely to be generated and legal complexities in integrating services.
- Clyde Valley councils have worked together since the 2009 Arbutnott review recommended closer working between councils and health boards. Work started in social transport, health and social care, waste management and support services. Many of the projects are still at planning and development stage and have not yet delivered the expected outcomes.
- Clackmannanshire and Stirling councils continue to work to integrate education and social care services. Each council has now agreed a shared methodology for apportioning costs and savings, and work is under way to agree a common performance management framework.

Source: Audit Scotland

51. ALEOs can take the form of a company or trust which is 'arm's-length' because the council retains a degree of control and 'external' because they have a separate legal identity. They deliver a wide range of council-related services, including leisure services and property maintenance, and offer the potential to reduce costs and increase flexibility. However, there are also potential disadvantages and risks.

52. More councils have established leisure trusts and there are other cases where councils are considering the ALEOs option, for example as the vehicle for innovative approaches to the management of commercial property.

53. Specifying policies on, for example, remuneration (including bonus payments), equalities and sustainability means that the council can shape from the outset the framework within which the ALEO operates. A clear framework also allows the council

to retain responsibility for the public funds it provides to the ALEO without compromising the independence of the ALEO.

54. ALEOs operate in the same challenging financial environment as councils and there is an increasing number of cases where ALEOs are operating at a loss. In a quickly changing environment, councils need to keep their involvement in ALEOs under close review. This involves regular monitoring of financial and service performance but it will also involve periodic and systematic review of whether an ALEO remains the best option.

Councillor involvement in performance, improvement and governance is crucial

55. This section focuses on self-evaluation, performance information and governance. All of these are increasingly important in the context of the challenges which councils face

in 2013 and beyond. Councillors need to be clear about what the council is trying to achieve and how they will monitor and review performance.

Self-evaluation and improvement

56. Our Best Value audits have helped stress the importance of self-evaluation and performance management as a route to improvement.

57. Self-evaluation done well can provide real insight into how councils can improve and is a characteristic of high-performing organisations. In order to improve, councils must be self-aware and critically review their performance.

58. There is still a long way to go before self-evaluation becomes a central part of change and improvement. There is scope for councils to improve self-evaluation by comparing performance with other councils by benchmarking, using the work developed by the Society of Local Authority Chief Executives and Senior Managers (SOLACE), and by making better use of service users' views.

59. Everyone in the council has a role in managing performance. In well-run councils, performance management is embedded in people's jobs. The key requirement is a culture that encourages open discussion and challenge. By taking a close interest in performance, councillors can support improvement. They need to be prepared to engage in strong scrutiny and to challenge officers on performance.

60. Performance management involves gathering, analysing and acting on information to manage and improve services. Good performance management is essential for councils to deliver effective services and to demonstrate the best use of resources. In 2012, we looked across our audit work to identify key issues to help support improvement.¹³

61. Councillors often have a strong appetite for scrutiny, although they can feel cautious about this where partners are involved. They need good-quality performance information to allow them to scrutinise effectively. Information needs to be concise and relevant, highlighting areas not meeting or exceeding target. Lengthy performance reports are often ineffective because critical issues are buried in the detail. Exhibit 9 sets out the main elements of performance management.

62. Our performance audit reports have confirmed that more work is required on performance information and management. For example, our report on reducing reoffending¹⁴ identified the need to improve the range of performance measures used to assess the effectiveness of

the Scottish Prison Service, criminal justice authorities and councils in reducing reoffending.

63. Similarly, our report on *Protecting consumers*¹⁵ found that councils had differing and inconsistent performance reporting for trading standards. This makes it difficult to benchmark performance. Councils should continue to work together in the project developed by SOLACE to produce meaningful and consistent indicators that will allow them to compare their services. This will help them to identify what works well as a starting point to improving performance and cost effectiveness.

64. The Accounts Commission has a duty to define the performance information that councils need to publish. In 2008, we made a

significant change, inviting councils to develop a broad set of information to demonstrate they are securing Best Value. In December 2012, the Accounts Commission endorsed the SOLACE project to improve performance and benchmarking information.

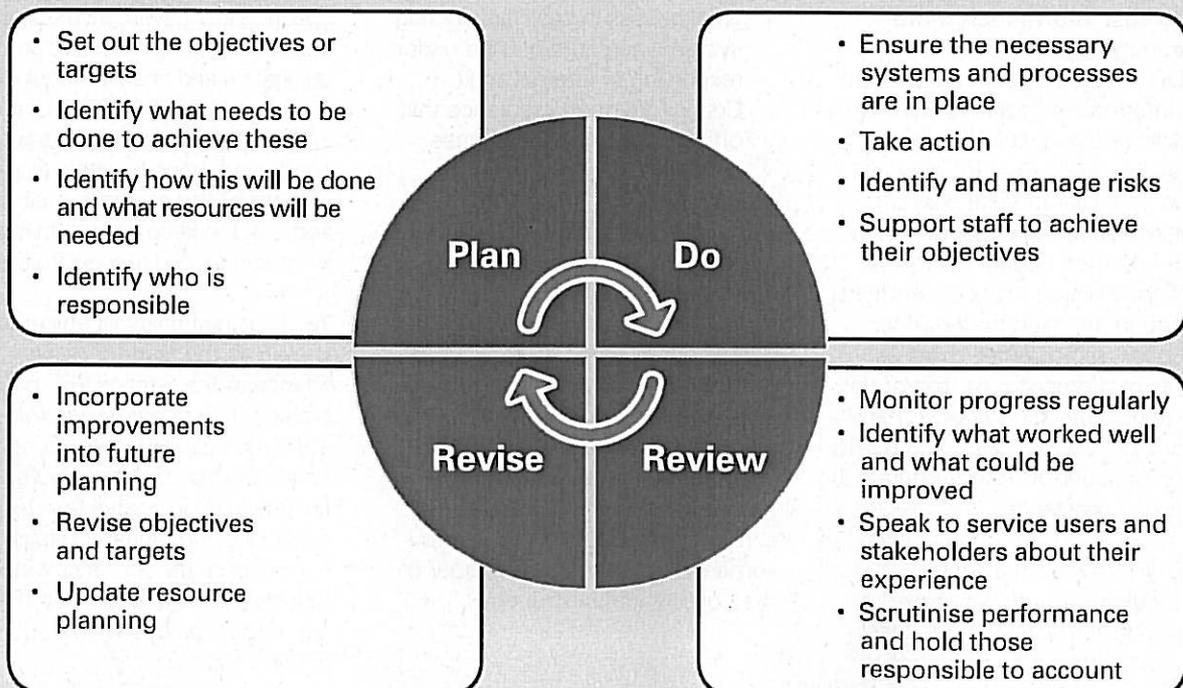
65. We will continue to review councils' approaches to the Best Value principle of reporting performance to citizens, both in terms of the benchmarking indicators and in the range of service and corporate performance information reported.

Effective performance management in partnership working

66. The Statement of Ambition for CPPs emphasises the role for strong challenge and scrutiny from councillors, and the importance

Exhibit 9

Managing performance based on the plan-do-review-revise cycle



Source: Audit Scotland

¹⁴ *Reducing reoffending in Scotland*, Accounts Commission and the Auditor General for Scotland, November 2012.

¹⁵ *Protecting consumers*, Accounts Commission, January 2013.

of self-assessment. Similarly, the Scottish Government holds health boards and other public bodies to account for their contribution to CPPs.

67. Performance management in partnership working can be challenging. CPPs must demonstrate that they are improving local outcomes but this can be difficult. It requires good local data and meaningful comparisons to track progress over time. Differing financial and performance management arrangements across sectors can be problematic, and more work is needed to share data between agencies.

68. The extent to which shared partnership objectives are built into partners' performance management arrangements varies. This can make partners less clearly accountable for delivering SOA priorities. In addition, performance reporting of partnership work does not always give a clear picture of progress, for example in reducing health inequalities.

Using cost information more effectively

69. Our report on how councils use cost information¹⁶ found scope for councils to use cost information more effectively. Cost information, and in particular the unit cost of services, is crucial for councillors to make informed budget decisions, particularly where finances are tight. The report stressed the need for councillors to scrutinise costs as well as performance. As part of this they should be able to benchmark or compare service costs and quality with other councils which operate in similar circumstances.

70. Our report on reducing reoffending¹⁷ found that more detailed information on unit costs

and service quality is needed to make an overall assessment on how efficiently money is being used. The report recommends that councils and their partners work together to improve understanding of costs of service delivery. Previous performance audits have identified the need for more consistent data and much greater transparency about the cost of in-house and externally provided services.

Governance of finances

71. Good governance is about clear direction and strong control. In the current financial circumstances, effective governance of finance is more important than ever. Part 2 of our report has details on matters arising from the audits which are of concern. In particular, it highlights:

- increasing evidence of large variances against budgets. It is important that councillors have good-quality and timely information about why variances occur
- weaknesses in basic accounting systems and controls and under-resourcing of internal audit. Councillors need assurance that officers are addressing these problems.

72. Councils decide local governance arrangements but they should take account of recommended good practice. If they decide not to follow it, they need to explain why. Audit committees provide a focus for financial control and risk and enhance public trust and confidence. We support the fundamental principle that audit committees should be chaired by someone who is not a member of the political administration.

73. Many administrations are now coalitions, so applying the principle in practice can be challenging. There are six councils where the chair of the audit committee is also a member of the administration. Those councils need to monitor their approach to ensure effectiveness and transparency and to maintain public confidence. Some councils have non-councillor, lay members on their committees. This can add a different perspective to the audit committee work and further enhance its independence and standing.

74. Status and independence provide the foundation but, ultimately, the effectiveness of the audit committee depends on the committee members and their approach. They need to know how services and resource management work and be prepared to ask challenging questions. This in itself requires particular skills. Specialist training in how to pursue lines of questioning may help support councillors in their role.

75. There is evidence of delays in updating key governance documents such as standing orders, schemes of delegation and financial regulations. These are essential points of reference which ensure that business is conducted properly within the agreed responsibilities and accountabilities, and need to keep pace with changes in structures and responsibilities.

76. The chief financial officer (also known as the statutory officer for finance or the Section 95¹⁸ officer) has a crucial role in providing professional advice to colleagues and councillors on all aspects of the council's finances and is central to effective financial governance. A useful summary of the role is provided in the Chartered Institute of Public Finance and Accountancy's (CIPFA) guidance¹⁹ (Exhibit 10).

¹⁶ *How councils work: an improvement series for councillors and officers – Using cost information to improve performance: are you getting it right?*, Accounts Commission, May 2012.

¹⁷ *Reducing reoffending in Scotland*, Accounts Commission and the Auditor General for Scotland, November 2012.

¹⁸ Section 95 of the Local Government (Scotland) Act 1973.

¹⁹ *The Role of the Chief Financial Officer in Local Government*, CIPFA, 2010.

77. The focus on finances means that the chief financial officer role is increasingly important. The role carries overall responsibility for financial management and reporting, contributing to the strategic management of resources and advising on the financial aspects of what are often complex proposals for new ways of delivering services.

78. However, management restructuring and the shift to smaller management teams means that the chief financial officer is often not now a member of the senior management team. As a result, in about a half of councils the chief financial officer is below director level. There is a risk, therefore, that the statutory role is less visible and that financial governance is affected. These risks can be mitigated where the chief financial officer attends senior management team meetings and has regular contact with councillors who have specific responsibilities for finance, such as the convener of the finance committee or equivalent.

79. As we have said in previous reports, where the chief financial officer is not a member of the senior management team, councillors need to understand why that is the case and satisfy themselves that the officer has appropriate access and influence to perform this crucial role.

80. Effective risk management is increasingly important in the current context, where there are substantial changes in staff and services, innovative approaches and more focus on partnership working. These require a shift in the culture and attitude to risk. In short, the scale of the challenge for councils means that they cannot afford to be risk averse, so the focus is on being risk aware.

Exhibit 10

CIPFA statement on the role of the chief financial officer (CFO)

The CFO:

- is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy
- must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the CFO:

- must lead and direct a finance function that is resourced to be fit for purpose
- must be professionally qualified and suitably experienced.

Source: CIPFA

81. High-level risk registers are in place in all councils but more work is needed to ensure risk management is embedded and aligned through the council, from the corporate centre through individual services. It is important that risk management is not seen simply as a compliance exercise but rather it is used operationally, for example, to inform decision-making in individual projects, in services and to develop contingency plans.

82. Councillors have an important role in encouraging an open approach to risk management which promotes discussion about risk, and a clear plan which identifies acceptable risks and the steps needed to mitigate the likelihood of those risks materialising.

Summary of Part 1

Leadership and governance

- Councillors need to provide robust scrutiny of finances and service performance (paragraphs 59 and 71).
- Councils need to ensure strong financial governance, including fully resourced internal audit, strong audit committees and access and influence for the chief financial officer (paragraphs 71 to 79).

Working in partnership

- There are increasing expectations on community planning, and councils must provide strong leadership of this process (paragraph 31).
- Community Planning Partnerships must make better use of available resources, develop preventative practice to improve local outcomes, and demonstrate that the council and its partners are making progress in achieving outcomes (paragraph 37).

Service changes

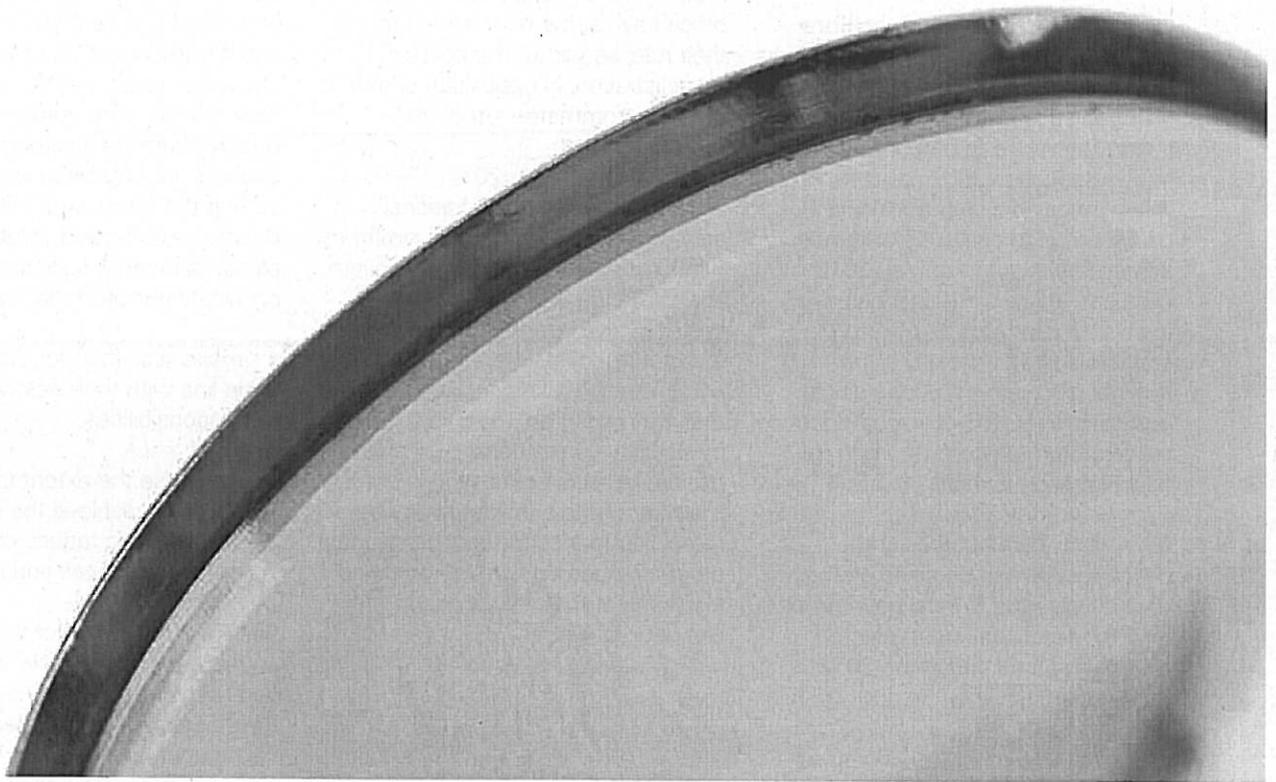
- Significant changes for local government include: welfare reform; changes in health and social care; police and fire and rescue service reform; and the effect of demographic changes (paragraph 22).
- Rigorous option appraisal is needed to ensure that services are effective and demonstrate Best Value. Existing arrangements, including the use of ALEOs, should be reviewed to ensure they are meeting their financial and service aims (paragraphs 44 and 54).

- Councils need the capacity and skills to respond to budget challenges, support change programmes and improve services (paragraph 46).

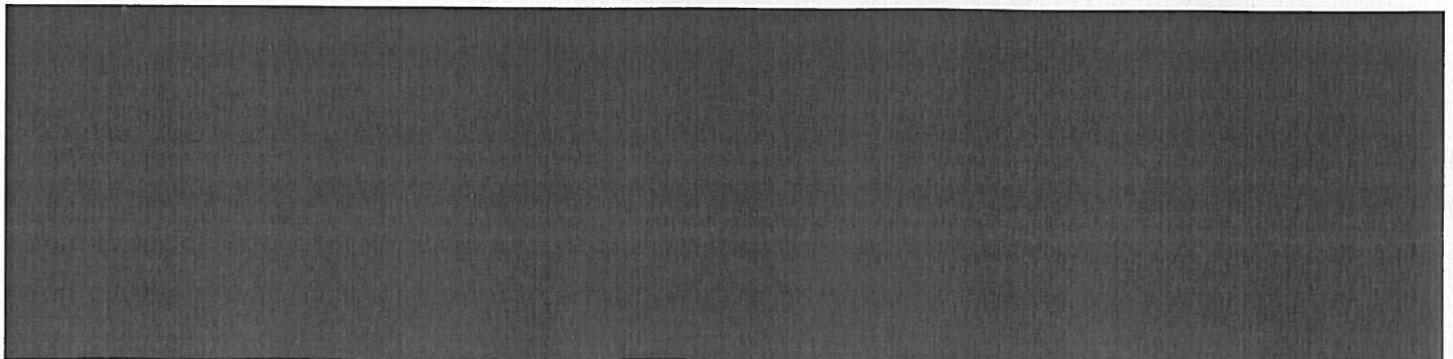
Performance information

- Good self-evaluation is central to improvement (paragraph 57).
- Good cost and comparative performance information is essential for councillors to scrutinise services and take effective decisions (paragraphs 61 and 69).
- Councils must demonstrate Best Value, using benchmarking information to draw comparisons with other councils and providers (paragraph 58).

Part 2. Use of resources in 2012



There were significant changes in people
and finances in local government in 2012



83. In this part of the report, we consider changes in 2012 in the make-up of those leading, managing and working in councils. We also look at the financial position in 2012 and how well councils are placed to deal with financial pressures in the years ahead.

There have been significant changes in the make-up of those leading, managing and working in councils

Changes in councils, councillors and senior managers

84. The political landscape has changed substantially in recent years. The move to proportional representation in 2007 resulted, in many cases, in a shift from one-party control to coalitions or minority administrations. In the May 2012 elections, there were changes in political control in 23 of the 32 councils and an increase in the number of councils led by a single political group. However, coalitions remain the most common form of administration (Exhibit 11).

85. A significant number of the 1,222 councillors across Scotland are new or relatively new to local government. In 2007, nearly half were elected for the first time and in the 2012

elections 34 per cent of councillors were new to local government. In some councils, the proportion was significantly higher, with almost half in Glasgow City and almost two-thirds in Shetland Islands.

86. Following the elections, 12 councils have made changes in their decision-making and scrutiny structures and more are in the process of doing so. Consequently, most, if not all, councillors now in office have some new aspect to their role, as part of the political administration, in opposition or in a different committee structure.

87. As at December 2012, 16 councils operated 'traditional' service structures where committees with cross-party membership govern and challenge on a service-specific basis. Twelve operated 'executive' or 'cabinet' models where the leading administration takes decisions that are monitored and challenged by scrutiny committees, typically chaired by a councillor who is not a member of the administration. The remaining four councils operate under other arrangements which combine elements of the traditional and cabinet models.

88. Some councils have introduced a petitions committee designed to encourage individuals, community groups and other organisations to become involved by bringing forward concerns and suggestions for change. Alongside existing channels and other initiatives, these committees have the potential to deliver a more inclusive and accessible approach to council business.

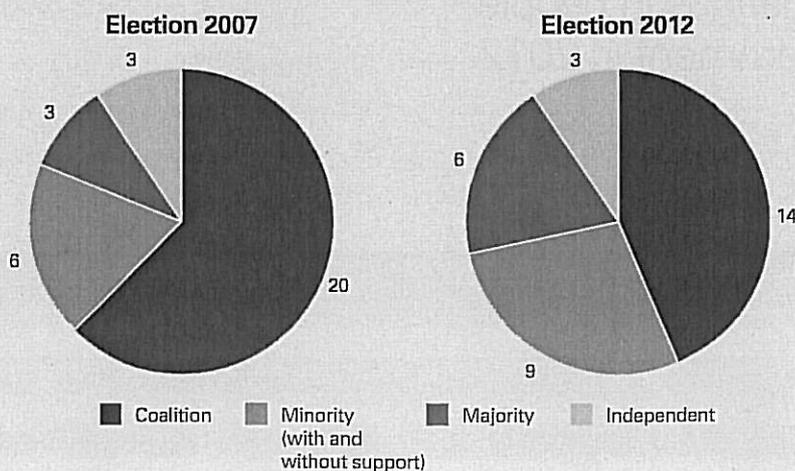
89. It is for councils to decide structures that best suit local needs and it is important that they keep structures under review to ensure they remain fit for purpose in a quickly changing environment. How councils are organised is crucial in setting the framework within which decision-making and scrutiny take place. Ultimately, success will depend on what councillors do in practice to:

- make sure that decisions are in line with their best value responsibilities
- scrutinise the extent to which their decisions achieve the intended outcome, eg reduce costs and/or improve services and outcomes.

90. It will take time for the new councils to become fully established, and for newer elected members to develop an in-depth understanding of the context into which they will implement manifestos and priorities. Initial signs, such as disputes over the political balance on committees (unlike England, there is no statutory requirement in Scotland for committees to reflect the political composition of the council overall), suggest that political tensions may be more pronounced. Councils need to consider the implications on the public's perceptions of local government.

91. Changes in the make-up of councils provide an opportunity for fresh ideas and renewed impetus. This makes it more important than ever that councillors get the support

Exhibit 11
Political control in councils: 2007 and 2012



Source: Audit Scotland

they need, including effective training and development. Councils have made good progress in introducing personal development plans for councillors that include training for councillors working in specialist areas such as planning and licensing. In the current context, developing scrutiny skills is a priority. One year after last year's council elections, the time is right for councillors to assess the effectiveness of training and development.

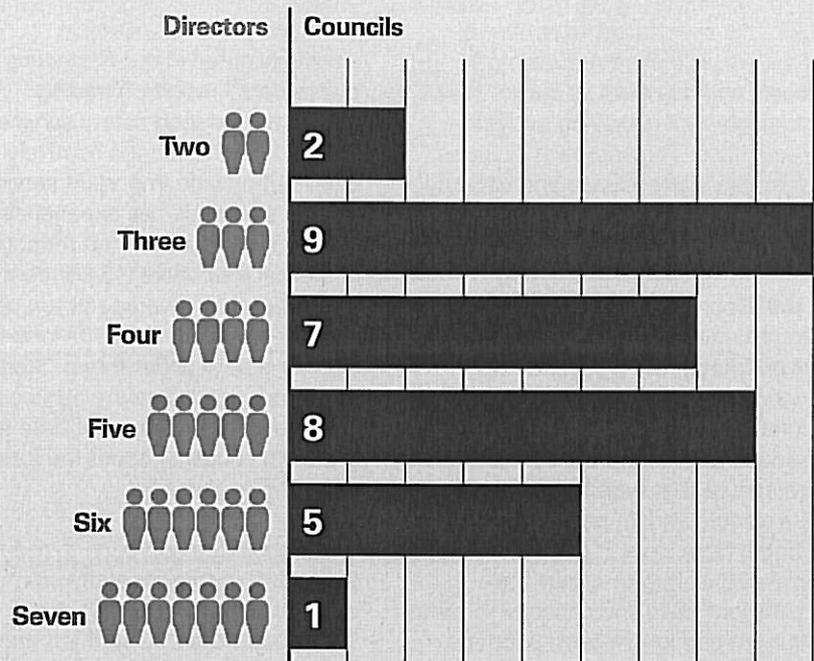
92. As well as significant changes in political leadership, there continues to be substantial changes at a senior officer level. In the two years to December 2012, there have been ten new council chief executives and over a third of chief financial officers are new. There has also been substantial change in other senior manager positions as councils look to save money and put in place structures which best suit the service context now and in future. In some cases, councils and health boards have agreed to a single senior officer overseeing aspects of health and social care, and this has helped to promote a joint approach.

93. There has been a continuing move to smaller management teams and, by the end of 2012, over half of councils had four or fewer directors on their management teams (Exhibit 12). Changes were made to reduce costs or to promote a more corporate approach to management, or both.

94. Councils are complex organisations with many different services and areas of professional expertise. In recognition, steps to reduce the number of senior managers are often accompanied by changes in management structures at less senior levels, and by a change in culture to empower managers across the council. This takes time to embed and become fully effective and requires, in particular, strong skills and capacity at the first level below directors, at 'head of service' level.

Exhibit 12

Number of directors (corporate management teams, excluding the chief executive)



Note: Shows the 32 councils by number of directors (eg, nine councils have three directors).
Source: Audit Scotland

95. Management restructuring brings additional demands on senior managers and comes at a time when they need to support new political arrangements and manage substantial pressures on finances and services. Councillors need to ensure their councils maintain senior managers' skills and build resilience and capacity within smaller senior management teams.

Reducing staff numbers

96. A significant proportion of local authority spending is on staffing, typically about 41 per cent of net spending, or about £8 billion in total across Scotland's 32 councils. At a time of financial pressures, balanced budgets have been achieved mainly by reducing staff numbers. Councils need to monitor the consequences for services.

97. The number of staff directly employed by councils has decreased by about 6.4 per cent since 2010, a reduction of 25,800 people or 14,100 full-time equivalent (FTE) posts. There have also been reductions elsewhere in the public sector. Over that two-year period, the percentage reduction in local government was bigger than the NHS in Scotland (2.2 per cent) but smaller compared to other public bodies, including the Scottish Government core directorates (10.7 per cent).²⁰

98. The number of people directly employed in local authorities is now at the lowest level since 1999. There are two main factors: workforce reductions to meet tighter budgets; and the transfer of staff to ALEOs and the commissioning of services.

²⁰ Scottish Government core directorate figures refers to the core directorates only and not the whole civil service in Scotland. Joint Staffing Watch, Q3 data.

Information is not available on the extent to which these factors contribute to the decrease. Exhibit 13 therefore only shows the overall change in directly employed staff.

99. This trend is set to continue as councils look to reduce staff costs and numbers as part of their strategies for achieving budget reductions. The approach includes voluntary early release and vacancy management, where staff who leave are not replaced.

100. Councils with workforce plans in place to identify skills gaps, workforce pressures, and future needs are better placed to take informed decisions about how to reduce the workforce. Councils need to ensure that workforce plans are up to date and, in particular, to take a longer-term view in line with service plans, ensuring that they have sufficient skills and capacity to meet current and longer-term priorities. Councils are at an early stage of engaging with community planning

partners to discuss the overall workforce-related issues in their area, including matters flowing from public service reform, eg adult health and social care changes.

101. One particular example was highlighted in our *Protecting consumers*²¹ report on trading standards and food safety services. These departments are relatively small but provide important services. Trading standards has experienced greater than average staff reductions in the last four years (15 per cent compared to an average of ten per cent for all services) and its long-term viability is now under threat. Staff reductions in food safety services have been less severe but here too there are concerns about the loss of skills and experience.

102. Part of the approach to reduce staff costs is to offer staff voluntary early release. Since 2010, about 9,400 local authority staff left at an average cost of £35,600 per person and at an aggregate cost over the

two years of £335 million. Schemes vary, with some requiring individual business cases while others are based on eligibility, eg age. However, more work is needed to demonstrate that business cases and schemes have resulted in the anticipated level of savings.

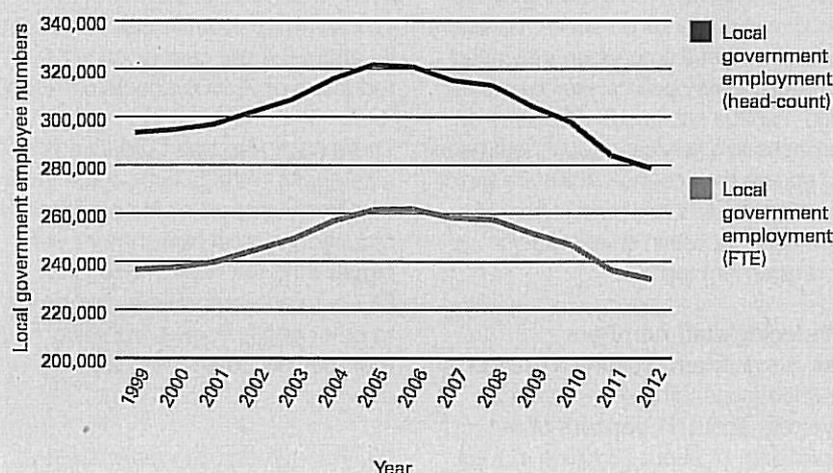
103. Our audits have identified weaknesses in governance of senior officer early retirement. For example, at Strathclyde Fire and Rescue Joint Board we found a systemic failure by the board and its officers to follow good governance in the retirement and re-employment of the chief fire officer.²² Our findings included points of principle which are applicable across local government (Exhibit 14). This case demonstrated the key role for councillors and, in particular, the need to do more to ensure transparency when senior officers retire early and to provide effective scrutiny of the financial implications.

104. The recommendations in our *Bye now, pay later?* report²³ remain relevant. These emphasise the importance of effective governance and identifying the full costs of early retirements, particularly when decisions relate to senior officers where the sums tend to be relatively large and the consequences of getting it wrong are at their greatest (Exhibit 15). We are currently working with the Auditor General to prepare a report on managing early departures in the Scottish public sector which we will publish in spring 2013.

105. There is progress in the number of women who are part of senior management structures. Our Statutory Performance Indicators (SPIs) show that the percentages of women in the top two per cent and five per cent of earners continue to improve. Women now make up 48.5 per cent of the top five per cent of

Exhibit 13

Numbers directly employed in local government



Note: Employee numbers by full-time equivalent (FTE) and head-count Q3 of each year
Source: Joint Staffing Watch

²¹ *Protecting consumers*, Accounts Commission, January 2013.

²² *Strathclyde Fire and Rescue Joint Board Statutory Report on the retirement and re-employment of the Chief Fire Officer*, Accounts Commission, September 2012.

²³ *Bye now, pay later? A follow-up review of the management of early retirement*, Accounts Commission, June 2003.

council earners and 41.2 per cent of the top two per cent of council earners.

Workforce-related financial pressures

106. Councils are continuing to settle equal pay claims and make provisions where claims are still outstanding. Cumulatively, councils had paid £475 million by March 2012 (£25.6 million during 2011/12), with £106.3 million set aside for known future amounts. Some councils also earmarked reserves for equal pay and, beyond that, most councils' accounts note the possibility of future claims which cannot be quantified, ie contingent liabilities. We will consider equal pay implementation further in our performance audit on workforce planning.

107. Pension costs are met from employer and employee contributions over the long term. There is a risk that amounts required to fund staff pensions will increase over time, as a consequence mainly of reduced investment returns in recent years and retired members living longer.

108. The UK Government is changing all the main public sector pension schemes to help reduce their cost, through the Public Service Pensions Act 2013. The Act requires: ending the current final salary pension schemes; establishing a link between state pension age and normal scheme pension age; and improving scheme governance arrangements.

109. These changes apply to the local government pension scheme in Scotland and must be implemented by April 2015. Within the next two years COSLA, local authorities, the Scottish Government and trade unions must consult and conclude negotiations on the design of a successor scheme. They will also need to work together to help prepare the necessary legislation for approval by the Scottish Parliament and ensure new systems and processes are up and running in time.

Exhibit 14

Strathclyde Fire and Rescue – retirement and re-employment of Chief Fire Officer – Accounts Commission's findings

Public confidence in decisions on early retirement can only be secured if decisions are made and reported in accordance with the principles of good governance, including full transparency. We emphasise a number of key points for general application by all local authorities:

- Members of joint boards have an important decision-making role. In order to fulfil this role effectively, they must be provided with full and objective information and advice, setting out appropriate choices, and the full implications of those choices.
- Members must scrutinise and challenge officers on the information and advice provided to them, especially if they believe that it is inadequate.
- Members must be kept up to date with issues relevant to them fulfilling their obligations.
- The distinct roles and responsibilities of senior officers, either from the supporting authority or from the services for which a board is responsible, need to be clearly set out and adhered to.

Source: Accounts Commission

Exhibit 15

Bye now, pay later? – key recommendations

Framework for decision-making

- Early retirement policies should be approved by councillors and reviewed regularly.

Informing members

- Councillors should receive a report at least annually that details the number of early retirement decisions and the associated costs and savings.

Decision-making

- Local authorities should rigorously appraise individual cases to ensure the expected savings associated with retirement outweigh the costs.
- To improve accountability and assist monitoring, the costs of early retirement should be charged to the appropriate service budget.
- Councillors should be involved in approving early retirement decisions for senior staff.

Source: Accounts Commission

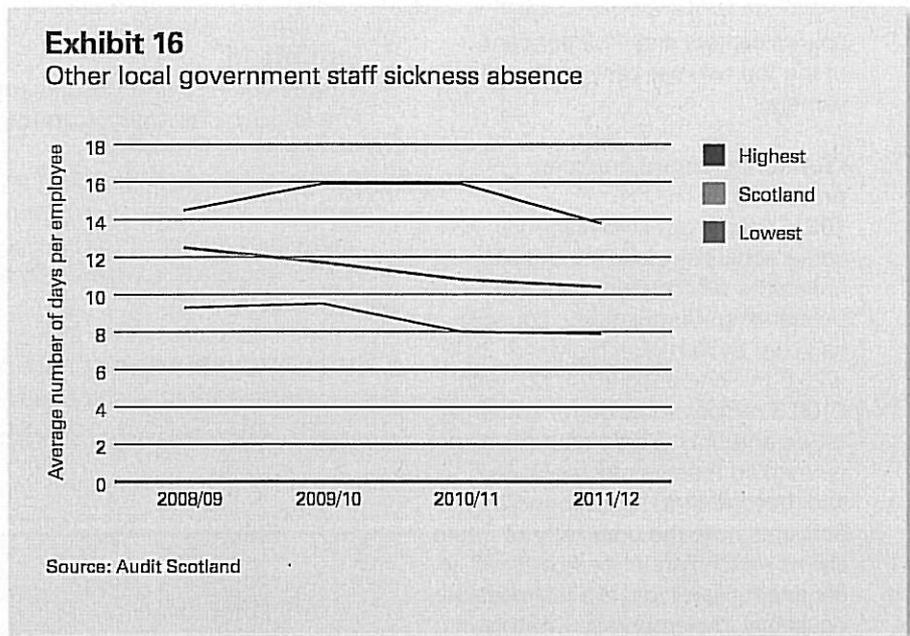
110. Effective absence management practice can help to reduce sickness absence rates and support employees back into work. Local authorities have done important work to address the levels of sickness absence and absence rates have mostly improved:

- 6.2 days for teachers (2010/11: 6.6 days)
- 10.4 days for other council staff (2010/11: 10.8 days), (Exhibit 16)
- 7.2 days for fire and rescue services (2010/11: 8.3 days)
- Absence for police officers²⁴ in 2011/12 was 4.2 per cent (2010/11: 3.8 per cent²⁵).

111. The costs of sickness absence include sick pay, staff cover and overtime, and service loss. The extent to which employers monitor this varies, as do the costs they include. It is therefore difficult to estimate the cost of sickness absence. In a UK-wide absence management survey²⁶ public sector employers indicated that sickness absence costs around £80 per day per employee.

112. The costs of sickness absence can therefore be substantial. As an indication, in a typical council with around 5,000 employees (non-teaching staff), sickness absence could cost over £4 million a year, based on an average of 10.4 sickness days per employee. Each reduction of one day in the average level of sickness absence could save in the order of £400,000 per year. Projecting this further, a potential saving in the order of £12 million could be possible across councils as a whole for non-teaching staff alone if they each achieved a reduction of one day's sickness per employee.

113. These figures are indicative and focus only on savings; less sickness absence can also reduce



pressures on services. However, we hope expressing this in financial terms goes some way to reflect the costs of sickness absence and how further relatively small reductions can contribute to savings.

Financial reserves strengthened in 2012, but funding is decreasing and significant cost pressures are growing

The financial position and asset management

114. Revenue expenditure is the day-to-day cost of providing services and includes employee costs, supplies such as food and fuel, and materials for routine repairs. Capital expenditure is the expenditure incurred on long-term assets such as schools, major repairs and refurbishment of other buildings and acquiring large items of equipment such as vehicles which will be used over time in providing services.

115. In financial year 2011/12, income from government grants, council tax, non-domestic rates, housing rents and other fees and charges in local government was £18.6 billion.

Spending on services was £18.7 billion and, after accounting adjustments of £0.3 billion, £0.2 billion was transferred to usable reserves (Exhibit 17). Service spending was broadly in line with the spending patterns in the previous year.

116. The SPIs showed that, despite the financial context for taxpayers, most councils increased the amount of council tax collected. The overall figures increased from 94.7 to 95.1 per cent. Five councils had small reductions in collection rates. Around £116 million, or about five per cent of the £2.3 billion due in 2011/12, was not collected during the year. Councils will continue to pursue this through ongoing recovery processes.

117. Of the aggregate expenditure, councils spend over £4 billion in procuring goods and services to deliver outcomes. Better procurement can help councils achieve better value for money. A Procurement Capability Assessment scoring process was introduced in 2009 to measure progress against common criteria and standards. From a relatively low base, the average

²⁴ Sickness absence for police officers is calculated as the proportion of working time lost.

²⁵ ACPOS Annual Performance Report 2011-12, Scottish Policing Performance Framework, June 2012.

²⁶ The 2012 CIPD Annual Report found that the median cost of sickness absence per year in a UK survey was £647 per employee for the public sector, and the average sickness level was about eight days per employee.

score for councils has been improving and now stands at 48 per cent, just short of the Scottish Government's target for all sectors of 50 per cent by the end of 2012.

118. Capital investment is essential to sustain delivery of high quality and effective public services in Scotland. Investing in areas such as schools, social housing and transport infrastructure can bring significant improvements to public services and the way they are delivered.

119. Total capital spending in 2011/12 was £2.4 billion, an increase of £0.3 billion or 14 per cent compared with the previous year (£2.1 billion), reflecting a focus on promoting capital spending to support more efficient services.

120. The main sources of money for capital spending are borrowing, capital receipts (from the sale of assets such as land and buildings), capital grants and the application of capital reserves. Exhibit 18 (overleaf) shows that more capital spending is being funded from borrowing, with reduced funding from capital receipts because of lower asset values and fewer sales.

121. Capital grants are forecast to be cut in 2013/14 before increasing again in 2014/15. Councils are considering new ways of financing capital expenditure, including Tax Incremental Financing (TIF) which uses forecasts of the expected additional income from non-domestic rates from property developments as a basis for additional borrowing.

122. We have carried out a performance audit of major capital projects in councils and published our report in March 2013. This assessed how well capital investment is directed, managed and delivered within councils. It is crucial that councillors and officers provide

Exhibit 17 Income and expenditure 2011/12

| | £ billion |
|---------------------------------------------------------------------------|--------------|
| Where the money came from: | |
| General revenue funding from government | £7.8 |
| Service fees, charges, other revenue, government grants and housing rents | £5.6 |
| Capital grants and contributions | £0.7 |
| Council tax | £2.3 |
| Non-domestic rates | £2.2 |
| Total income | £18.6 |
| Where the money was spent: | |
| Education | £5.3 |
| Social work | £3.8 |
| Housing | £3.7 |
| Roads, environment, culture and planning | £3.3 |
| Police, and fire and rescue services | £0.9 |
| Other services and operating expenditure | £1.7 |
| Total spending on services | £18.7 |
| Accounting adjustments | -£0.3 |
| Increase in usable reserves | £0.2 |
| Total expenditure and transfer to reserves | £18.6 |

Source: Audit Scotland

strong leadership and effective management to ensure value for money from capital investment programmes. To assist this we have published a good practice guide on major capital investment in the *How councils work series*.²⁷

123. Having invested in assets to support service delivery, councils need to maintain these assets, to ensure they remain fit for purpose. Our report²⁸ on roads, for example, found that all councils had a road maintenance backlog

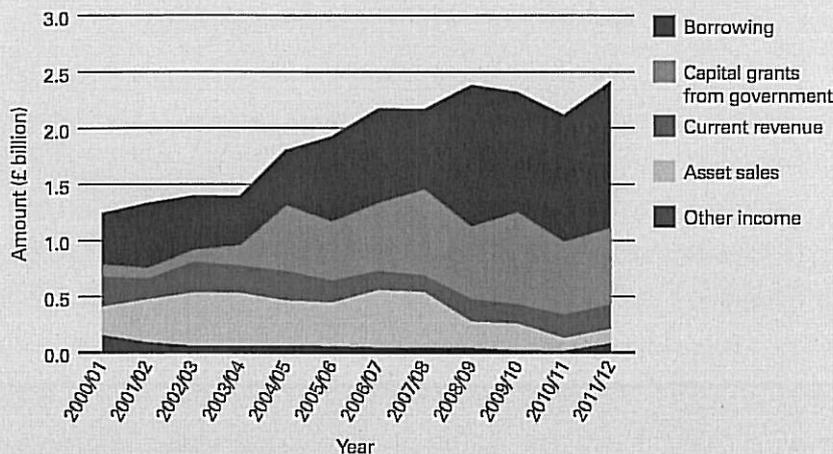
and there is scope for better use of planning to help set priorities for roads maintenance. More recently, the Scottish Road Maintenance Condition Survey for 2010-12 indicates a slight improvement of 0.3 per cent in the proportion of council-maintained roads that are of acceptable condition. However, this survey is based on a rolling programme of work and it will take time before information is available as to the true effect of expenditure reductions.

²⁷ *Major capital investment in councils* report and the associated good practice guide, Accounts Commission, March 2013.

²⁸ *Maintaining Scotland's roads: A follow-up report*, Accounts Commission and the Auditor General for Scotland, February 2011.

Exhibit 18

Sources of financing for annual capital expenditure, 2000 to 2012 (real terms)



Source: Audit Scotland

124. Maintaining information and communications technology (ICT) assets is also important. ICT has a key role in enabling change and improving services. There are challenges in implementing ICT projects, including integrating working practices between services or organisations and in applying procurement legislation across organisations. ICT-related matters will be a central factor as councils and their partners work together to implement public service reforms.

125. The Local Government ICT Strategy²⁹ was developed in response to the McClelland review of public sector ICT, *Scotland's Digital Future – Delivery of Public Services*. It sets out a ten-year vision and a national programme of work taking into account the Christie review³⁰ and the opportunity for digital services at a time of tight financial constraints. Its aim is to help local government to deliver better services using ICT to plan and procure better, and to share future developments and operations.

Indebtedness

126. Local authorities determine programmes for capital investment in accordance with the prudential code³¹, which was introduced in 2004 to support local authorities' capital investment decisions. Borrowing is the main way councils fund capital spending and the prudential regime allows flexibility to invest – on condition that capital plans are affordable, prudent and sustainable.

127. In the period since the code was introduced, the overall level of net indebtedness³² increased by around 40 per cent, from £9.1 billion to £12.9 billion. The position at each council must be considered in the context of its overall financial strategy and circumstances, eg the decision to transfer housing stock to another landlord will have a significant effect on a council's borrowing. However, bearing in mind local circumstances, there is wide variation across councils in the change in net indebtedness in the years since the prudential

code came into effect. Exhibit 19 (which excludes Orkney and Shetland Islands councils which have no net indebtedness).

128. We believe there would be merit in examining the reasons for the wide variation and in producing benchmark data to give councillors better information about indebtedness and how, alongside other key financial information, their council compares with others. This is a complex and important subject, with far-reaching consequences for the sustainability of public finances, and we would encourage a collective response, involving professional organisations and local government, supported if appropriate by auditors.

129. The prudential code has been revised on a number of occasions but the key indicators remain largely unchanged. There may be merit in considering the code further in the current financial context, and to explore how effective the framework has been in monitoring borrowing, supporting borrowing decisions and gauging the affordability of capital investment decisions.

Reserves

130. Councils hold reserves which are available to finance service expenditure, to ensure stability in cash flow, to build up funds for predicted cost pressures, and as a contingency for unforeseen expenditure.

131. The overall level of cash-backed reserves increased by £0.21 billion (14 per cent) compared with the previous year and totalled £1.68 billion at 31 March 2012 (Exhibit 20). Contributory factors include lower than anticipated interest and more general under-spending against budgets; 27 councils experienced an increase in reserves in 2011/12.

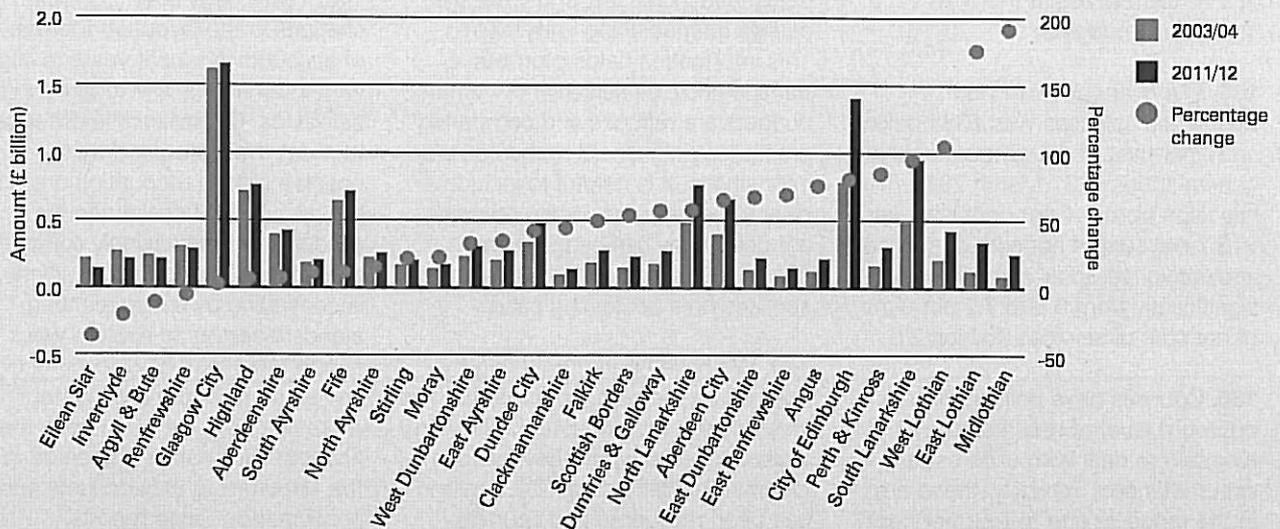
²⁹ *The Local Government ICT Strategy, Delivering Better Services for Communities – SOLACE, SOCITM*, Improvement Service, September 2012.

³⁰ *Commission on the Future of Public Services*, Christie Commission, June 2011.

³¹ *The Prudential Code for Capital Finance in Local Authorities*, CIPFA.

³² We define net indebtedness as external borrowing plus PFI-related liabilities less investments, on a council-only basis, ie not including borrowing etc. in the 'group'.

Exhibit 19
Movements in net indebtedness 2003/04 to 2011/12



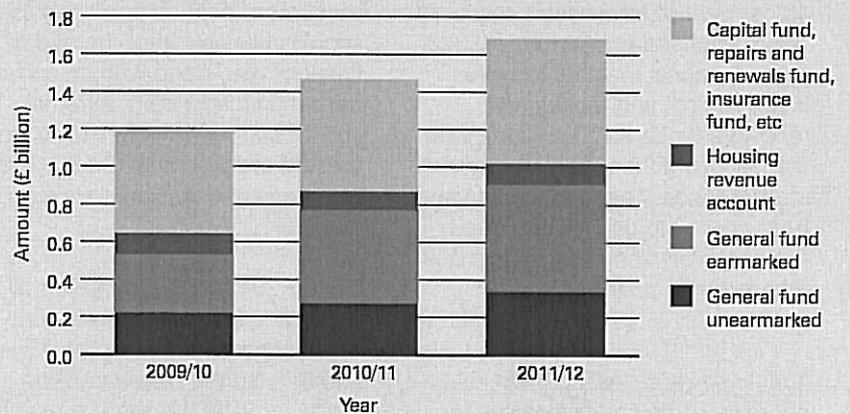
Source: Audit Scotland

132. As a broad comparison, councils in England held total reserves of £12.9 billion at 31 March 2012,³³ which is broadly similar to the position in Scotland taking account of the relative sizes of the local government sectors in each country.

133. The general fund is the main reserve and these funds increased by £139 million (18.1 per cent) in 2011/12 and totalled £907 million at 31 March 2012. Of this, £573 million was 'earmarked' to meet known commitments such as PPP/PFI payments and equal pay claims. The earmarked element represents 63 per cent of the amounts held in general funds, broadly in line with previous years.

134. Approaches to 'earmarking' vary from council to council and reflect local plans and views of risk and, as a result, earmarking is inconsistent. However, it does give an indication of how much

Exhibit 20
Total usable reserves



Note: Excludes Orkney and Shetland Islands councils which hold large reserves and balances arising mainly from harbour and oil-related activities.

Source: Audit Scotland

33 *Striking a balance – improving councils' decision-making on services*, Audit Commission, December 2012.

is available to meet unplanned expenditure. The information is important for councillors, to assist their understanding of the financial position and to assist them in scrutinising budgets.

135. The overall level of non-earmarked balances was £334 million or 37 per cent of the amount held in general funds at 31 March 2012. This has risen from 2.1 per cent last year to 2.7 per cent of net cost of services, and within individual councils varies significantly from 0.8 to 7.2 per cent of net cost of services (Exhibit 21).

136. Councils have policies on the optimum level of reserves they maintain to deal with unforeseen circumstances. Typically, these are in the range of one to four per cent of net cost of services. A number of councils have non-earmarked general fund reserves greater than the level set out in their policies, which may be prudent in the current environment.

137. Beyond the general fund, councils also held £666 million in other reserves, representing about 40 per cent of total usable reserves. This comprised capital funds (£323 million), capital receipts reserves (£195 million) and repairs and renewals funds (£122 million), with the balance (£26 million) in other smaller funds. These reserves vary from council to council and need to be viewed alongside the general fund position to get an overall picture.

138. In some cases, councils have not reviewed reserves policies for many years and so policies may no longer reflect the council's overall financial approach. Councillors need a clear picture of reserves and how they feature as part of their council's overall financial strategy.

139. Equally important is clear information for local people and communities about why reserves are built up, the reasons for any unplanned increases, and what the council intends doing with them. This information helps promote transparency, particularly now when budgets are reduced and competing pressures on financial resources are intensifying. It is helpful to include a clear statement that when reserves are used, they can be used only once and are not available to sustain services on a continuing basis.

140. We have been monitoring the position on the eight councils that had investments totalling £46.5 million in Icelandic banks when they failed in October 2008. To date, £22.7 million has been recovered and councils expect to recover between 88 and 100 per cent by 2019.

Financial reporting and management

141. Annual audited accounts show a council's financial performance and position and are important in demonstrating the proper stewardship of public money. The accounts should be published as soon as possible after the end of the financial year, along with an opinion from the independent, external auditor stating whether the accounts present a 'true and fair' view. This provides important assurance on financial reporting.

142. In 2011/12, accounts for all councils and other local authority organisations, including the 11 local authority-administered pension funds for 2011/12, were presented for audit on time and signed off by auditors without qualification. We welcome this achievement and the assurance it provides to the public and other stakeholders. We are, however, concerned about the increasing number of adjustments to accounts identified by auditors,

often arising from more complex issues, such as accounting for capital assets.

143. There have been significant changes in the layout and format of accounts in recent years to align with international financial reporting standards. Compliance is essential to meet the statutory duty to observe proper accounting practice but, as a result, local authority accounts are increasingly complex and difficult to understand. Work is continuing by the accounting standard-setters to explore ways to support transparency, accountability and scrutiny. In the meantime, more can be done to improve the financial information presented in the foreword to the accounts and in public performance reports.

144. There is increasing evidence of large variances of actual expenditure against budgets, where actual spending has differed from planned spending. Of particular concern are cases where variances only became apparent during the closing months of the financial year or where variances against budget at the year-end were significantly different to those reported to councillors during the year. Councillors need to understand the reasons, including whether the root cause is over-spending or under-budgeting.

145. We are also concerned about the increasing reports by auditors of weaknesses in some councils' basic accounting systems and controls (Exhibit 22). Strong accounting systems and controls are the mainstays of financial management and if they are not in place, or do not operate effectively, local authorities are exposed to a greater risk of accounting errors, fraud and corruption.

Summary of Part 2

Leadership and governance

- Building and maintaining strong working relationships in the new councils is essential to deal with the challenges facing councils (paragraphs 89 to 95).
- Sound governance is needed over early retirement (paragraph 104).
- Effective capital planning and management are essential if councils are to understand progress with capital projects, and their impact on services and council priorities (paragraph 122).
- Sound financial management is required to anticipate resource pressures in the longer-term and to ensure borrowing is affordable and sustainable (paragraphs 128 and 144).
- Strong accounting systems, controls and internal audit are essential (paragraphs 144 and 147).

Working in partnership

- Councils, with their partners, should plan and manage the overall workforce and other resources in their area (paragraph 100).

Service changes

- A stronger focus on workforce planning is important to ensure the right people are in place to meet future service needs and the challenges of public sector reform (paragraph 100).

- More work is needed to understand the impact of staff reductions on services (paragraph 96).

Performance information

- More can be done to improve the financial information presented in public performance reports (paragraph 143).

Concluding comment on this report

148. Our report draws on the audit work to provide an overall picture of local government in Scotland in 2013. Its wide-ranging nature reflects the many challenges, risks and opportunities for councils and their partners in providing vital public services across Scotland, now and in future.

149. Pressures on resources – and by that we mean finance, workforce and assets – continue. This is not new because in public services there have always been difficult choices to make about how to allocate limited resources across many competing priorities. However, the scale of the pressure, coming as it does at the same time as increasing demands and expectations on services and very significant changes such as welfare reform, is substantial.

150. We emphasise the crucial role of those leading and managing the response to this challenge. In particular, we emphasise the difference that strong and effective scrutiny by councillors can make in ensuring the best use of available resources, improving services and delivering improved outcomes.

151. The Accounts Commission acknowledges the progress achieved this far in challenging circumstances and we look forward to continuing to work with local government and our scrutiny partners to support improvement. The Best Value duty provides the platform for success.

152. To support improvement and to provide a focus for next steps, action points for councillors can be found in Appendix 1.

Appendix 1

Action points for councillors

| Question | Action point |
|---------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Leadership and governance | |
| Are you satisfied that you are supported in taking effective decisions, and can question and challenge your council's performance? | <ul style="list-style-type: none"> Consider reviewing governance arrangements in your council and its committees. |
| Do you understand your council's overall financial position, including its borrowings and other commitments, and the level of reserves? | <ul style="list-style-type: none"> Consider the extent to which you are made aware of financial issues and their impact on services. Seek assurance from officers that sufficient controls and checks are in place. |
| Do you understand how the financial position affects on your council's services? | <ul style="list-style-type: none"> Seek advice on how budget shortfalls, savings, or delayed spending will impact on services. |
| Do you know how well your council is managing its capital programme and major capital projects? | <ul style="list-style-type: none"> Review whether progress with capital plans is on track and meeting its objectives, using our good practice guide on major capital investment to help improve your council's performance. |
| Working in partnership | |
| How well placed is the Community Planning Partnership (CPP) to meet the expectations set out in the Statement of Ambition? | <ul style="list-style-type: none"> Review plans and progress, eg how well the CPP: engages partners; makes best use of employees and other resources; targets local need; involves communities. |
| Is your CPP delivering on its local priorities and improving people's lives? | <ul style="list-style-type: none"> Assess how well CPP progress reports give you a clear picture of progress, including prevention. |
| Is your council making good progress in implementing reforms regarding police, fire, and integrating adult health and social care? | <ul style="list-style-type: none"> Ensure measures are in place, and that the CPP and the council are providing sufficient direction. |
| Service changes | |
| Are you satisfied with how your council and its partners are leading public sector reform? | <ul style="list-style-type: none"> Ensure you understand the issues and implications for the council and local services. Check the extent to which arrangements are in place to plan and implement reform. |
| Do you understand the impact of staff reductions at your council on skills and capacity? | <ul style="list-style-type: none"> Review the impact on services, sickness and morale. Review how effective workforce planning is in your council and its services. |
| Do you understand the implications of welfare reform? | <ul style="list-style-type: none"> Check your council has plans in place, including plans to change its workforce and its ICT systems. |
| Are you satisfied that your council has fully considered the various options to deliver services, and their advantages, risks, and disadvantages? | <ul style="list-style-type: none"> Review whether existing delivery methods have delivered their intended benefits. Check that you are satisfied that the council has a robust approach to review and option appraisal. |

| Question | Action point |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Performance management and improvement | |
| Are you given the right information on costs and performance to challenge how well your council performs and whether it is achieving Best Value? | <ul style="list-style-type: none"> • Review the information you receive noting gaps and areas for improvement. |
| Do you have the information you need to assess how well your council's performance compares with others? | <ul style="list-style-type: none"> • Assess the benchmarking information you receive, eg on performance, practice, costs, sickness absence, etc. |
| Do you have skills and experience to scrutinise and take decisions effectively? | <ul style="list-style-type: none"> • Consider further training on scrutiny. |

Appendix 2

Glossary of terms

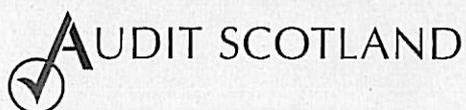
| | |
|-------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Arm's-length external organisations (ALEOs) | Companies, trusts and other bodies that are separate from the council but are subject to council control, or influence. |
| Best Value | Continuous improvement in the performance of an authority's (council's) functions. |
| Community Planning Partnership (CPP) | A partnership between a council, health board, police, fire and rescue services, third sector and other public sector organisations to deliver improved outcomes in a geographical area. |
| Continuous improvement | Ongoing action to improve services, ie Best Value. |
| General fund | The main cash-backed fund or reserve held by a council. |
| Governance | The framework of accountability to users, stakeholders and the wider community, within which councils take decisions, and lead and control their functions, to achieve their objectives. |
| Outcomes | Priorities or objectives, and their associated measures (eg, set out in the SOA) to improve aspects of people's lives such as their health, employment or education. |
| Performance management | Processes at individual, team and service level to assess, manage and improve performance against objectives. |
| Private Finance Initiative (PFI)/Public Private Partnership (PPP) | A generic term for projects involving both the public and private sectors (resulting from earlier government initiatives to promote private sector financing and involvement). This can be to varying degrees with partnerships taking different forms. |
| Prudential code | A professional code of practice to support local authorities in taking capital investment decisions. |
| Reserves | Money set aside to meet expected and unexpected demands. |
| Resource management | The efficient and effective use of a council's collective resources, directed where they are needed. Refers to the workforce, finances, buildings and other assets, including ICT. |
| Risk management | The process of managing risk to identify risks to projects, services, or to the council itself and taking action to control or avoid unacceptable risks. |
| Section 95 officer | The statutory officer for finance, as required by Section 95 of the Local Government (Scotland) Act 1973 – 'every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs.' |
| Shared services | Joint services or functions provided by more than one council or partner. |
| Single Outcome Agreement (SOA) | An agreed vision between a Community Planning Partnership and the Scottish Government setting out the priority outcomes in the area and how the Community Planning Partnership will work towards achieving them. |
| Statutory Performance Indicators (SPIs) | A set of performance indicators specified by the Accounts Commission, the information for which must be collected and reported on by councils. |
| Value for money | Obtaining the maximum benefit from resources (money, people, assets) with regards to economy, efficiency and effectiveness. |
| Workforce planning | Process to identify and plan workforce needs (size, experience, knowledge and skills) to achieve service objectives. |

Responding to challenges and change

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