

**REPORT TO: POLICY AND RESOURCES COMMITTEE - 11 JUNE 2012 & SCRUTINY COMMITTEE - 13 JUNE 2012**

**REPORT ON: AN OVERVIEW OF LOCAL GOVERNMENT IN SCOTLAND: CHALLENGES AND CHANGE IN 2012**

**REPORT BY: DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 205-2012**

## **1 PURPOSE OF REPORT**

To provide elected members with a summary of the above national study that has been undertaken by Audit Scotland on behalf of the Accounts Commission.

## **2 RECOMMENDATIONS**

It is recommended that elected members note the key findings arising from this national study, including Appendix 1 which identifies key areas for both new and returning elected members to consider and assess where further action points may be required.

## **3 FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

## **4 MAIN TEXT**

4.1 Each year the Accounts Commission asks the Controller of Audit (Audit Scotland) to produce an overview report on the key issues arising from annual local authority audits. The attached report 'An Overview of Local Government in Scotland: Challenges and change in 2012' provides a summary of the key challenges and risks for local government in 2012 together with a brief review of how resources were used during 2010/11. The key messages of the report are that whilst challenges and change are not new for local government, the current pressure on both finances and growing demand for services are substantial. In addition, the report notes that recent local government elections may result in further political changes which may in turn add a further dimension for Councils. The report concludes that whilst these areas present significant challenges, they also provide opportunities for fresh thinking on service design and delivering improved value for money and outcomes.

4.2 The report is divided into the following main areas:

### Summary

This section provides an introduction, contextual information and summary of the key priorities for local authorities in 2012.

### Challenges in 2012

This section outlines the key resource pressures facing local government in 2012 and beyond, and outlines how these constraints come at a time of increased pressure on demand-led services such as social services and housing. This section provides a detailed summary categorising the various types of demand and cost pressures and how each of these represent a substantial challenge to services and outcomes. In addition, this section highlights four responses which will help Councils' respond to these pressures and ensure they continue to provide best value. These responses include leadership and governance arrangements, working in partnership with other sectors, reviewing options for service delivery and performance information.

### Review of Resource Use in 2011

This section provides an analysis of Councils' aggregate finances for financial year 2010/11 under four headings including finances (including both revenue and capital spending), workforce, assets and procurement. This section summarises the key findings from their review of each of the above areas and also highlights where further improvements may be required.

4.3 In addition, the report also includes a number of appendices that provide supplementary information. These include a checklist of key areas for elected members (Appendix 1) to assist them to consider and assess where further action points may be required.

### 4.4 Conclusion

Whilst the scale of the challenges highlighted within the report are significant, Councils should take encouragement that the report concludes local authorities have until now coped well with the financial pressures, in particular, that there was a continued relatively stable financial position for 2010/11, with most Council's operating within budget and the overall level of reserves being greater than the previous year. Other key conclusions of the report include:

- the pressures on local government finances and increasing demands present a substantial challenge to services and outcomes.
- strong leadership and governance is required in this period of transition and change, including in police and fire and rescue services.
- it is vital that statutory officers, and in particular the statutory officer for finance, have appropriate access and influence.
- local authorities need to take a structured approach to options appraisal and demonstrate the basis for decisions.
- councils and their partners need to develop partnership working to deliver better value for money and improved outcomes, to ensure that partnership performance systems are sound and that accountabilities are clear.
- good-quality performance information and effective management is required, with an increasing focus on costs and measures which monitor partnership performance and outcomes.

## 5 **POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

## 6 **CONSULTATIONS**

The Chief Executive and Head of Democratic and Legal Services have been consulted on the content of this report.

## 7 **BACKGROUND PAPERS**

None.

# An overview of local government in Scotland

Challenges and change in 2012



Prepared by Audit Scotland  
March 2012

# 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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# Summary



Local authorities that place best value at the centre of all they do are well placed to deal with the challenges in 2012 and beyond.



## Introduction

**1.** This report provides the Accounts Commission's perspective on local government in Scotland based on our recent audit work. We focus on the challenges, risks and opportunities in 2012 and provide a short summary of resource management in 2011.

**2.** Challenge and change is not new for local government, but the current pressures on finances from reducing budgets and growing demands for services are substantial. The council elections in May 2012 add a further dimension this year, with heightened political activity.

**3.** Those elected in May will need to get up to speed quickly and build on the progress which local government in Scotland has achieved in recent years. Immediate tasks will be to establish effective working relationships within councils and with local partners and to provide strong leadership and direction which will drive improvements in services, resulting in better outcomes for people and communities.

**4.** The Commission recognises the scale of the task and hopes that councillors find this report and the attached checklist helpful in identifying priorities and preparing for the future.

## Context

**5.** Scotland's 32 councils have a pivotal role in communities and provide vital public services including education, social work and housing as well as regulatory services such as planning, environmental health and licensing. In addition, 45 related organisations provide a range of important public services, including police services, fire and rescue services and transport.

**6.** Delivered directly or in partnership with others, these public services involve substantial resources. In 2011, councils spent around £21 billion, employed about 240,000 full-time equivalent staff and used buildings and other assets with a value of about £35 billion.

**7.** As with other public bodies, local authorities are facing substantial reductions in budgets. To date they have secured savings mainly through pay restraint and by reducing staff numbers. Pressures on budgets will continue from, for example, demand-led social work and housing services.

**8.** In the last year there has been a major change in the political context. The Scottish Parliamentary elections in May 2011 resulted in an SNP administration, the first time since the Parliament was established in 1999 that one party has a majority at Holyrood. In responding to the Christie Commission report,<sup>1</sup> the Scottish Government set out its commitment to public service reform based on what it describes as the four pillars of: prevention, partnership working, workforce development, and performance management.

**9.** At a local level, the 2007 local government elections resulted in political coalitions or minority administrations in most councils and these have generally worked well. The council elections in May 2012 will bring further changes, possibly in political control and certainly, in some degree, in council membership. The councillor role, which at its heart involves representing constituents, providing leadership and scrutinising performance, is complex, and new and returning councillors will need good support and advice from the outset.

**10.** Overall, the financial context and the elections present challenges and change but they also provide

opportunities for fresh thinking on service design and delivery which more closely aligns with people's needs and demonstrates improved value for money and outcomes. There are also opportunities to check that committee and management structures are up to date, fit for purpose and provide a firm foundation for best value.

## Priorities

**11.** So far, councils have coped well with the financial pressures. Most operated within budget in financial year 2010/11 and accounts show a relatively stable financial position with the overall level of reserves higher than the previous year. Auditors provided unqualified opinions on all accounts except those of Shetland Islands Council where the auditors concluded that the group accounts were materially misstated.<sup>2</sup>

**12.** Looking ahead, local authorities will have to deal with further budget reductions while at the same time meeting their statutory duty to secure best value,<sup>3</sup> which requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. More work is also needed to address the substantial backlog in maintaining buildings and roads and to secure further improvements to procurement practices.

**13.** We have previously emphasised the importance of sound governance and accountability and robust performance information. These are recurring features in our audits and we firmly believe that they are essential in fulfilling the best value duty. Certainly, local authorities which place best value at the centre of all they do are well placed to deal with the challenges and change they face in 2012 and beyond.

<sup>1</sup> *Report on the future delivery of public services*, Commission on the Future Delivery of Public Services, June 2011.

<sup>2</sup> The auditors qualified their audit opinion because the council had not included the results of the Shetland Charitable Trust in its 2010/11 group financial statements.

<sup>3</sup> As defined in section 1 of the Local Government in Scotland Act 2003.

**14.** It is now very clear that part of the solution is to achieve better value for money and improved outcomes from existing partnerships. There are significant, long-standing and complex health, social care and equality-related matters in Scotland which cannot be tackled by one partner acting alone. We are working closely with our scrutiny partners to develop approaches which will help support the delivery of better outcomes through Community Planning Partnerships.

**15.** Drawing on our analysis of performance and assessment of the challenges councils face, we have identified what we consider are the top priorities for local authorities in 2012 ([Exhibit 1](#)).

### Next steps

**16.** We acknowledge in the current financial and political context it is unlikely that local authorities will be able to improve performance in all outcome and service areas and across all aspects of corporate activity. We also recognise that councillors face difficult choices in prioritising the level and quality of services to provide and allocating resources accordingly. However, we expect to see evidence of effective governance and service delivery which, in partnership with others, provide best value for local communities.

**17.** Our report draws on the audit work in 2011 including the annual audits, Best Value audit work and national performance audits. It highlights areas of strength and areas for improvement. Councillors and officers should read this report and identify how their council is dealing with points we highlight. In addition:

- [Appendix 1](#) sets out key questions for councillors.
- [Appendix 2](#) provides supplementary financial information.

## Exhibit 1

### Summary of top priorities for local authorities in 2012

#### Over-arching priorities

- Maintaining a focus on **best value**, **governance** and **equality** to improve services and outcomes for people and communities.
- Identifying **priorities** taking account of **existing commitments**, the shift in focus to **preventative spending** and **organisational capacity**.
- Monitoring the 2012/13 **budget** and **setting budgets** for 2013/14 which achieve a balance between short-term aspirations and long-term **sustainability**.
- Ensuring **workforce reductions** do not erode capacity, getting **asset management** right and securing further progress on **procurement**.

#### Leadership and governance

- Providing **strong leadership** and challenge in a period of increasing resource and demand pressures and substantial service and structural change.
- Ensuring appropriate access and influence for the **statutory officer for finance** and **effective financial controls**.

#### Working in partnership

- Getting the best from partnership working by delivering more **integrated services**, better **value for money** and **improved outcomes**.
- Ensuring partnership **performance information systems** are sound and that **accountabilities** are clear.

#### Options for service delivery

- **Engaging with communities** to understand service users' and communities' needs.
- Investigating **new ways of delivering service**, including opportunities for simplifying and standardising common processes.

#### Performance information

- Ensuring good-quality **performance information** is available to support improvement and inform decision-making.
- Increasing the focus on **costs** and on measures which monitor **partnership outcomes** and performance.

Source: Audit Scotland

- [Appendix 3](#) lists key reports and resources to support councils.
- [Appendix 4](#) sets out a framework to assess partnerships.
- [Appendix 5](#) provides a glossary of terms used in this report.

**18.** [Annual audit reports](#) prepared by the auditors we appoint to carry out the external audits are already available for each council and local authority body in Scotland on the Audit Scotland website. These reports contain details on how matters set out in this overview report apply locally and where more action is required.



The reports are the key outputs from local audits and it is essential that councils and other local authorities provide a copy to all their members and consider the reports in public.

**19.** In addition, to assist councils to assess their financial position relative to others, Audit Scotland will publish underlying financial data used in compiling this report on its [website](#).

**20.** The Accounts Commission welcomes the progress which local authorities have achieved. We look forward to continuing to work with the local government community to support and accelerate improvement.

**21.** We are keen to hear from you and would welcome your comments on this report and suggestions on how we might improve it in future. We know that elected members are provided with a great deal of material to support them in their role and we would particularly welcome views on how we can best convey the main messages from our audit work.

# Part 1. Challenges in 2012



The challenges in 2012 will require strong leadership and effective working relationships within councils and with local partners.



**22.** In this part of the report, we consider the resource and demand pressures facing local government in 2012 and beyond. Together they represent a substantial challenge to services and outcomes.

**23.** We highlight four responses which will help counter these pressures and ensure that local authorities, working in partnership with others, provide best value (Exhibit 2). The exhibit also shows how the priorities in Exhibit 1 align.

**Resource and demand pressures**

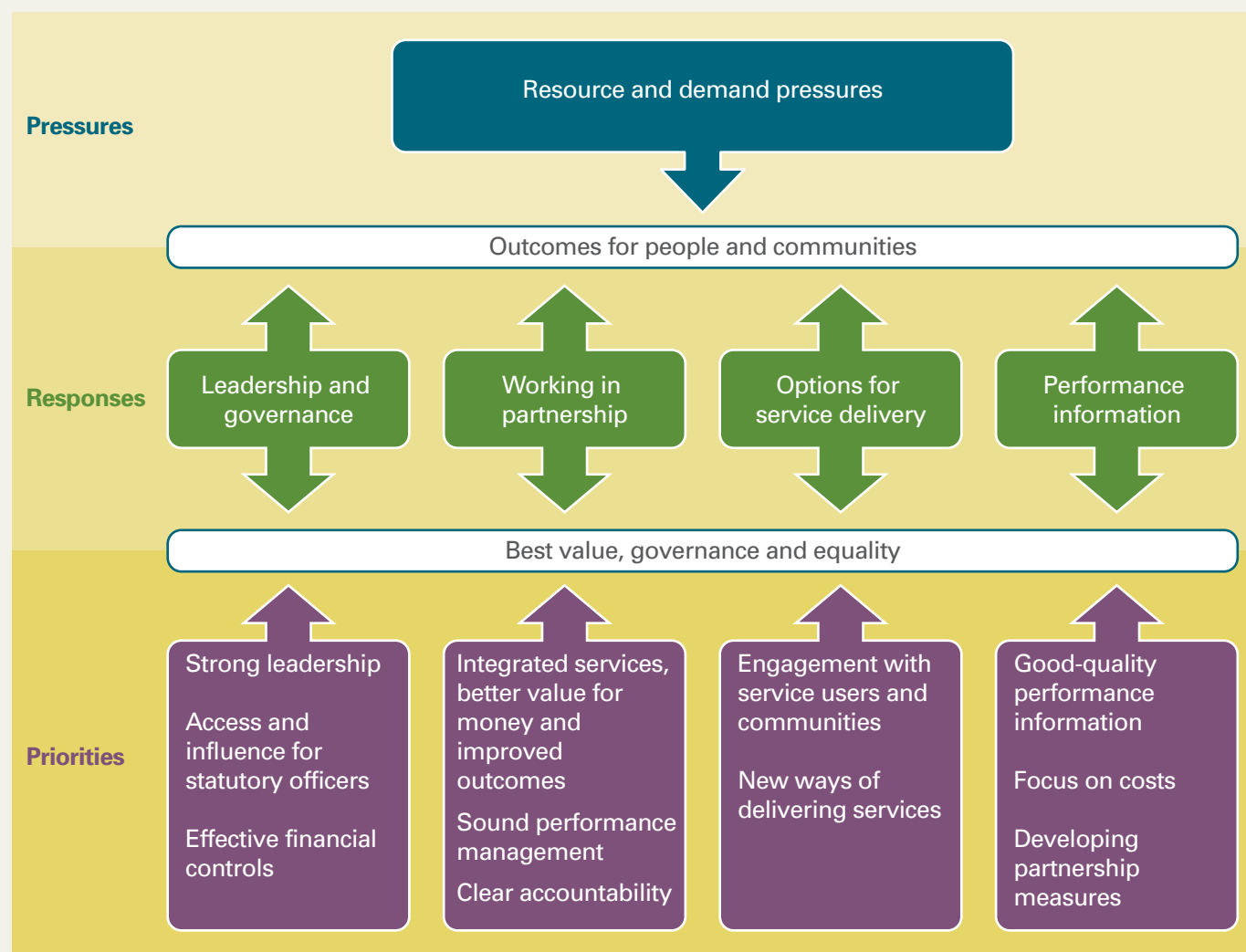
**24.** The Scottish Government’s spending plans for the next four years<sup>4</sup> show a cumulative, real-term reduction in the Scottish budget of 12.3 per cent by 2014/15. Local government funding overall reduces by three per cent between 2011/12 and 2012/13 and, cumulatively, by 6.3 per cent by 2014/15. Capital funding falls significantly in the period to 2013/14 but increases in 2014/15.

**25.** Local government reported further efficiency savings in 2010/11.<sup>5</sup> It is likely that it will become increasingly difficult to identify and realise efficiencies but there are opportunities to secure savings from improved energy efficiency through procurement and in planning and designing major capital projects.

**26.** Councils also face less flexibility in budgets. Past financial decisions including commitments under PPP/PFI need to be met and financing

**Exhibit 2**

Responding to the challenges in 2012



Source: Audit Scotland

4 Scottish Spending Review 2011 and the Draft Budget 2012/13, Scottish Government, September 2011.  
 5 Efficiency outturn report 2010-11, Scottish Government, September 2011.

costs are set to increase as councils borrow more money to make essential improvements in roads and buildings. In the current economic environment, the proceeds from the sale of land and buildings are likely to be lower and this will add further pressures to capital budgets.

**27.** The reduction in financial support, the need for further efficiencies and less flexibility in budgets come at a time of increasing pressures on demand-led services such as social services and housing, due in part to the current general economic conditions. There is a risk that ongoing reforms of the welfare system may result in further pressures in these service areas.

**28.** The changing profile of Scotland's population will also affect services. Most significantly, the number of people of pensionable age is projected to rise from 1.04 million to 1.32 million (26 per cent increase) by 2035. In the same period, the number of people aged 75 and over is projected to rise from 0.41 million to 0.74 million (82 per cent increase).<sup>6</sup> This is likely to lead to further, significant demands for services such as home care.

**29.** The Christie Commission<sup>7</sup> stated that the greatest challenge facing public services is to combat the negative outcomes for individuals and communities arising from inequalities. The report went on to say that addressing inequality is central to achieving desired outcomes. Equality is particularly important in times of financial constraint. It should not be seen as a barrier to taking difficult decisions but instead as a basis for open and transparent decisions based on an understanding of the impact of decisions on groups of people in communities.

**30.** The Scottish Government has signalled a move towards more preventative spending, which involves shifting public spending away from dealing with the 'symptoms' to tackling the 'root cause' of inequality and disadvantage. This will take time and by its nature presents challenges, requiring public bodies to direct resources to preventative spending designed to improve longer-term outcomes while at the same time dealing with current and short-term demands for services.

**31.** Exhibit 3 summarises the demand and cost pressures facing councils.

#### Service redesign and structural changes

**32.** Councils are looking carefully at budgets to identify further savings and are also pressing ahead with corporate improvement programmes and business redesign projects to deliver savings and efficiencies over the longer term. They are also exploring more radical options, including asset-based approaches which involve creating community capacity and encouraging communities to take responsibility and control of assets such as buildings.

**33.** The external environment is changing too. The Scottish Government has brought forward legislation to create a single Scottish Police Service and a single Scottish Fire and Rescue Service. It sees this as an opportunity to modernise and simplify governance and delivery structures which will help to improve services for citizens and communities.

**34.** Our response to the consultation<sup>8</sup> identified issues to be resolved, including:

- how any potential conflict between national policing priorities and local choices might be resolved in relation to the content of local policing plans

- how the policing oversight and scrutiny function currently vested in councils should be reflected in the new national policing model

- how clarity about the operational independence of the chief constable and local commanders will be maintained under the new arrangements

- how governance arrangements are to be introduced to oversee the transition arrangements to a single service.

**35.** Decisions on new structures and arrangements will have significant consequences for the delivery of these crucial public services. In the short term, authorities will need to plan for a smooth transition while maintaining service quality and improvements. It will be important that good practice is carried over into the new national services and that practical matters, such as the transfer of ownership of buildings, are addressed.

**36.** Appointments to police and fire and rescue boards and committees will be made soon after the elections. While reorganisation is imminent, boards and committees need to provide strong political governance in the transition to the new arrangements. They still have an important role in guiding and overseeing services and the substantial resources involved.

**37.** In December 2011, the Scottish Government set out plans to integrate adult health and social care which aim to improve the quality and consistency of care for older people. This will lead to major change with Community Health Partnerships (CHPs) replaced by Health and Social Care Partnerships. These partnerships will be the joint responsibility of the NHS and councils. Under the proposed reforms, NHS boards and councils will be required to produce

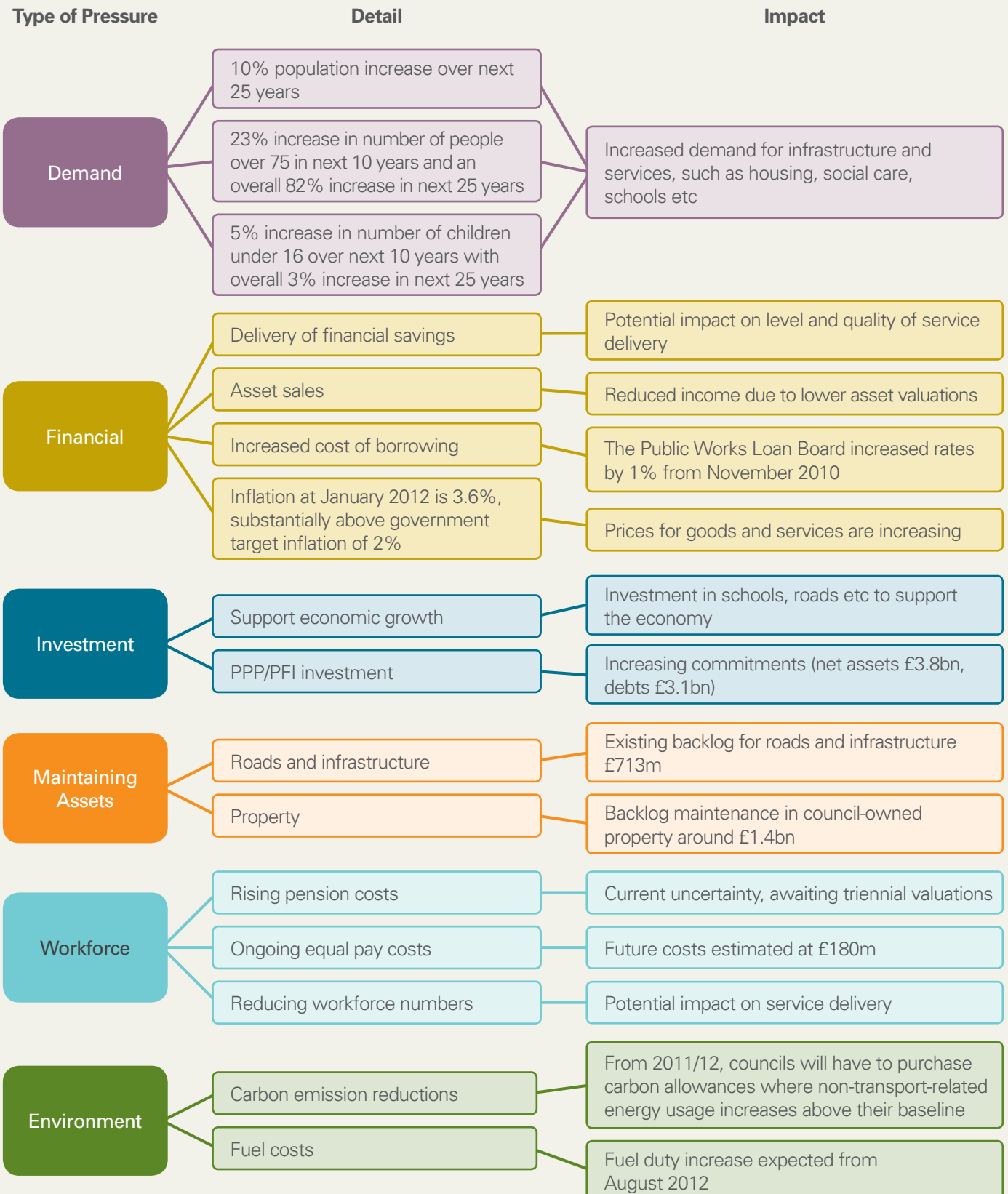
<sup>6</sup> *Projected Population of Scotland (2010-based)*, National Records of Scotland, October 2011.

<sup>7</sup> *Report on the future delivery of public services*, Commission on the Future Delivery of Public Services, June 2011.

<sup>8</sup> *Response to consultation on reforming police and fire and rescue services in Scotland*, Accounts Commission, November 2011.

**Exhibit 3**

Summary of demand and cost pressures



integrated budgets for older people's services. Planning for these changes is at an early stage.

**38.** The UK government is bringing forward legislation to reform the welfare system. This will start to come into effect from April 2013 and by 2017 all benefits, such as job seekers' allowance, child benefit and housing benefits, will form part of the new 'Universal Credit' (UC). Scottish councils currently administer housing and council tax benefits but because housing benefits will be part of UC, this responsibility will end after 2017. Currently, there is uncertainty as to the arrangements for replacing council tax benefit.

**39.** These changes have significant implications for councils. They face challenges in communicating the position to claimants and in maintaining services and performance in a period of change. In addition, councils face reduced funding as the housing benefit caseload moves from council administration to UC and the likelihood of staff reductions.

**40.** There are also implications and risks for councils as landlords. The majority of Scottish councils (26 of the 32 councils) manage their own council housing stock. For Scotland around 60 per cent (£615 million in 2009/10) of the rental income for these properties comes directly from housing benefits. Currently, where councils operate both housing rent and housing benefits, the systems are linked and benefits are automatically applied against rents due. However, under UC, claimants receive benefits directly and it will be the claimant's responsibility to pay rent to the council. Social and private landlords will be similarly affected.

**41.** Overall, substantial changes are ongoing and planned which will have a significant impact on structures and services. These need to be managed

alongside existing resource and demand pressures while managing service performance and improvement.

### Responding to the challenges (1) – Leadership and governance

**42.** Local authorities make decisions which affect the social and cultural wellbeing of citizens and communities and involve the allocation of substantial public resources. Good governance is about clear direction and sound control and is crucial to ensure authorities allocate resources wisely and fairly, in the public interest and in an open and transparent manner (Exhibit 4). It is also essential in building and maintaining citizens' confidence in local government.

**43.** Governance arrangements are important and provide an essential framework for day-to-day business and provide points of reference when new situations or problems arise. It is important that these are up to date and fit for purpose in the current context. Reviewing and updating governance arrangements

in itself helps to build knowledge and understanding and helps reinforce their importance.

**44.** However, structures and processes are only part of the story; working together, elected members and officers lead and manage local authorities. Their approach, attitude and the culture they promote all have a strong bearing on governance and, ultimately, the success and reputation of their local authority.

**45.** Councillors have a complex and demanding role which involves representing constituents, providing leadership and direction in allocating resources, and scrutinising and challenging service performance. They work in a political environment, which is an important and integral part of local government. In addition to their role as an elected member of the council, they are often members of other related local authorities or organisations, such as police boards, community partnerships and arm's-length external organisations (ALEOs).

#### Exhibit 4

##### The six principles of good governance

- 1 Focusing on the purpose of the authority and on outcomes for the community, and creating and implementing a vision for the local area.
- 2 Members and officers working together to achieve a common purpose and clearly defined functions and roles.
- 3 Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- 4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- 5 Developing the capacity and capability of members and officers to be effective.
- 6 Engaging with local people and other stakeholders to ensure robust public accountability.

Source: *Delivering good governance in local government framework*, SOLACE/CIPFA, 2007

**46.** Local government changed substantially for many councils following the elections in 2007, with most run by political coalitions and with new multi-member wards. This brought new dimensions to roles, responsibilities and working relationships. The continuing drive for public sector reform with greater focus on partnership working and alternative models of service delivery means that the elected member role is likely to continue to be complex.

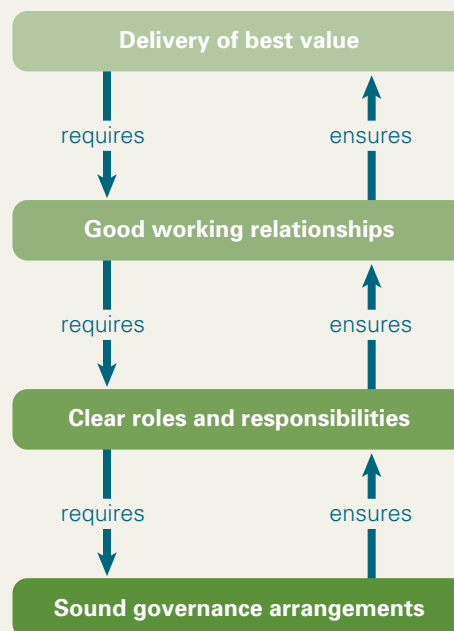
**47.** In our report on roles and working relationships<sup>9</sup> we underlined the importance of clear roles and responsibilities and good working relationships in delivering best value (Exhibit 5).

**48.** Working arrangements are also complex in other areas of local government. In police authorities, working arrangements involve the chief constable, the police authority and Scottish ministers. We found cases in our best value work in police where there was a lack of a consistent and shared understanding across board members about their roles and responsibilities. This affected, for example, elected members' contributions to the development of policing priorities and scrutiny of police force performance. In other cases, involving ALEOs, we found instances where a lack of clarity about roles and responsibilities undermined governance with serious consequences for services and public finances.

**49.** Elected member training and development will be required to support members in a quickly changing environment. Those new to local government after the May 2012 elections will need to get up to speed quickly and understand what being an elected member involves, including where they are asked to serve on audit and scrutiny committees and take on roles in external organisations.

### Exhibit 5

The connections between governance, working relationships and best value



Source: Audit Scotland

**50.** There have also been significant changes at senior officer level in councils. Between March 2008 and December 2011, two-thirds of councils appointed a new chief executive. While chief executives are accountable to the council as a whole, effective leadership relies on the political leader and the chief executive working well together. Changes in leadership, through electoral or other political change or the appointment of a new chief executive, bring new working relationships for councillors and officers throughout the council and need to be managed well.

**51.** The chief executive has overall responsibility for the management of the council and is one of the statutory officers who have important, independent roles in promoting and enforcing good governance. Elected member awareness and

understanding of the statutory officer roles is important and, following references in our report on roles and working relationships, we worked with the Improvement Service to produce its briefing note on this topic.<sup>10</sup>

**52.** In the current economic climate we are particularly concerned that the role of the statutory officer for finance is fully recognised and understood. This individual, usually the director of finance or equivalent, is the lead officer for finance. The role is often referred to as the section 95 officer, a reference to the legal basis for the post,<sup>11</sup> and is fundamental to strong financial management and control.

**53.** The statutory officer for finance monitors and reports budget performance but the role is much wider and includes a higher-level,

9 *Roles and working relationships: are you getting it right?*, Accounts Commission, August 2010.

10 *Elected Member Briefing Note No.12: The Roles of Statutory Officers*, Improvement Service, November 2011.

11 The Proper Officer for finance, as required by section 95 of the Local Government (Scotland) Act 1973.



strategic dimension which is critical to overall leadership and long-term financial sustainability. More specifically, the statutory officer for finance will be called upon to provide expert advice on complex financial matters, for example in relation to the financial standing of potential service providers.

**54.** Management restructuring has generally led to smaller senior management teams and, consequently, the statutory officer for finance is often no longer a member of the senior management team and may not report directly to the chief executive (**Exhibit 6**). There has also been a large turnover in staff holding the role; in more than half of all councils the current statutory officer for finance did not hold that post four years ago. Across the 32 councils, the statutory officer for finance is a member of the senior management team in 21 cases and is at head of service level, or lower, in 12 cases.

**55.** It is for councils to determine management structures that best meet their needs. Where the statutory officer for finance is not a full member of the senior management team or equivalent, elected members must satisfy themselves that the officer has appropriate access and influence at the most senior level in the council.

**56.** We would be concerned about the possibility of any diminution of the statutory officer for finance role and the related risk to effective financial management and governance. This will be a focus of audit interest in local audits and auditors will report any concerns which arise.

#### Leadership on equalities

**57.** Elected members have a key role in leading on equalities. This goes beyond noting equality impact assessments (EIAs) and requires effective scrutiny of assessments

### Exhibit 6

#### Management restructuring: the impact on the statutory officer for finance

A council decided to reduce the number of heads of service from 11 to eight. As a result, the role of statutory officer for finance transferred from a head of service to the chief accountant. Referring to the Accounts Commission's 'How councils work' series report on roles and responsibilities, the auditors highlighted the vital role that statutory officers have in supporting good governance and decision-making. They concluded that the council must ensure that the new arrangements did not compromise the effectiveness of these important statutory roles.

Source: Audit Scotland

and using EIAs to inform decision-making. The availability of good data is essential to assess the impact of decisions on particular groups.

**58.** A recent EHRC report<sup>12</sup> highlighted the lack or unreliability of data in assessing equality. It said that better use of existing data sources, and more sophisticated data-collection techniques, would allow a better understanding of the needs and aspirations of different people. This is consistent with the Christie Commission report which noted that public bodies have insufficient data to meet their equalities duties.

**59.** Work involving the Improvement Service, EHRC, the Scottish Government and councils is continuing to help councils develop and use an evidence base, through their CPPs, to measure and evaluate progress towards improved equality outcomes.

#### Responding to the challenges (2) – Working in partnership

**60.** Partnership working involves councils joining forces with other parts of the public sector and with the voluntary and private sectors to improve services that better meet the needs of people and communities. Over the past decade there has been more focus on partnership working

and, at a time of reducing budgets, it is now very clear that partnerships are expected to deliver more integrated services, better value for money and improved outcomes.

#### Community planning

**61.** Community planning involves councils and other public sector bodies working with local communities, the business and voluntary sectors and the public to deliver better services. Councils have a statutory duty<sup>13</sup> to initiate, maintain and facilitate community planning and to report on progress in improving services and outcomes for local people. All councils have established a Community Planning Partnership (CPP) to lead and manage this process in their local areas.

**62.** CPPs are now central in developing and agreeing Single Outcome Agreements (SOAs) with central government and are one of the main vehicles for delivering improvements for communities and contributing to national outcomes. CPPs are not public bodies in their own right but their significance has increased as SOAs have developed.

**63.** The initial Accounts Commission/Auditor General review of community planning in 2006<sup>14</sup> found evidence of some progress but the report also

<sup>12</sup> *How fair is Britain? Equality, Human Rights and Good Relations in 2010*, Equality and Human Rights Commission, 2011.

<sup>13</sup> Section 13 of The Local Government in Scotland Act 2003.

<sup>14</sup> *Community planning: an initial review*, Accounts Commission and Auditor General for Scotland, June 2006.



highlighted that the complexity of community planning structures and different accountabilities could be a barrier to effective working. The more recent joint Commission/Auditor General report on the role of CPPs in economic development<sup>15</sup> focused on a specific policy area but identified wider issues.

**64.** That report found that while CPPs have an important role in planning and coordinating improvements to local economies, some other aspects of economic development, eg transport and infrastructure, are better planned at a national and regional level. The report also highlighted that the differences in accountability mean there are limits in the extent to which CPPs can hold partners to account for their contribution to agreed outcomes or be held to account themselves for the delivery of the SOA. Differences in governance and accountability in individual partners are still considered by CPPs to be a barrier to effective partnership working.

**65.** The Scottish Government's response<sup>16</sup> to the Christie Commission anticipates better use of resources through effective place-based partnerships and integrated service provision. It has asked the Accounts Commission to bring forward detailed proposals on how best external scrutiny can support the delivery of better outcomes at the level of CPPs, through assessing performance and promoting effective practice. We are taking this forward in consultation with our scrutiny partners and will report in summer 2012.

**66.** The Scottish Government and the Convention of Scottish Local Authorities (COSLA) are undertaking a review of community planning with the aim of enabling councils to agree priorities for public services in their area immediately following the elections which deliver more

effective and better outcomes for people and communities.

### Partnership working with the health sector and others

**67.** Around the same time as community planning was introduced, major changes took place in the NHS, including the introduction of CHPs, to bridge the gap between primary and secondary healthcare and also between health and social care.

**68.** A joint Accounts Commission/Auditor General report on CHPs<sup>17</sup> noted that, since devolution, there has been increased focus on partnership working between health and social care and across the public sector as a whole. The report acknowledged that partnership working is challenging and requires strong, shared leadership by NHS boards and councils. It concluded that approaches to partnership working have been incremental, leading to cluttered partnership arrangements. The report also concluded that a more systematic, joined-up approach to planning and resourcing is needed to ensure that health and social care resources are used efficiently and that this should be underpinned by a good understanding of the shared resources available.

**69.** A report on transport for health and social care<sup>18</sup> produced jointly by the Accounts Commission and the Auditor General considered partnership working in a particular service and the implications for a specific group of service users. It found that transport services for health and social care are fragmented with a lack of leadership, ownership and monitoring of services and that the partners, ie Scottish Government, Regional Transport Partnerships, councils, NHS boards and the ambulance service, were not working together effectively to deliver transport for health and social

care or making best use of available resources. The report concluded that joint working across the public sector and with the voluntary and private sector providers is crucial for the successful and sustainable development of transport for health and social care.

### Good governance principles for partnership working

**70.** We acknowledge developments in partnership working, but emphasise the need for councils to make working with partners more effective through rationalising partnership structures. Good partnership working depends on effective and inclusive leadership, a shared vision, collective agreement on objectives and outcomes, and strong and effective governance and accountability.

**71.** Drawing on published material and audit work in this area we have identified the principles of good governance for partnership working relating to: behaviours, processes, performance measurement and management, and use of resources. [Appendix 4](#) sets out each of these principles and indicators of when things are going well, and when they are not.

### Responding to the challenges (3) – Options for service delivery

**72.** Councils decide the best way to deliver services that meet the needs of the communities they serve and demonstrate best value. Decisions should be well informed and transparent and flow from a robust assessment of available options. Good councils ask themselves questions such as: '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?'

15 *The role of community planning partnerships in economic development*, Accounts Commission and Auditor General for Scotland, November 2011.

16 *Scottish Government's response to the Commission on the Future Delivery of Public Services*, Scottish Government, March 2011.

17 *Review of Community health partnerships*, Accounts Commission and Auditor General for Scotland, June 2011.

18 *Transport for health and social care*, Accounts Commission and Auditor General for Scotland, August 2011.

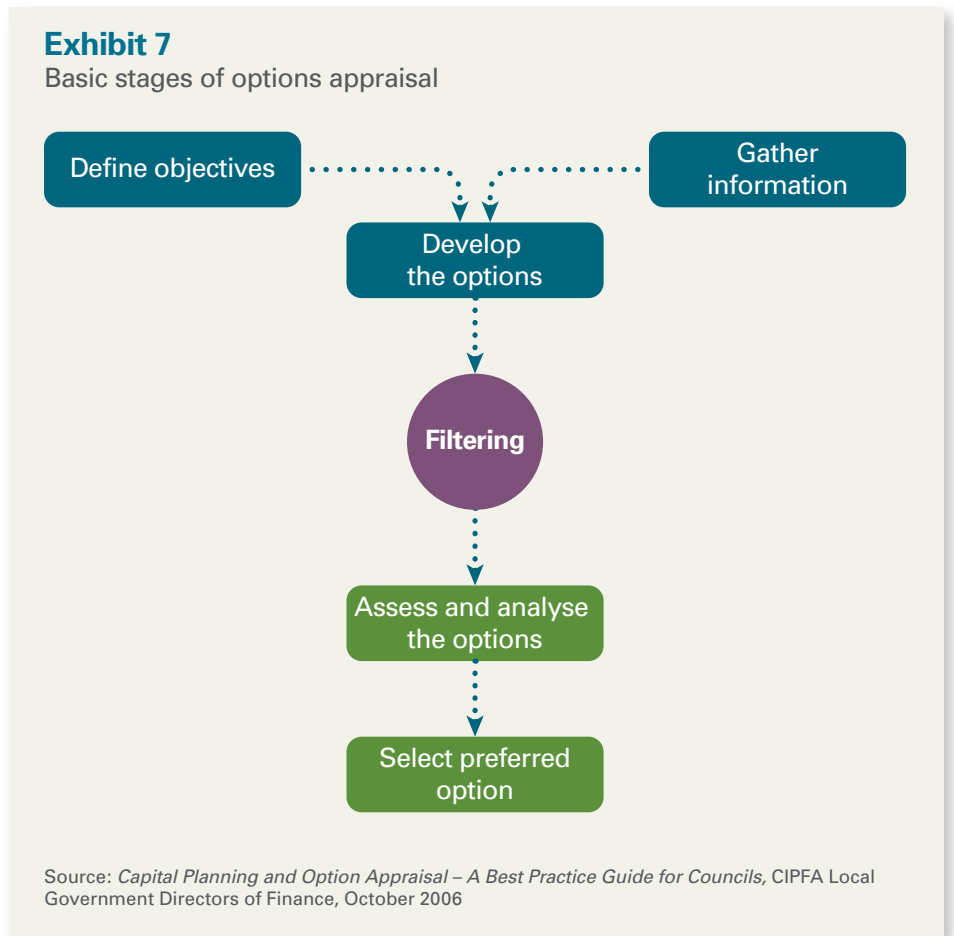
**73.** There can be many options for service delivery. These can include in-house managed services, public sector shared services, service provision through arm's-length external organisations (ALEOs) and voluntary or private sector provision. **Exhibit 7** sets out the basic stages of options appraisal, which will also include consideration of the risks, the financial implications and governance.

**74.** A decision to pursue an alternative method of service delivery can change long-standing arrangements and can have far-reaching consequences for service users, services, systems and staff. These are difficult decisions and elected members need to balance short-term political objectives, longer-term sustainability of services and finances and the impact on people.

**75.** This is particularly so when the ability to balance the budget relies on the savings generated from an alternative service delivery option. The choice of service delivery should be made on the basis of good-quality information and councils must be in a position to explain and, where necessary, justify actions. This includes where elected members decide to reject the recommended course of action. Success depends on strong political leadership and good business management, recognising that, ultimately, the decisions will be made by elected members. Where decisions are deferred or proposals are rejected without adequate explanation and communication, the council's services, finances and reputation can be damaged or put at risk.

#### The shared services option

**76.** Sharing services is not new and may offer the potential for savings and efficiencies. As with other service options, councils need to be clear about the objective of sharing services and the implications for service users, the council's workforce and accountability.



The costs of shifting to new ways of delivering services can be high. Also, councils should not underestimate the amount of time and costs involved in developing and progressing shared service proposals. For example, where proposals involve regulatory services,<sup>19</sup> there can be complex and time-consuming legal issues have emerged.

**77.** Any assessment of the potential for shared services must consider what might be achieved from simplifying, standardising and streamlining existing processes. Comparative information on costs and performance is essential to make informed decisions. Where there is a clear business case for shared services, delivery requires strong political and officer leadership to realise the benefits as quickly as possible.

**78.** During 2011, Clackmannanshire and Stirling councils continued to work on an agreement for education and social care which aims to integrate these services, share good practice and realise efficiencies. Governance arrangements involving senior elected members from across the political parties have been established and joint reports are made separately to the appropriate committee in each council.

**79.** East Lothian and Midlothian councils have been exploring options for strategic management and operational support in education and children's services, and have appointed an acting director of education and children's services on a shared basis for the period 1 March 2012 to 31 December 2013. This and other initiatives for shared services are overseen by joint groups

involving elected members and senior managers from each council, and are supported by a jointly funded shared services officer.

**80.** The Clyde Valley Community Planning Partnership involving councils in the Clyde Valley area continues to plan shared services in waste management, transport, health and social care and support services. Progress varies across the four workstreams. Further data is being collected to inform opportunities for shared services in social transport and work is continuing to develop business plans for integrated health and social care and for waste management.

**81.** A detailed business case was developed for shared support services but the estimated savings of up to £38 million were dependent on the participation of all eight councils. Since summer 2011, four councils (East Dunbartonshire, West Dunbartonshire, Glasgow City and South Lanarkshire) decided not to proceed, citing concerns about best value or uncertainty about the proposed structures and governance. The other four councils (East Renfrewshire, Inverclyde, North Lanarkshire and Renfrewshire) are continuing to pursue the shared services options but recognise that the detailed business case is no longer valid. A revised business case is expected in the spring of 2012; the key issues are likely to be the revised costs/savings analysis and political priorities after the May 2012 elections.

**82.** Overall, progress in the delivery of shared services has been slow and, in our view, significant savings in the short term remain unlikely. However, the pressure on finances provides a strong incentive to move more quickly to reject or accept options for shared services. The Scottish Government has issued revised guidance<sup>20</sup> on shared services which provides information, guidance and case study examples.

### The arm's-length external organisation (ALEO) option

**83.** ALEOs can offer an alternative to other forms of partnerships and service delivery options. They are 'arm's-length' because the council retains a degree of control or influence and 'external' because they have a separate identity to the council.

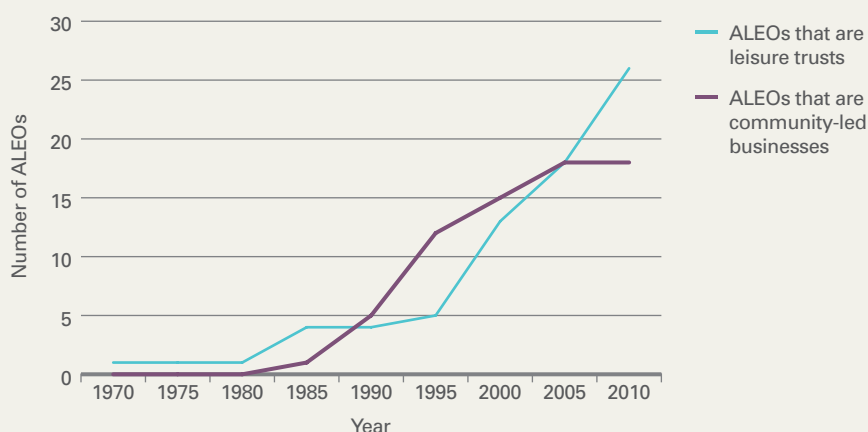
**84.** ALEOs are now an established part of the local government landscape and are used increasingly by councils as an alternative way of delivering council-related activities. The number of ALEOs set up to provide leisure services has almost doubled in recent years (Exhibit 8) and more councils are considering this option. ALEOs offer the potential for reduced costs and greater flexibility, but there are potential disadvantages and risks. If they proceed, it is important for councils to be able to 'follow the public pound' across organisational boundaries to the point where it is spent.

**85.** Our 'How councils work' series report on ALEOs<sup>21</sup> set out good practice in the way they are set up and operated. It neither promotes nor discourages their use and focuses on the principles of good governance and accountability for finances and service performance which need to be established and maintained when services are delivered through an ALEO.

**86.** Strong governance requires clear roles and responsibilities, and we underline the importance of getting this right from the start. Asking individuals to take on a role with an ALEO as well as their day-to-day responsibilities as a councillor, for example, adds another dimension to the elected member role which is already complex in its own right.

**87.** Our findings on The Highland Council's role in the Caithness Heat and Power project<sup>22</sup> highlighted the problems which can emerge if councils do not have effective

**Exhibit 8**  
Growth in the use of leisure ALEOs



Note: Community-led businesses – these mostly run a single facility (for example, a swimming pool), and are typically set up by local volunteers in response to a community need. For example, some community-led businesses have taken over management of existing facilities from the council, and others have built their own to meet a gap in provision.

Source: Audit Scotland

<sup>20</sup> *Shared Services Guidance Framework*, Scottish Government, July 2011.

<sup>21</sup> *Arm's-length external organisations (ALEOs): are you getting it right?*, Accounts Commission, June 2011.

<sup>22</sup> Accounts Commission's findings on a report by the Controller of Audit, *The Highland Council: Caithness Heat and Power – Follow-up report*, March 2011.

arrangements for their involvement in ALEOs. We concluded that the council had failed to establish effective governance and clear lines of responsibility. We also found that the council did not monitor progress effectively and failed to ensure that effective controls were in place to manage risks.

**88.** New ALEOs may be set up to reduce costs or improve services but we also expect councils to review existing ALEOs and structures to ensure they remain the best option, recognising that ALEOs themselves face a challenging financial and operating environment. The six principles in the Following the Public Pound Code<sup>23</sup> are as relevant today as when the Code was first published in 1996 ([Exhibit 9](#)).

#### Responding to the challenges (4) – Performance information

**89.** It is crucial for councils to have information about performance which helps elected members identify priorities, supports effective decision-making and enables them to report to citizens and communities. This goes beyond management processes. Where an effective performance management culture exists:

- the use of performance information is one of the main drivers for improvement
- members and officers talk openly about performance
- performance improvement is seen as a routine part of the job.

**90.** We have for some time underlined the importance of effective performance management. Councillors and senior managers must have good-quality, timely and balanced information on how services are performing across all areas of activity. Working well, these systems

#### Exhibit 9

##### 'Following the public pound' principles

The principles of openness, integrity and accountability apply to councils in their decisions on spending public money. These apply equally to funds or other resources which are transferred to ALEOs. The code sets out six principles that require councils to:

- 1 Have a clear **purpose** in funding an ALEO
- 2 Set out a suitable **financial regime**
- 3 **Monitor** the ALEO's financial and service performance
- 4 Carefully consider **representation** on the ALEO board
- 5 Establish **limits** to involvement in the ALEO
- 6 Maintain audit access to support **accountability**.

Source: Audit Scotland

provide vital information which highlights emerging problems, where improvement is needed and whether value for money is being achieved. Performance information can also highlight good practice and inform decisions about resource allocation ([Exhibit 10](#)).

**91.** Some councils still have a way to go to embed effective performance management and to instil a culture where there is strong ownership of performance among elected members, management and staff more generally. In other cases, where performance management is better established, recurring matters include:

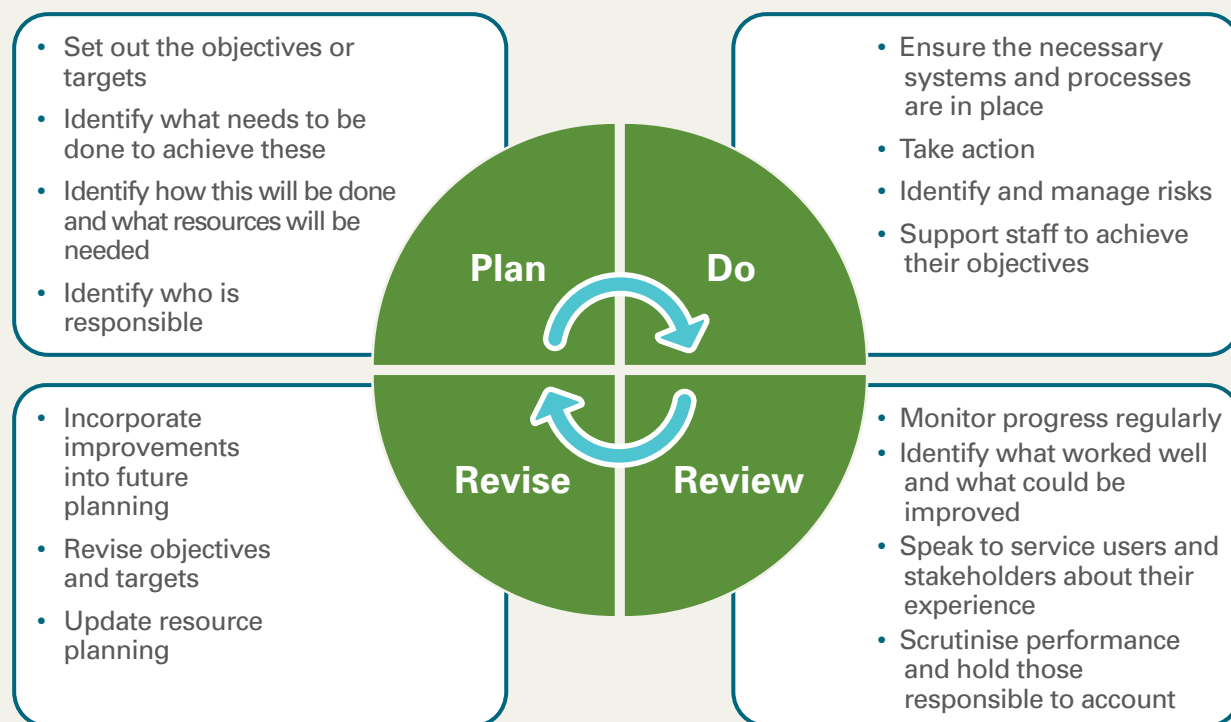
- the need for further consideration of the range and quality of information which is collated and provided to elected members to support service scrutiny
- the need to develop arrangements to demonstrate progress against wider, longer-term outcomes, and value for money.

**92.** Undertaking robust and reliable self-evaluation of corporate processes, service performance and impact is central to continuous improvement. Councils need to 'know themselves' and the limits on their capacity, corporately and individually (at political and officer level). Where there is evidence that self-evaluation is working well it enables us and our scrutiny partners to reduce the amount of audit and scrutiny activity we undertake.

**93.** In 2011, we looked at the level and range of self-evaluation activity in councils. This showed commitment to self-evaluation but it also showed inconsistencies in coverage and in the quality of information across services, outcome areas and corporate systems. It will be some time before all councils have fully effective self-evaluation arrangements in place. The use of benchmarking data to assess costs, quality and performance remains underdeveloped and there is limited consideration of service users' views and customer satisfaction information.

**Exhibit 10**

Performance management based on the plan, do, review, revise cycle



Source: Audit Scotland

**94.** A key component of performance management is effective risk management which includes identifying risks to service delivery and taking action to address matters most likely to affect priority outcomes. Effective risk management is also essential to monitor the delivery of savings and the impact of savings on service delivery. The central issue is about being risk aware, not risk averse.

**95.** Managing performance in a partnership context, where improvements require input by several different organisations, adds another dimension to performance management and is generally more complex.

**96.** The joint Accounts Commission/Auditor General report on the role of CPPs in economic development<sup>24</sup> found different approaches to performance management. Some CPPs acknowledge that outcomes are not being achieved as effectively as planned and take little further action, sometimes because they consider the reasons for lack of progress are outwith the CPP's control. In others, the CPP board or groups of board members work together to try and understand why outcomes are not being achieved and identify what further support partners can provide to address the problem.

**97.** Overall, the report found that a culture of mutual respect and trust enables partners on CPP boards to challenge each other on progress towards agreed outcomes and increases collective responsibility for SOAs.

**98.** The joint Accounts Commission/Auditor General report on CHPs<sup>25</sup> found that CHPs have different performance reporting arrangements, and the content and frequency of performance reports to CHP committees, NHS boards and councils varies.



**99.** Another common theme across audit work is the lack of information on service costs. The joint Accounts Commission/Auditor General report on the planning system,<sup>26</sup> for example, noted that councils have little or no information about the cost of processing planning applications.

**100.** We are very concerned that performance-related cost information continues to be underdeveloped. Having accurate, consistent and comparable cost information is vital to understand services and performance fully and to ensure effective management of services. As a starting point, we would encourage local authorities to follow the UK audit agencies' indicators for back-office functions.<sup>27</sup>

**101.** We are drawing on our audit work in recent years and will be publishing a report in our 'How councils work' series, which will help support knowledge and understanding of the use of costs in performance management in local government. It will identify good practice and key guidance and will be essential reading for councillors and officers.

**102.** More work is also required to develop measures which show progress against longer-term objectives. Many health and community safety objectives, for example, are by their nature long term and councils and their partners need evidence to support scrutiny and demonstrate progress. In December 2011, the Scottish Government announced that it would work with delivery organisations on the development of 'contributory outcomes' on which progress can be measured in the short to medium term.

**103.** Measures of this type will become increasingly important in monitoring the impact of preventative spending, ie shifting resources away from dealing with the 'symptoms' to tackling the 'root causes' of inequality and disadvantage.

### Maintaining performance in the current environment

**104.** While councils are making some progress in developing performance information, measurement and reporting, there remains a lack of consistent and robust information at a national level from which to draw conclusions about performance across services.

**105.** Our Statutory Performance Indicators (SPIs) do, however, provide some information across a range of services. The SPIs for 2011 show improved service performance across most service areas but indicated deteriorating performance in waste management and roads (Exhibit 11).

**106.** Full details of performance information reported by councils against our SPIs are available on our website. Police performance is reported nationally by Her Majesty's Inspectorate of Constabulary for Scotland (HMICS) through the Scottish Policing Performance Framework (SPPF).<sup>28</sup>

**107.** We are committed to reviewing the SPI framework and in doing so will take account of the changing context in which local authorities are operating and the progress they are making in developing performance improvement arrangements and public performance reporting.

**108.** CPPs agree their strategic priorities for their local areas in SOAs. The Scottish Government reported<sup>29</sup> signs of progress in the local outcomes-based approach, including partners working together to improve economic and social conditions. It stated, however, that changes in outcomes take time to become evident and that it is not yet possible to demonstrate substantial shifts in long-term indicators and to quantify the impact of the approach.

**109.** The report noted that other countries which have adopted the outcomes-based approach have faced substantial challenges in implementing underpinning strategies, working cultures and business systems. Among its conclusions, the Scottish Government stated that more work is required to overcome cultural and technical barriers within public services in order to maximise the benefits and to offset the difficult financial environment.

**110.** We accept that it will take time before progress can be robustly measured against each of the 16 national outcomes. Future SOA reports should increasingly allow the Scottish Government to measure progress on CPPs' contributions to the national outcomes. However, the joint Accounts Commission/Auditor General report on CPPs in economic development found that the variation of economic outcomes and indicators used in SOAs suggest measuring progress will continue to be challenging.

### Public performance reporting

**111.** Effective public performance reporting is an essential element of performance management and is integral to an outcomes-based approach. It is also a key element of accountability to local people and communities.

**112.** In 2008, we made a significant change to the performance information which local authorities must publish. This offered flexibility for councils to develop a broad set of comprehensive information for local communities, through authorities' own public performance reports, alongside a shorter list of specific comparable indicators. This change created a clear linkage between the SPIs and the effective performance management and reporting required under best value.

<sup>26</sup> *Modernising the planning system*, Accounts Commission and Auditor General for Scotland, September 2011.

<sup>27</sup> *Value for money in public sector corporate services*, A joint report by the UK public sector audit agencies, November 2008

<sup>28</sup> *Scottish Policing Performance Framework Annual Report 2010/11*, HMICS, October 2011.

<sup>29</sup> *Local matters: Delivering the local outcomes approach*, Scottish Government, March 2011.

**Exhibit 11**

Statutory Performance Indicators: change between 2008/09 and 2010/11 by service area

Service area	Number of measures	Better by (%)				Worse by (%)			
		0-4	5-9	10-14	>15	0-4	5-9	10-14	>15
Corporate management	10	5	2	2	-	1	-	-	-
Adult social services	4	-	2	-	1	1	-	-	-
Cultural & community services	5	-	1	1	-	1	2	-	-
Development services	2	-	1	1	-	-	-	-	-
Housing	8	1	3	2	1	1	-	-	-
Protective services	4	3	-	-	1	-	-	-	-
Roads	1	-	-	-	-	-	-	1	-
Waste management	4	1	-	1	-	1	-	1	-
<b>Total</b>	<b>38</b>	<b>10</b>	<b>9</b>	<b>7</b>	<b>3</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>0</b>

Source: Audit Scotland

**113.** Analysis of the data since then shows that, while councils are making progress in providing comprehensive public reporting, the approach and coverage continues to be highly variable across councils ([Exhibit 12](#)).

**114.** CPPs produce annual reports showing performance against specific outcomes in SOAs, together with other information such as evidence of effective engagement with citizens and how partnership working at the local level is becoming more effective. The Scottish Government plans to prepare an overview report drawing on CPPs' 2010/11 annual reports which describes the progress made by CPPs in implementing the local outcomes approach.

**Exhibit 12****Public performance reporting – areas for improvement**

Comparison with previous years shows a wider range of performance information and a variety of ways in which information is published, but more action is required, particularly in the following areas:

- Some councils continue to rely heavily on the SPIs as the main source of reporting performance information to the public.
- Benchmarking is underdeveloped and only a small number of councils compare their performance with other councils.
- Around half of councils do not assess performance against targets.
- Around half of councils do not provide information which shows the council listens and responds to its stakeholders.
- Reporting cost information continues to be underdeveloped.

Source: Audit Scotland

## Summary and conclusion

- The pressures on local government finances and increasing demands present a substantial challenge to services and outcomes.
- Strong leadership and governance is required in this period of transition and change, including in police and fire and rescue services.
- It is vital that statutory officers, and in particular the statutory officer for finance, have appropriate access and influence.
- Local authorities need to take a structured approach to options appraisal and demonstrate the basis for decisions.
- Councils and their partners need to develop partnership working to deliver better value for money and improved outcomes, to ensure that partnership performance systems are sound and that accountabilities are clear.
- Good-quality performance information and effective management is required, with an increasing focus on costs and measures which monitor partnership performance and outcomes.

**115.** Overall, the main priority is best value. The appendices contain information and prompts which will assist councils and councillors to meet the challenges in 2012.



# Part 2. Review of resource use in 2011



Councils dealt well with budget pressures in 2011 but there are further opportunities for more effective management of finances, workforce, assets and procurement.



**116.** In this part of the report, we review how local authorities managed resources in 2011 under four headings:

- Finances
- Workforce
- Assets
- Procurement

### Finances

**117.** 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 cost of building property such as schools and acquiring large items of equipment which will be used over time in providing services.

**118.** In financial year 2010/11, income from government grants, council tax, housing rents and other fees and charges was £19 billion. Spending on services was £18.5 billion and, after accounting adjustments of £0.4 billion, £0.1 billion was transferred to reserves ([Exhibit 13](#)).

**119.** Spending across the main services ([Exhibit 14](#)) was broadly similar to 2009/10 with the exception of housing where spending has

increased by £0.4 billion, reflecting revenue-related costs associated with progress towards the Scottish Housing Quality Standard.

**120.** Of the total income in the year of £19 billion, £12.4 billion came from Scottish Government grants and £4.3 billion came from housing rents and benefits and fees and charges for services. The remaining £2.3 billion came from council tax.

**121.** Our SPIs showed that most councils increased the amount of council tax collected, with the overall figures showing an increase from 94.4 to 94.7 per cent. Eight councils experienced small reductions

## Exhibit 13

### Income and expenditure

Where the money came from	2010/11 (£ billion)	
General revenue funding from government		8.1
Service fees, charges, other revenue government grants and housing rents		5.9
Capital grants and contributions		0.6
Council tax		2.3
Non-domestic rates		2.1
<b>Total income</b>		<b>19</b>

How the money was spent	2010/11 (£ billion)	
Education	5.5	
Social work	3.8	
Housing	3.9	
Roads, environment, culture and planning	3.5	
Police and fire & rescue services	0.9	
Other services and operating expenditure	0.9	
<b>Total spending on services</b>		<b>18.5</b>
Accounting adjustments		0.4
Increase in General fund/Housing revenue account balances		0.1
<b>Total expenditure and transfer to reserves</b>		<b>19</b>

in collection rates. Around £120 million of 2010/11 council tax was not collected in year and councils will continue to pursue this through ongoing recovery processes.

**122.** Budget pressures in 2010/11 came from demand-led social work services including services for looked-after children and services for older people. There were also additional costs associated with extreme winter weather, particularly unbudgeted overtime payments, and from rising fuel costs. In the event, most councils stayed within budget, principally by achieving planned reductions in staff costs through, for example, voluntary severance schemes.

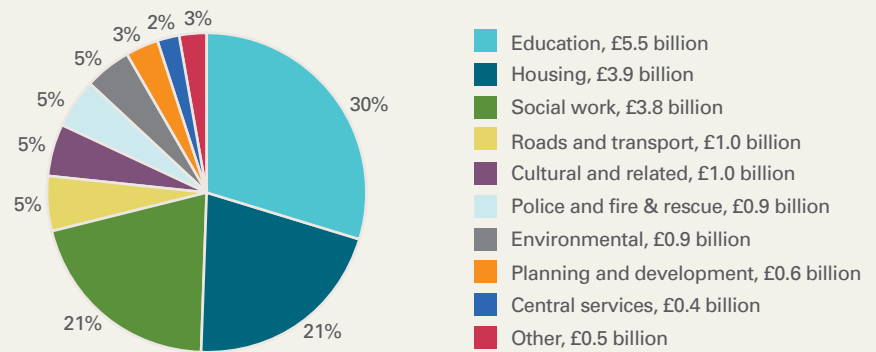
**123.** Total capital spending in 2010/11 amounted to just under £2.1 billion, representing a significant decrease against both planned spending of £2.5 billion and compared with the previous year's spending of £2.2 billion (Exhibit 15).

**124.** The main areas of capital spending were housing (including capital work relating to the Scottish Housing Quality Standard and developing affordable housing) and the schools estate including building and refurbishment work.

**125.** Slippage in capital programmes is a recurring and worsening issue, with one-half of councils reporting some slippage in 2011. While some is attributable to adverse weather, this points to the need for more accurate and achievable capital plans, and the need to review project and programme management.

**126.** Improvements in capital management are increasingly important if councils are to get the best from reducing capital funding while at the same time ensuring buildings and other assets are available and in the right condition to deliver services. A common theme in capital projects where there

**Exhibit 14**  
Expenditure by service 2010/11



Source: Audit Scotland

**Exhibit 15**  
Capital expenditure 2001/02 to 2010/11



Source: Audit Scotland

have been difficulties is the lack of objective expert advice and timely reporting to elected members.

**127.** 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. Borrowing is the main source and has grown significantly since 2008 with just over £1.1 billion borrowed

in 2010/11 to finance capital projects (Exhibit 16, overleaf). The shift to borrowing reflects reduced capital receipts because of lower asset values and less sales. The recent drop in funding from revenue, grants and reserves indicates a tightening of budgets and less flexibility to fund capital from revenue.

**128.** Councils are considering new ways of financing capital expenditure. Tax Incremental Financing (TIF) involves using forecasts of the additional rate income expected from property developments as a basis for borrowing.

**129.** Councils' financial statements show usable reserves, which are cash-backed, and unusable reserves, which are as a result of accounting entries required to comply with financial reporting standards. Councils hold usable reserves to ensure stability in cash flow, to build up funds for known and predicted cost pressures, and as a contingency for unforeseen expenditure. In 2010/11, there was a significant increase in the level of usable council reserves (Exhibit 17).

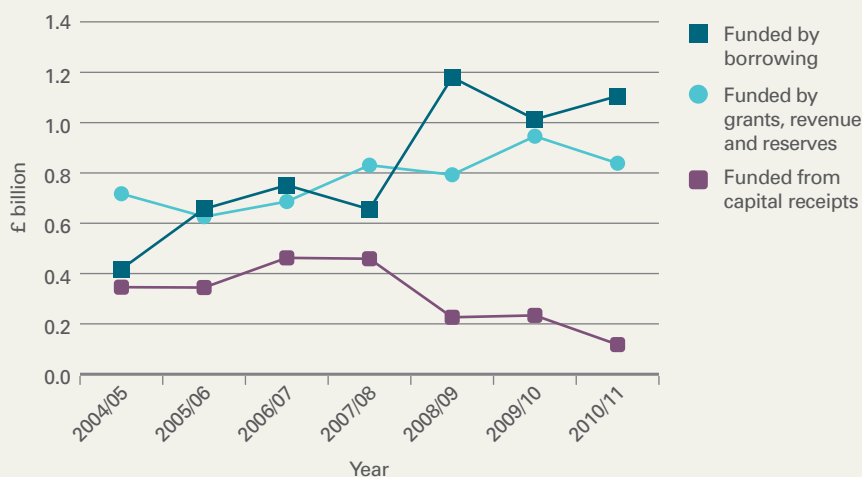
**130.** The overall level of usable reserves increased by £204 million (16 per cent) compared with the previous year and totalled £1.47 billion at 31 March 2011. Two-thirds of councils increased usable reserves in 2010/11. Appendix 2 shows overall increases in general funds, capital funds and repair and renewals funds.

**131.** The general fund is the main usable reserve and overall these increased by £127 million (20 per cent) in 2010/11 and totalled £768 million at 31 March 2011. £498 million was earmarked to meet known commitments such as PPP/PFI payments and equal pay claims. This represents 65 per cent of the amount held in general funds and is broadly in line with previous years, but varies from council to council depending on local priorities and decisions.

**132.** The overall level of non-earmarked balances was £270 million or 35 per cent of general fund reserves. This has risen over the last year from 1.8 per cent to 2.1 per cent of net cost of services, and within individual councils varies from 0.6 to 8.1 per cent of net cost of services (Exhibit 18).

**Exhibit 16**

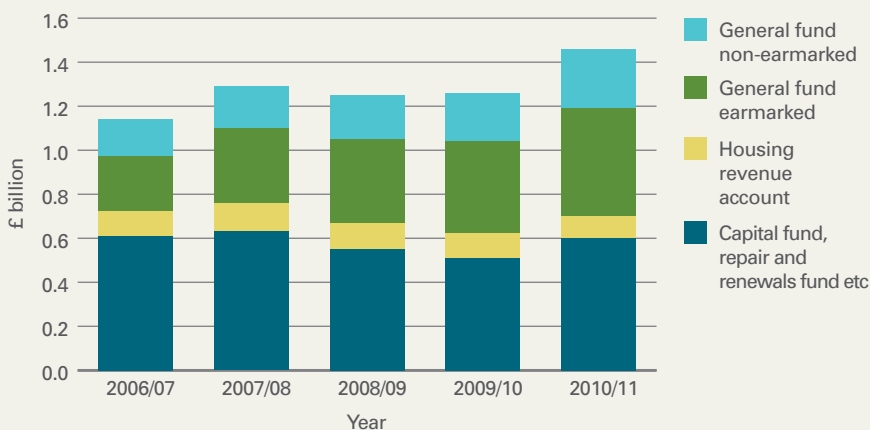
Capital expenditure financing sources, 2004/05 to 2010/11



Source: Audit Scotland

**Exhibit 17**

Total usable reserves and balances<sup>1</sup>



Note: 1. Excludes Orkney and Shetland Islands councils which hold large reserves and balances arising mainly from harbour and oil-related activities.

Source: Audit Scotland

**133.** Councils have policies setting out the optimum level of reserves that they will maintain to deal with unforeseen circumstances. These are usually set at a percentage of net costs of services and are typically in the range of one to four per cent.

**134.** A number of councils show non-earmarked general fund reserves greater than the level set out in their

policies. This approach is prudent in the current environment but it may point to the need for councils to refresh reserve policies, to ensure they align with current financial plans and strategies. Review and discussion about reserves policies will also support awareness and transparency in reserves. It will also help councils to explain why they are holding substantial amounts of money in

reserve at a time when budgets are reducing and the competing pressures on financial resources are intensifying.

### Financial management and reporting

**135.** There was a significant change in the layout and format of local authorities' financial statements in 2010/11 as they moved to comply with International Financial Reporting Standards (IFRS). The changes to the accounts increased clarity and transparency in some areas, eg accounting for PFI. The Chartered Institute of Public Finance and Accountancy (CIPFA)<sup>30</sup> and the Local Authorities (Scotland) Accounts Advisory Committee (LASAAC)<sup>31</sup> issued guidance to assist the preparation and interpretation of financial statements.

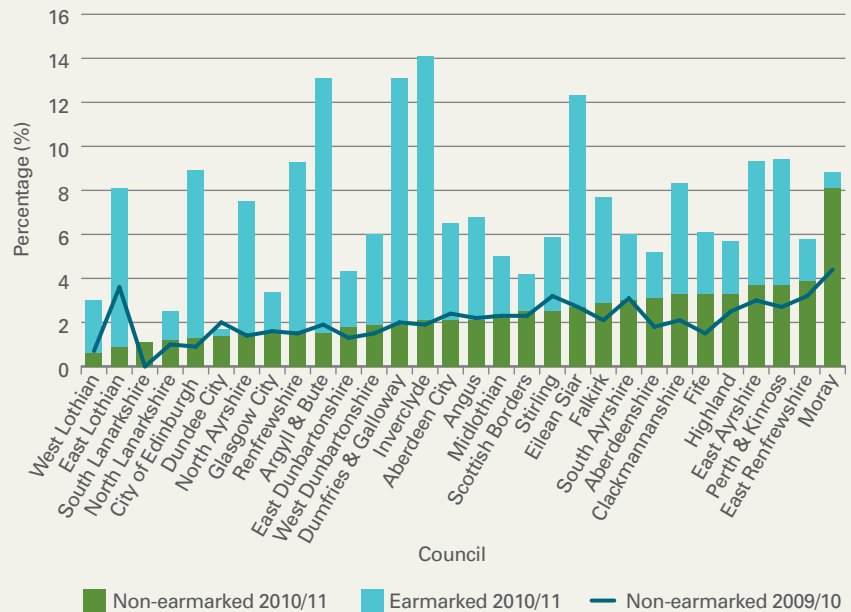
**136.** The introduction of IFRS, which aim to standardise financial reporting, brought additional work for finance departments, with a substantial increase in the information included in published accounts. Councils coped well with the changes but some auditors highlighted concerns about the quality of the accounts presented for audit and the need for significant changes as a result of the audit.

**137.** Clean audit certificates were issued for all councils except Shetland Islands Council where the auditors qualified the accounts for the sixth year in succession. The council had not included Shetland Charitable Trust and its subsidiaries in its group financial statements which, in the auditors' opinion, meant that the accounts were not in accordance with proper accounting practice.

**138.** The audits of local government pension funds previously formed part of the audit of the administering council but from 2010/11 a separate pension fund audit was required. These new arrangements generally went well and none of the audit

### Exhibit 18

General fund balances<sup>1</sup> (as a percentage of net costs of services<sup>2</sup>)



#### Notes:

1. Excludes Orkney and Shetland Islands councils which hold large reserves and balances arising mainly from harbour and oil-related activities.
2. Net cost of services figures have been adjusted to take account of pensions accounting entries.

Source: Audit Scotland

opinions was qualified. Recurring themes from audits included the need to clarify governance arrangements and to develop performance monitoring and reporting.

**139.** Councils are required to produce accounts for activities such as catering services and building maintenance services. These operations are known as significant trading operations (STOs) and they are required by law to break even over a rolling three-year period. During 2010/11, there were 73 STOs with 60 (82 per cent) meeting the requirement to break even (Appendix 2). The main reasons for failure to achieve targets included the cost of settling equal pay claims, voluntary severance agreements and service restructuring.

**140.** This year we have noted higher than usual instances at individual councils of non-compliance with financial regulations and procedures which have resulted in investigations and in some cases disciplinary action. This risk is increasing as councils reduce staff numbers as part of wider savings strategies and remaining staff are required to take on new roles and responsibilities. It is important that staff have a good knowledge and understanding of financial systems and regulations and a good working knowledge of financial controls. They need to know why these are important and where to get advice and support.

**141.** A strong and effective internal audit function provides independent and objective assurance by examining, evaluating and reporting on the adequacy of controls. External auditors

30 Example financial statements and notes to the accounts for local authorities 2010/11, CIPFA, 2011.

31 Holding to account: using local authority financial statements, LASAAC, May 2011.

aim to place reliance on the work of internal auditors. This was not possible in some cases, often because internal audit has been unable to complete its planned programme of work due to lack of resources.

**142.** Eight councils had investments totalling £46.5 million in Icelandic banks when they failed in October 2008. By the end of October 2011, £7.6 million had been recovered from £13.5 million invested in Heritable and Kaupthing banks. Councils expect to recover between 80 and 90 per cent of the total. There has been no recovery of £33 million invested in Landsbanki and Glitnir banks. However, following legal cases, the preferential creditor status of UK councils has been confirmed clearing the way for recovery of the sums involved.

## Workforce

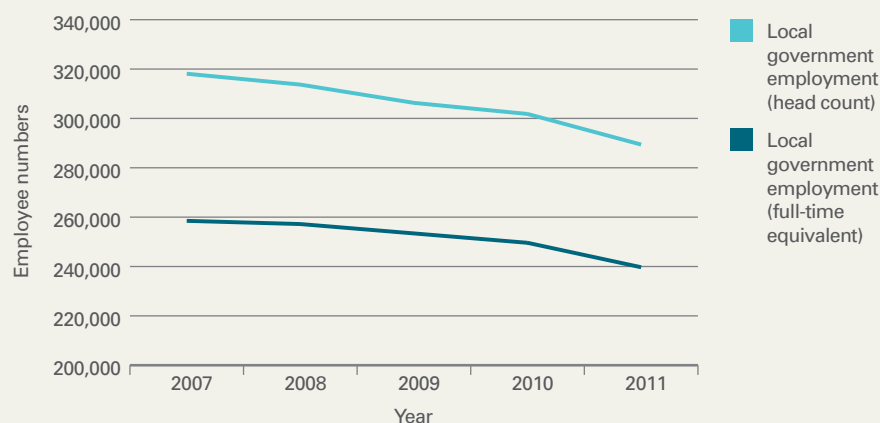
**143.** Staff costs are the largest single element of council budgets representing £7.9 billion in 2010/11,<sup>32</sup> around 40 per cent of overall spending. Effective workforce management requires effective human resource strategies, policies and procedures and workforce planning that is closely linked with financial and asset planning.

**144.** Workforce reductions are the most significant part of the overall savings made by councils in response to the budget pressures. This is reflected in the local government employment figures which show numbers reducing over the last five years, with the biggest changes between 2010 and 2011 (**Exhibit 19**). Staffing numbers for headcount and full-time equivalent fell by 4.1 per cent (12,400) to 289,400 and 4 per cent (9,900) to 239,700 respectively.<sup>33</sup>

**145.** Councils achieved reductions in staff numbers through natural staff turnover, recruitment freezes and voluntary severance schemes. Most

## Exhibit 19

### Local government employee numbers – headcount and full-time equivalent



Source: Joint staffing watch Quarter 2 (September) each year

councils had voluntary severance schemes in place in 2010/11 and the full impact on finances and services will become apparent over the next few years. At the time of the joint Accounts Commission/Auditor General report on Scotland's public finances in August 2011,<sup>34</sup> around half of councils said that they may consider compulsory redundancy to reduce staff levels in future.

**146.** Performance information shows that the average sickness absence rates in Scotland were 6.6 days for teachers (7.6 the previous year), 10.8 days for council officers (11.6 days the previous year) and 8.3 days for firefighters (8.7 days the previous year). Sickness absence for police officers was 3.8 days compared to 4.1 the previous year (police figures are calculated as a proportion of working days as, due to shift patterns, the length of the working day can vary). Sickness absence has ongoing cost implications and councils need to regularly review their approach to secure further improvement in absence rates.

**147.** A pay settlement for councils was agreed in August 2010 involving a pay freeze for all staff in 2011/12. However, individual councils have negotiated positions relating to pay progression, particularly for those on lower pay scales which means that an element of pressure on pay costs remains.

**148.** The purpose of single status<sup>35</sup> in councils is to have non-discriminatory pay scales. Since its introduction councils have been dealing with claims from employees relating to previous terms and conditions of service. Dealing with equal pay claims and the associated costs remains a pressure on council finances. Cumulatively, councils had paid £450 million to March 2011 (£50 million in 2010/11) and future costs are likely to be of the order of £180 million. Three-quarters of councils make reference in their accounts to potential future equal pay claims not yet presented and/or that can not be accurately quantified. Employment tribunals continue and recent cases have opened up the possibility of more claims for compensation.

<sup>32</sup> *Scotland's public finances: addressing the challenges*, Accounts Commission and Auditor General for Scotland, August 2011.

<sup>33</sup> Scottish Government staffing watch, September 2011.

<sup>34</sup> *Scotland's public finances: addressing the challenges*, Accounts Commission and Auditor General for Scotland, August 2011.

<sup>35</sup> The single status agreement was signed in 1999 with an intended implementation date of April 2002. Most councils implemented after this date. It harmonises the terms and conditions of employment of manual and administrative, professional, technical and clerical workers.



**149.** Reducing staff numbers can pose risks which need to be managed properly. The loss of experience and skills, for example, may present a risk to effective service delivery (Exhibit 20) and there may be a wider impact on the local economy.

**150.** Large reductions in senior managers may affect 'corporate capacity' and there is a risk that officers will not have sufficient time to manage the range of initiatives that their council wishes to pursue. Our reports on police authorities have expressed concern that reducing non-police staff numbers may reduce the level of support available leaving police officers to perform administrative tasks and reducing their time on frontline duties.

**151.** Councils are making progress on workforce planning but they need to ensure workforce plans are up to date and reflect changes in workforce numbers, skills and experience.

**152.** Our 1997 report<sup>36</sup> *Buy now, pay later?* and the 2003 follow-up report<sup>37</sup> emphasised the importance of identifying the full costs of early retirements and effective governance, particularly when decisions relate to senior officers where the sums tend to be relatively large and where the consequences of getting it wrong are at their greatest. The calculations can be complicated but it is crucial, in the interests of good decision-making and public accountability, that the position is clear and provides value for money. Exhibit 21 sets out the recommendations from the 2003 follow-up report.

**153.** In the Accounts Commission's joint report with the Auditor General we drew attention to the significant pressures and potential changes in the six main public pension schemes in Scotland, including the Local Government Pension Scheme (LGPS).<sup>38</sup> Over the five years 2005/06 to 2009/10, there were significant

## Exhibit 20

### Risks from workforce reductions

Key risks to workforce reductions	Potential reasons why the risk may occur
Reduced leadership skills and professional competence to manage with lower budgets.	Loss of essential skills and corporate knowledge.
Reduced quantity and quality of service delivery.	Unmanaged reductions resulting in staff shortages in key service areas.
Lower morale and increased sickness absence. Lack of motivation among remaining staff to innovate, change and do more.	Increased workload for remaining staff as a consequence of staff reductions. Lower reward packages.
Benefits may not be achieved in the time required. Lack of commitment from existing staff to be re-trained or re-deployed to other posts.	Cost and time commitment of re-training and re-deployment. Higher than expected associated costs of reducing workforce levels. Longer than anticipated time taken to make changes happen.

Source: Audit Scotland

## Exhibit 21

### *Buy now, pay later?* 2003 follow-up report recommendations

#### Framework for decision-making

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

#### Informing members

- Members should receive a report at least annually that details the number of early retirement decisions made in the year, along with the associated costs and savings attached to these decisions.

#### Decision-making

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

Source: Audit Scotland

36 *Buy now, pay later? The management of early retirement in local government*, Accounts Commission, December 1997.

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

38 *The cost of public sector pensions in Scotland*, Accounts Commission and Auditor General for Scotland, February 2011.

increases in both the number of pensioners (up 11 per cent over the period) and the value of pension payments to them (up 26 per cent, in real terms). Over the same period employers' contributions to the LGPS increased 25 per cent in real terms, from £667 million to £836 million a year, reflecting increased scheme membership, real increases in pay rates and higher contribution rates required from employers to meet cost pressures in the scheme.

**154.** The number of pensioners increased 4.5 per cent between 2009/10 and 2010/11 with the corresponding payments to them increased by 15.4 per cent. Employers' contributions have also increased, from £836 million to £962 million.

**155.** In March 2011, the Independent Public Service Pensions Commission chaired by Lord Hutton published its final report.<sup>39</sup> As a result of UK government decisions in respect of this review, all the main public sector pension schemes remain subject to change. Changes made or under consideration include higher employee pension contributions, linking pension age in occupational schemes to the state pension age, changes in the indexation of pensions, and moving from final salary to a career average pension. These changes are intended to mitigate cost pressures in all the schemes but it is not yet clear whether and how far they will apply to the LGPS in Scotland. Pension cost pressures for councils therefore remain.

## Assets

**156.** Councils manage and use assets, ie buildings such as schools and offices, roads, vehicles etc, with an overall value of £35 billion. This requires substantial investment in

terms of maintenance, refurbishment and replacement. Councils need to make the most economic, efficient and effective use of their assets and they need to work across councils and with partners in managing their assets.

**157.** The condition of council assets remains a concern. The cost of addressing the maintenance backlog in council-owned property assets is estimated at around £1.4 billion, with £376 million of this described as urgently required.<sup>40</sup> The joint Accounts Commission/Auditor General report on maintaining Scotland's roads<sup>41</sup> identified that the condition of roads in Scotland is worsening. Transport Scotland and councils estimate that the cost of removing all road defects in Scotland is £2.25 billion. Most councils have plans to address backlogs. However, continuing reductions in capital budgets mean that it is unclear how long it will take to implement these plans in full.

**158.** In September 2011, the Scottish Futures Trust (SFT)<sup>42</sup> published two reports on asset management in the public sector.<sup>43</sup> Overall the SFT concluded that while good work had been done, there are further savings and operational benefits to be secured, in particular from greater collaboration between public bodies in managing property assets.

**159.** The SFT estimated that, based on its pilot examination of ten public bodies operating in the south-east of Scotland,<sup>44</sup> improvements could ultimately provide some £500 million of potential revenue savings and capital receipts across Scotland. For example, the public bodies in the south-east, including councils, NHS bodies and fire and police services, identified the following opportunities for improvement from stronger partnership working:

- Joint planning and shared accommodation, to identify shared facilities including depots and workshops, offices, customer contact centres and training centres. This will entail locality asset rationalisation and co-location planning and involve peer reviews of partner asset management plans.
- Sharing people, management and contracts, which will involve pooling expertise, sharing contract management (including operational PPP-type contracts) and joint procurement of facilities management contracts, reducing duplication of consultants and internal resources and exploiting economies of aggregation.
- Sharing data, to allow each organisation's property assets to be viewed by others and to enable place-based asset management and benchmarking.
- Surplus property coordination, to help manage the release of property to the market to ensure competitive pricing, and to help identify opportunities to increase value, for example by exploring joint ventures with the private sector.
- Pooling assets, involving consideration of alternative models for collectively managing assets.

**160.** As with previous reform programmes, on procurement and efficiency for example, there will be challenges in moving beyond high-level savings targets, to coordinating and gaining acceptance from all the public bodies affected to allow change and ultimately deliver real and measurable economies. The SFT has identified the need for

39 *Independent Public Services Pensions Committee: final report*, Independent Public Services Pensions Committee, March 2011.

40 *Asset management in local government*, Accounts Commission, May 2009.

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

42 SFT is a limited company, wholly owned by Scottish ministers, established in September 2008. Its remit is to examine and develop new financing arrangements for investment and to work in partnership with other public bodies to secure more efficiency from investment.

43 *Improving Asset Management across the Scottish Public Sector – The Local Civil Estate; Improving Asset Management across the Scottish Public Sector – The Scottish Government Civil Estate*, Scottish Futures Trust, 2011.

44 The ten bodies in the south-east pilot included four councils (Edinburgh, West Lothian, East Lothian and Midlothian), and the Lothian & Borders Police and Fire & Rescue Services.



strong leadership, and programme management to overcome these and other constraints.

**161.** Common good assets comprise land, buildings or other assets, such as works of art bequeathed to the common good, and are held by a council for the 'common good' of the people of the area to which the common good relates. The value of common good assets was £219 million at 31 March 2011. While this is relatively small compared with the overall value of assets held, there is significant public interest in the stewardship of assets and in how common good money is recorded and used.

**162.** Guidance<sup>45</sup> requires identification of common good assets in councils' accounts and underlying records. Councils have been working to confirm that all common good assets are appropriately recorded in asset registers. Some councils are consulting with community councils and, given the other demands on councils, this can be a practical approach in resolving questions about ownership and title of assets.

**163.** Information and Communications Technology (ICT) underpins all aspects of frontline and back office local government services. The pressure on public finances is affecting ICT services and councils are taking actions to generate savings and efficiencies. These include:

- upgrading websites to provide more interactive services and to inform the public
- extending the lifecycle of PCs and other equipment
- cutting back on network maintenance and reviewing rental agreements

- delaying renewal of contracts and agreements where possible
- entering into more collaborative purchase agreements
- downsizing workforces in line with other service departments
- introducing home and flexible working for staff.

**164.** In June 2011, the Scottish Government published a report,<sup>46</sup> the *McClelland Review of ICT infrastructure in the public sector in Scotland*. The report's key finding was that the public sector is behind where it should be and there is an opportunity to benefit from radical changes in how ICT is adopted and deployed. The report states that stand-alone and self-sufficient operating is no longer affordable and that public bodies should commit to an era of sharing in ICT.

**165.** The report also found that there are differences across the major parts of the public sector. Councils are aware of the value that an ICT strategy can bring and there is a strong commitment to using ICT to deliver savings and improve the quality of access to local services. Many councils are involved in the Customer First programme,<sup>47</sup> the programme for national ICT infrastructure<sup>48</sup> and the National Entitlement card scheme.<sup>49</sup>

**166.** Although there is considerable ongoing development work, most is taking place at individual council level with limited evidence of joint working or of a coordinated approach which may provide efficiencies and economies of scale.

## Procurement

**167.** Scottish local authorities spend around £4 billion annually in procuring goods and services to deliver services to their communities. This varies from entering into contracts for the supply of utilities and the purchase of computers, supplies and equipment to buying in professional services or social and community care. In 2010/11, local authorities reported savings of £13 million from better purchasing.

**168.** It is more important than ever, in the challenging economic climate, that public procurement is conducted as effectively as possible. It can also impact significantly on local suppliers and the economy. Better procurement can help councils do more with less and the Procurement Capability Assessment (PCA)<sup>50</sup> was introduced in 2009 to assist organisations to improve their structure, capability, processes and, ultimately, performance, allowing improvement plans to be implemented to ensure the promotion of efficiency and effectiveness and continuous improvement.

**169.** From the responses to a series of questions, the PCA assesses a council's procurement capability against common criteria and standards. Local authorities are given a percentage score which will place them in one of four categories:

- Non-conformance (to 25 per cent).
- Conformance (26 to 50 per cent).
- Improved performance (51 to 75 per cent).
- Superior performance (76 to 100 per cent).

45 *Accounting for the common good fund: a guidance note for practitioners*, Local Authorities (Scotland) Accounts Advisory Committee, December 2007.

46 *Review of ICT infrastructure in the public sector in Scotland*, John McClelland CBE, June 2011.

47 A Scottish Government-sponsored programme aimed at delivering 'first time' public services by designing them around customer needs.

48 A primary data processing centre with all 32 councils having a network connection to use hosted applications.

49 A smartcard system used to support the national concessionary travel scheme for all 32 councils and by a significant proportion for leisure, libraries and school meals.

50 *Procurement Capability Assessment 2011*, Scottish Government, September 2011.

**170.** Councils in the non-conformance category are considered to have inadequate or weak systems; those at the conformance level will meet the minimum standards and have the basics in place. Those achieving superior performance will have a clear focus on procurement and be able to demonstrate best value.

**171.** Between the 2009 and 2011 PCA assessments (reported in 2012) more councils have moved into the conformance and improved performance categories (Exhibit 22). The average scores for councils as a whole have been increasing steadily over the three rounds of the PCA from an average 23 per cent in 2009 to 40 per cent in 2011. This moves councils well into the conformance category but still falls short of categories that would indicate councils are achieving best value from procurement.

**172.** The scores suggest the need for better contract management and performance measurement linked to the need for a more corporate approach to procurement. There are a very small number of councils who are still in the non-conformance category but Scotland Excel<sup>51</sup> is working with these councils to help them improve their procurement performance.

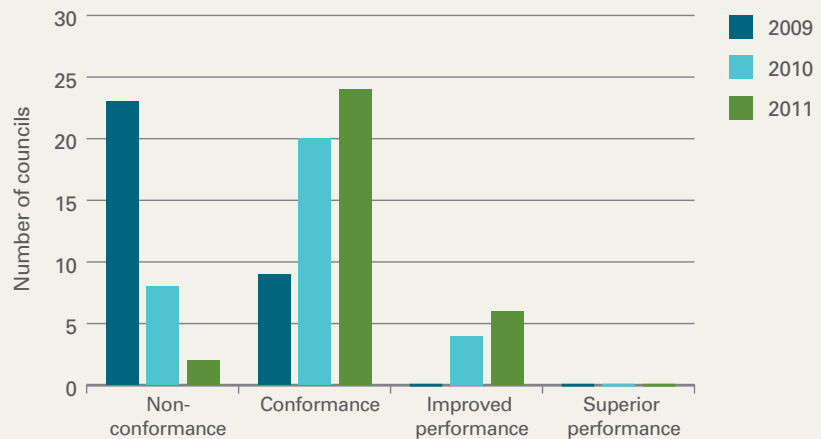
**173.** We welcome councils' response to the PCA. However, some councils are not routinely reporting the results of the PCA and improvement plans to full council or appropriate committee, particularly audit or scrutiny committees. This is essential in managing procurement performance.

### Summary and conclusion

- The accounts for 2010/11 showed a relatively stable financial position.
- Accounts were unqualified, with the exception of Shetland Islands Council.

### Exhibit 22

#### Movement of council scores for PCA assessment



Source: Scotland Excel

- There is increasing evidence of non-compliance with financial regulations and procedures.
- There have been substantial changes in the local authority workforce, and more change is likely.
- More work is required to improve asset management and procurement practices.

**174.** Based on the most recent audited financial information, councils appear to have coped well with the financial pressures. Financial reporting continues to be a strength but the time is right for councils to reaffirm the importance of financial procedures and ensure that staff who hold positions that are central to strong and effective financial control are fully aware of their responsibilities.

**175.** There have been and will continue to be substantial changes in the local government workforce; this brings opportunities in terms of new structures and new individuals in post that can bring fresh thinking in

services and at the corporate centre. However, there are also risks and staff will need time fully to understand their new roles and to build the necessary networks and working relationships within the local authority and with community partners.

**176.** Asset management continues to be an area requiring attention; the backlog of maintenance of roads and buildings is substantial. Taking together with the slippage in capital programmes, local authorities need comprehensive and effective asset management plans to ensure they have the right assets in the right condition available to match service plans and developments.

**177.** Overall, there has been progress in procurement but more work is required to deliver better value from the substantial amount of money involved.

51 Scotland Excel is the Centre of Procurement Expertise for Scotland's local government sector. It is dedicated to serve all local authorities and related organisations across Scotland in obtaining value for money from procurement practices.

# Appendix 1.

## Checklist for new and returning elected members

Leadership and governance		Assessment	Action required
1	Do you understand fully all aspects of your role and how to find out more?		
2	Do you know who the statutory officers are, what they do and when you need to talk to them?		
3	Have you prioritised what you need to do in the next 12 months?		
4	Do you have access to relevant training and development?		
Partnership working		Assessment	Action required
5	Do you have a good understanding of partnership arrangements?		
6	Are you assured that the council is making the most of partnership working?		
7	Are you kept informed about partnership working developments and the outcomes being achieved?		
Options for service delivery		Assessment	Action required
8	Are you aware of alternative service delivery models being considered?		
9	Do you have access to all of the information you need to make a decision on alternative service delivery options?		
Performance information		Assessment	Action required
10	Do you have a good understanding of performance information arrangements? Are you assured that there is emphasis on cost and partnership performance in addition to level and quality of service?		
11	Are you provided with appropriate reports and information to enable you to scrutinise performance effectively?		
Use of resources		Assessment	Action required
12	Do you have a good understanding of the council's financial position including the impact of future funding?		
13	Are you aware of the level of future savings required by the council and are you assured that firm plans are in place to achieve these?		
14	Have you asked how your council is addressing the actions set out in the most recent external auditors' report and this overview report? Are you assured that action is being taken and quickly enough?		
15	Are you assured that arrangements are in place (through internal audit or other processes) to ensure ongoing compliance with financial regulations and strong internal controls?		
16	Do committee papers on resource issues enable you to scrutinise effectively? Are they adequate in terms of clarity, level of detail and ease of understanding?		
17	Are you aware of the council's workforce strategy? Are you assured that any potential impact on service delivery is being minimised?		
18	Do you know how well your council performs on procurement and the steps being taken to ensure further improvement?		
19	Do you know what your council's risk management arrangements are, where you can find information on risk and where you can ask questions and challenge?		
20	Do you understand what best value involves, what it means in practice and how your council demonstrates it is achieving best value?		

# Appendix 2.

## Summary financial information

### Reserves

	31 March 2011 (£ million)	Change in 2010/11 (£ million)
General fund	768	+127
Housing revenue account	100	-6
Capital fund	293	+32
Capital receipts reserve	57	-11
Insurance fund	79	0
Repair and renewal fund	119	+30
Other	50	+32
<b>Total</b>	<b>1,466</b>	<b>+204</b>

### Performance of significant trading organisations (STOs)

	2006/07	2007/08	2008/09	2009/10	2010/11
Number of STOs	117	108	89	81	73
Number of STOs breaking even or over three-year rolling period	91	81	75	71	60
Percentage of STOs breaking even over three-year rolling period (%)	77.8	75.0	84.3	87.7	82.2
Total surplus over rolling three-year period (£ million)	86.6	78.0	97.2	128.5	145.7

# Appendix 3.

## Resources and links

### Leadership and governance

*Roles and working relationships: are you getting it right?* Accounts Commission, August 2010  
[http://www.audit-scotland.gov.uk/docs/best\\_value/2010/bvrm\\_100826\\_councillors\\_officers.pdf](http://www.audit-scotland.gov.uk/docs/best_value/2010/bvrm_100826_councillors_officers.pdf)

*Response to consultation on reforming police and fire and rescue services in Scotland*, Accounts Commission, November 2011  
[http://www.audit-scotland.gov.uk/work/scrutiny/docs/as\\_111101\\_response\\_fire\\_police\\_consultation.pdf](http://www.audit-scotland.gov.uk/work/scrutiny/docs/as_111101_response_fire_police_consultation.pdf)

### Working in partnership

*Community planning: an initial review*, Accounts Commission and Auditor General for Scotland, June 2006  
[http://www.audit-scotland.gov.uk/docs/central/2006/nr\\_060616\\_community\\_planning.pdf](http://www.audit-scotland.gov.uk/docs/central/2006/nr_060616_community_planning.pdf)

*Review of Community Health Partnerships*, Accounts Commission and Auditor General for Scotland, June 2011  
[http://www.audit-scotland.gov.uk/docs/health/2011/nr\\_110602\\_chp.pdf](http://www.audit-scotland.gov.uk/docs/health/2011/nr_110602_chp.pdf)

*The role of community planning partnerships in economic development*, Accounts Commission and Auditor General for Scotland, November 2011  
[http://www.audit-scotland.gov.uk/docs/central/2011/nr\\_111103\\_community\\_planning.pdf](http://www.audit-scotland.gov.uk/docs/central/2011/nr_111103_community_planning.pdf)

*Transport for health and social care*, Accounts Commission and Auditor General for Scotland, August 2011  
[http://www.audit-scotland.gov.uk/docs/health/2011/nr\\_110804\\_transport\\_health.pdf](http://www.audit-scotland.gov.uk/docs/health/2011/nr_110804_transport_health.pdf)

### Options for service delivery

*Arm's-length external organisations (ALEOs): are you getting it right?* Accounts Commission, June 2011  
[http://www.audit-scotland.gov.uk/docs/local/2011/nr\\_110616\\_aleos.pdf](http://www.audit-scotland.gov.uk/docs/local/2011/nr_110616_aleos.pdf)

*Code of Guidance on Funding External Bodies and Following the Public Pound*, Accounts Commission/Convention of Scottish Local Authorities, 1996  
[http://www.audit-scotland.gov.uk/docs/local/2003/nr\\_040311\\_following\\_public\\_pound.pdf](http://www.audit-scotland.gov.uk/docs/local/2003/nr_040311_following_public_pound.pdf)

Accounts Commission's findings on a report by the Controller of Audit, *The Highland Council: Caithness Heat and Power – Follow-up report*, March 2011  
[http://www.audit-scotland.gov.uk/docs/local/2010/sr\\_110302\\_chap\\_findings.pdf](http://www.audit-scotland.gov.uk/docs/local/2010/sr_110302_chap_findings.pdf)

### Performance information

Full details of performance information reported by councils against our SPIs are available at  
<http://www.audit-scotland.gov.uk/performance/>

### Resource management

*Scotland's public finances: addressing the challenges*, Accounts Commission and Auditor General for Scotland, August 2011  
[http://www.audit-scotland.gov.uk/docs/central/2011/nr\\_110825\\_scotlands\\_public\\_finances.pdf](http://www.audit-scotland.gov.uk/docs/central/2011/nr_110825_scotlands_public_finances.pdf)

*The cost of public sector pensions in Scotland*, Accounts Commission and Auditor General for Scotland, February 2011  
[http://www.audit-scotland.gov.uk/docs/central/2010/nr\\_110210\\_public\\_sector\\_pensions.pdf](http://www.audit-scotland.gov.uk/docs/central/2010/nr_110210_public_sector_pensions.pdf)

*Buy now, pay later? The management of early retirement in local government*, Accounts Commission, December 1997  
[http://www.audit-scotland.gov.uk/docs/local/pre1999/nr\\_9712\\_early\\_retirement.pdf](http://www.audit-scotland.gov.uk/docs/local/pre1999/nr_9712_early_retirement.pdf)

*Buy now, pay later? A follow-up review of the management of early retirement*, Accounts Commission, June 2003  
[http://www.audit-scotland.gov.uk/docs/local/2003/nr\\_030612\\_early\\_retirement.pdf](http://www.audit-scotland.gov.uk/docs/local/2003/nr_030612_early_retirement.pdf)

*Asset management in local government*, Accounts Commission, May 2009  
[http://www.audit-scotland.gov.uk/docs/local/2009/nr\\_090507\\_asset\\_management\\_councils.pdf](http://www.audit-scotland.gov.uk/docs/local/2009/nr_090507_asset_management_councils.pdf)

*Maintaining Scotland's roads: A follow-up report*, Accounts Commission and Auditor General for Scotland, February 2011  
[http://www.audit-scotland.gov.uk/docs/central/2010/nr\\_110216\\_road\\_maintenance.pdf](http://www.audit-scotland.gov.uk/docs/central/2010/nr_110216_road_maintenance.pdf)

*Modernising the planning system*, Accounts Commission and Auditor General for Scotland, September 2011  
[http://www.audit-scotland.gov.uk/docs/central/2011/nr\\_110915\\_modernising\\_planning.pdf](http://www.audit-scotland.gov.uk/docs/central/2011/nr_110915_modernising_planning.pdf)

# Appendix 4.

## Partnership assessment framework

### Good governance principles for partnership working

There are several key principles for successful partnership working.

Key principles	Features of partnerships when things are going well	Features of partnerships when things are not going well
<b>Behaviours</b>		
<p>Personal commitment from the partnership leaders and staff for the joint strategy</p> <p>Understand and respect differences in organisations' culture and practice</p>	<ul style="list-style-type: none"> <li>• Leaders agree, own, promote and communicate the shared vision</li> <li>• Leaders are clearly visible and take a constructive part in resolving difficulties</li> <li>• Be willing to change what they do and how they do it</li> <li>• Behave openly and deal with conflict promptly and constructively</li> <li>• Adhere to agreed decision-making processes</li> <li>• Have meetings if required but focus of meetings is on getting things done</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of leader visibility in promoting partnership activities (both non-executive and executives)</li> <li>• Be inflexible and unwilling to change what they do and how they do it</li> <li>• Adopt a culture of blame, mistrust and criticism</li> <li>• Complain of barriers to joint working and do not focus on solutions</li> <li>• Take decisions without consulting with partners</li> <li>• Have numerous meetings where discussion is about process rather than getting things done</li> </ul>
<b>Processes</b>		
<p>Need or drivers for the partnership are clear</p> <p>Clear vision and strategy</p> <p>Roles and responsibilities are clear</p> <p>Right people with right skills</p> <p>Risks associated with partnership working are identified and managed</p> <p>Clear decision-making and accountability structures and processes</p>	<ul style="list-style-type: none"> <li>• Roles and responsibilities of each partner are agreed and understood</li> <li>• Strategies focus on outcomes for service users, based on analysis of need</li> <li>• Have clear decision-making and accountability processes</li> <li>• Acknowledge and have a system for identifying and managing risks associated with partnership working</li> <li>• Agree a policy for dealing with differences in employment terms and conditions for staff and apply this consistently to ensure fairness</li> <li>• Review partnership processes to assess whether they are efficient and effective</li> </ul>	<ul style="list-style-type: none"> <li>• Roles and responsibilities of each partner are unclear</li> <li>• Unable to agree joint priorities and strategy</li> <li>• Lack of clarity on decision-making processes</li> <li>• Partnership decision-making and accountability processes are not fully applied or reviewed regularly</li> <li>• Risks are not well understood or managed through an agreed process</li> <li>• Deal with differences in employment terms and conditions for staff on an ad hoc basis</li> </ul>

Key principles	Features of partnerships when things are going well	Features of partnerships when things are not going well
<b>Performance measurement and management</b>		
<p>Clearly defined outcomes for partnership activity</p> <p>Partners agree what success looks like and indicators for measuring progress</p> <p>Partners implement a system for managing and reporting on their performance</p>	<ul style="list-style-type: none"> <li>• Understand the needs of their local communities and prioritise these</li> <li>• Have a clear picture of what success looks like and can articulate this</li> <li>• Have clearly defined outcomes, objectives, targets and milestones that they own collectively</li> <li>• Have a system in place to monitor, report to stakeholders and improve their performance</li> <li>• Demonstrate that the actions they carry out produce the intended outcomes and objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Prioritise their own objectives over those of the partnership</li> <li>• Unable to identify what success looks like</li> <li>• Fail to deliver on their partnership commitments</li> <li>• Do not have agreed indicators for measuring each partner's contribution and overall performance or do not use monitoring information to improve performance</li> <li>• Unable to demonstrate what difference they are making</li> </ul>
<b>Use of resources</b>		
<p>Identify budgets and monitor the costs of partnership working</p> <p>Achieve efficiencies through sharing resources, including money, staff, premises and equipment</p> <p>Access specific initiative funding made available for joint working between health and social care</p>	<ul style="list-style-type: none"> <li>• Integrate service, financial and workforce planning</li> <li>• Have clear delegated budgetary authority for partnership working</li> <li>• Identify, allocate and monitor resources used to administer the partnership</li> <li>• Understand their service costs and activity levels</li> <li>• Plan and allocate their combined resources to deliver more effective and efficient services</li> <li>• Assess the costs and benefits of a range of options for service delivery, including external procurement</li> <li>• Have stronger negotiating power on costs</li> <li>• Achieve better outcomes made possible only through working together</li> </ul>	<ul style="list-style-type: none"> <li>• Do not integrate service, financial and workforce planning</li> <li>• Unable to identify the costs of administering the partnership</li> <li>• Deliver services in the same way or change how services are delivered without examining the costs and benefits of other options</li> <li>• Have duplicate services or have gaps in provision for some people</li> <li>• Plan, allocate and manage their resources separately</li> <li>• Fail to achieve efficiencies or other financial benefits</li> <li>• Unable to demonstrate what difference the partnership has made</li> </ul>



# Appendix 5.

## 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.
Break-even	When income equals expenditure.
Budget	A projection of income and expenditure.
Capital financing	Sources of money to purchase or build property, vehicles or other tangible items required for the provision of services.
Community Health Partnership (CHP)	A partnership between health and social care which is responsible for the delivery of a wide range of community health provision including GP services, pharmacy, social care and community nursing.
Community Planning Partnership (CPP)	A partnership between a council, health board, police, fire and rescue services, third sector organisations and other public sector organisations in a geographical area.
Continuous improvement	Ongoing effort to improve services or activity.
Deficit	The excess of expenditure over income.
Efficiency savings	The amount saved by delivering the same services with less money or delivering more services with the same money.
Financial regulations	Rules set by a council as to how finances will be internally managed to ensure safeguard and propriety.
Financial statements	The annual accounts of a council providing the financial position for a year from 1 April to 31 March.
General fund	The main cash 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.
IFRS (International Financial Reporting Standards)	Guidelines and rules set by the International Accounting Standards Board (IASB) that companies and public sector organisations must follow when compiling financial statements. They are aimed at making the comparison of financial statements easier.
Outcomes	Determination and evaluation of a council's activity and services and their comparison with objectives.
Performance management	Processes at individual, team and service level to enable assessment of performance against objectives.
Preventative spending	Directing financial resources away from dealing with the symptoms of disadvantage and inequality towards tackling their causes.

Private Finance Initiative (PFI)/ Public Private Partnership (PPP)	A government initiative to encourage the development of private finance in the public sector. A generic term for projects involving both the public and private sectors. The involvement can be to varying degrees and the partnership can take different forms.
Real-terms increase/decrease	The amount of funding compared to previous or future years after taking into account the effect of inflation.
Regulatory services	Regulatory services are services to ensure public, consumer and environmental protection. They include planning, trading standards and environmental services.
Resource management	The efficient and effective use of a council's collective resources, directed where they are needed. Refers to the workforce, finances and assets, including ICT.
Risk management	The identification, analysis, assessment, control and avoidance, minimisation or elimination of unacceptable risks. It relates to both corporate functions and services.
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	The provision of a joint service or function by more than one council.
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.
Surplus	The excess of income over expenditure.
Unusable reserves	Non-cash, accounting reserves.
Usable reserves	A council's cash reserves. The main reserves are the general fund, capital fund, repair and renewals and insurance fund.
Value for money	Obtaining the maximum benefit from resources with regards to economy, efficiency and effectiveness.
Workforce planning	Systematic identification and analysis of a council's workforce needs in terms of size, experience, knowledge and skills to achieve its objectives.

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ISBN 978 1 907916 56 4

Printed on Revive 100 Uncoated, a Forest Stewardship Council (FSC) certified recycled grade containing 100% post consumer waste and manufactured at a mill certified with ISO 14001 environmental management standard. The pulp used in this product is bleached using an Elemental Chlorine Free process (ECF).

